Allied World Assurance Co Holdings, AG
Form 10-K
February 29, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 001-32938

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

(Exact Name of Registrant as Specified in Its Charter)

Switzerland	**98-0681223**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

Lindenstrasse 8 6340 Baar Zug, Switzerland

(Address of Principal Executive Offices and Zip Code)

41-41-768-1080

(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Shares, par value CHF 14.03 per share	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of voting and non-voting common shares held by non-affiliates of the registrant as of June 30, 2011 (the last business day of the registrant s most recently completed second fiscal quarter) was approximately $2.1 billion based on the closing sale price of the registrant s common shares on the New York Stock Exchange on that date.

As of February 21, 2012, 36,835,178 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A with respect to the annual general meeting of the shareholders of the registrant scheduled to be held on May 3, 2012 is incorporated in Part III of this Form 10-K.

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PART I

References in this Annual Report on Form 10-K to the terms we, us, our, the company or other similar terms mean the consolidated operations of Allied World Assurance Company Holdings, AG, a Swiss holding company, and our consolidated subsidiaries, unless the context requires otherwise. References in this Form 10-K to the terms Allied World Switzerland or Holdings means only Allied World Assurance Company Holdings, AG. References to our insurance subsidiaries may include our reinsurance subsidiaries. References in this Form 10-K to $ are to the lawful currency of the United States and to CHF are to the lawful currency of Switzerland. References in this Form 10-K to Holdings common shares means its registered voting shares and non-voting participation certificates. For your convenience, we have included a glossary beginning on page 53 of selected insurance and reinsurance terms.

Item 1. Business.

Overview

We are a Swiss-based specialty insurance and reinsurance company that underwrites a diversified portfolio of property and casualty lines of business through offices located in Bermuda, Hong Kong, Ireland, Singapore, Switzerland, the United Kingdom and the United States. For the year ended December 31, 2011, our U.S. insurance, international insurance and reinsurance segments accounted for 43.2%, 27.4% and 29.4%, respectively, of our total gross premiums written of $1,939.5 million. As of December 31, 2011, we had $11,122.2 million of total assets and $3,149.0 million of shareholders equity.

We were formed in Bermuda in 2001, and we redomesticated to Switzerland in December 2010, at which time Holdings became the ultimate parent company of Allied World Assurance Company Holdings, Ltd, the former publicly-traded Bermuda holding company (Allied World Bermuda) and its subsidiaries. Since our formation, we have focused primarily on the direct insurance markets. We offer our clients and producers significant capacity in both the direct property and casualty insurance markets as well as in the reinsurance market. We have expanded since our formation and now have 16 offices located in seven different countries.

Internationally, we first established a presence in Europe when Allied World Assurance Company (Europe) Limited was approved to carry on business in the European Union (E.U.) from its office in Ireland in October 2002 and from a branch office in London in May 2003. Allied World Assurance Company (Reinsurance) Limited was approved to write reinsurance in the E.U. from its office in Ireland in July 2003 and from a branch office in London, England in August 2004. In recent years, we have further expanded our European presence, first in October 2008 when Allied World Assurance Company (Reinsurance) Limited opened a branch office in Zug, Switzerland to further penetrate the European market, and later in March 2011 when we received an insurance and reinsurance license for Allied World Assurance Company, AG, a Swiss-domiciled company located in Zug.

In July 2002, we established a presence in the United States when we acquired two insurance companies, Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company. We have made substantial investments to expand our North American business, which has grown significantly since 2009 and which we expect will continue to grow in size and importance in the coming years. In February 2008, we acquired a U.S. reinsurance company we subsequently renamed Allied World Reinsurance Company, and we write our U.S. reinsurance business through this company. In October 2008, we acquired Darwin Professional Underwriters, Inc. and its subsidiaries (collectively, Darwin) to further expand our U.S. insurance platform. We currently have ten offices in the United States and are licensed in Canada.

Our corporate expansion continued into Asia when Allied World Assurance Company, Ltd opened branch offices in Hong Kong in March 2009 and in Singapore in December 2009. In July 2011, we received a license to write reinsurance business in Labuan, a financial center in Malaysia.

In early 2010, we received approval from Lloyd s of London (Lloyd s) to establish a syndicate at Lloyd s. Our new Lloyd s syndicate, Syndicate 2232, commenced underwriting in June 2010. Syndicate 2232 is managed by Capita Managing Agency Limited, a subsidiary of The Capita Group PLC, which is authorized by the

Financial Services Authority in the United Kingdom (the FSA). In July 2010, we received approval from the Monetary Authority of Singapore and Lloyd s Asia to register and operate a service company, Capita 2232 Services Pte. Ltd. As part of the Lloyd s Asia platform, the service company underwrites exclusively on behalf of Syndicate 2232. Syndicate 2232, via the service company, offers a broad range of insurance and reinsurance treaty products from Singapore, including property, casualty and specialty lines, to clients in the Asia Pacific, Middle East and Africa regions.

Available Information

We maintain a website at www.awac.com. The information on our website is not incorporated by reference in this Annual Report on Form 10-K.

We make available, free of charge through our website, our financial information, including the information contained in our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the U.S. Securities and Exchange Commission (the SEC). We also make available, free of charge through our website, our Audit Committee Charter, Compensation Committee Charter, Investment Committee Charter, Nominating & Corporate Governance Committee Charter, Enterprise Risk Committee Charter, Corporate Governance Guidelines, Code of Ethics for CEO and Senior Financial Officers and Code of Business Conduct and Ethics. Such information is also available in print for any shareholder who sends a request to Allied World Assurance Company Holdings, AG, Lindenstrasse 8, 6340 Baar, Zug, Switzerland, attention: Wesley D. Dupont, Corporate Secretary, or via e-mail to secretary@awac.com. Reports and other information we file with the SEC may also be viewed at the SEC s website at www.sec.gov or viewed or obtained at the SEC Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the SEC Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

Our Strategy

Our business objective is to generate attractive returns on equity and book value per share growth for our shareholders. We seek to achieve this objective by executing the following strategies:

- *Capitalize on profitable underwriting opportunities.* Our experienced management and underwriting teams are positioned to locate and identify business with attractive risk/reward characteristics. We pursue a strategy that emphasizes profitability, not market share. Key elements of this strategy are prudent risk selection, appropriate pricing and adjusting our business mix to remain flexible and opportunistic. We seek ways to take advantage of underwriting opportunities that we believe will be profitable.

- *Exercise underwriting and risk management discipline.* We believe we exercise underwriting and risk management discipline by: (i) maintaining a diverse spread of risk in our books of business across product lines and geographic zones, (ii) managing our aggregate property catastrophe exposure through the application of sophisticated modeling tools, (iii) monitoring our exposures on non-property catastrophe coverages, (iv) adhering to underwriting guidelines across our business lines and (v) fostering a culture that focuses on enterprise risk management and strong internal controls.

- *Maintain a conservative investment strategy.* We believe that we follow a conservative investment strategy designed to emphasize the preservation of our capital and provide adequate liquidity for the prompt payment of claims. Our investment portfolio consists primarily of investment-grade, fixed-maturity securities of short- to medium-term duration.

Our premium revenues are generated by operations conducted from our corporate headquarters in Switzerland and our other offices in Bermuda, Europe, Hong Kong, Singapore and the United States. For information concerning our gross premiums written by geographic location of underwriting office, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Comparison of Years Ended December 31, 2011 and 2010 and Comparison of Years Ended December 31, 2010 and 2009.

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Our Operating Segments

We have three business segments: U.S. insurance, international insurance and reinsurance. These segments and their respective lines of business and products may, at times, be subject to different underwriting cycles. We modify our product strategy as market conditions change and new opportunities emerge by developing new products, targeting new industry classes or de-emphasizing existing lines. Our diverse underwriting skills and flexibility allow us to concentrate on the business lines where we expect to generate the greatest returns. Financial data relating to our three segments is included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and in our consolidated financial statements included in this report.

The gross premiums written in each segment for the years ended December 31, 2011, 2010 and 2009 were as follows:

	Year Ended December 31, 2011 Gross Premiums Written		Year Ended December 31, 2010 Gross Premiums Written		Year Ended December 31, 2009 Gross Premiums Written	
Operating Segments	$ (In millions)	% of Total	$ (In millions)	% of Total	$ (In millions)	% of Total
U.S. insurance	$ 838.6	43.2	$ 729.3	41.5	$ 674.8	39.8
International insurance	530.4	27.4	504.9	28.7	555.9	32.8
Reinsurance	570.5	29.4	524.2	29.8	465.6	27.4
Total	$ 1,939.5	100.0%	$ 1,758.4	100.0%	$ 1,696.3	100.0%

U.S. Insurance Segment

General

The U.S. insurance segment includes our direct insurance operations in the United States. Within this segment we provide an increasingly diverse range of specialty liability products, with a particular emphasis on coverages for healthcare and professional liability risks. Additionally, we offer a selection of direct general casualty insurance and general property insurance products. We generally target small- and middle-market, non-Fortune 1000 accounts domiciled in North America, including public entities, private companies and non-profit organizations. In recent years we have enhanced our U.S. insurance operating platform, principally through hiring underwriting talent, through an expanded network of branch offices located in strategically important locations across the country and through upgrades to our information technology platform to accommodate our increasing business demands. We believe improvements to our operating platform have allowed us to assume and maintain a significant role as a writer of primary professional liability and other specialty liability coverage for small firms. We will continue to seek attractive opportunities in the U.S. market.

The chart below illustrates the breakdown of the company s U.S. direct insurance gross premiums written by line of business for the year ended December 31, 2011.

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Products and Customer Base

Our casualty operations in the United States focus on insurance products providing coverage for specialty type risks, such as professional liability, environmental liability, product liability, inland marine liability and healthcare liability risks, and we offer commercial general liability products as well. Professional liability products include policies covering directors and officers, employment practices and fiduciary liability insurance. We also offer a diverse mix of errors and omissions liability coverages for a variety of service providers, including law firms, technology companies, insurance companies, insurance agents and brokers, and municipalities. We regularly assess our product mix, and we evaluate new products and markets where we believe our underwriting and service will allow us to differentiate our offerings. During the year ended December 31, 2011, our professional liability business accounted for 28.1%, or $235.4 million, of our total gross premiums written in the U.S. insurance segment.

We also provide both primary and excess liability and other casualty coverages to the healthcare industry, including hospitals and hospital systems, managed care organizations and medical facilities such as home care providers, specialized surgery and rehabilitation centers, and outpatient clinics. Our healthcare operations in the U.S. target small- and middle-market accounts. During the year ended December 31, 2011, our healthcare business accounted for 24.0%, or $201.7 million, of our total gross premiums written in the U.S. insurance segment.

In late 2009, we commenced writing environmental liability business by offering a line of environmental casualty products covering the pollution and related liability exposures of general contractors, tank installers, remediation contractors and others. During 2011, we commenced writing inland marine business. During the year ended December 31, 2011, these lines of business accounted for approximately 3.6%, or $30.6 million, of our total gross premiums written in the U.S. insurance segment.

With respect to general casualty products, we provide both primary and excess liability coverage, and our focus is on complex risks in a variety of industries including construction, real estate, public entities, retailers, manufacturing, transportation, and finance and insurance services. We also offer comprehensive insurance to contractors and their employees working outside of the United States on contracts for agencies of the U.S. government or foreign operations of U.S. companies. During the year ended December 31, 2011, our general casualty business accounted for 24.5%, or $205.3 million, of our total gross premiums written in the U.S. insurance segment.

Our U.S. property insurance operations provide direct coverage of physical property and business interruption coverage for commercial property risks. We write solely commercial coverages and concentrate our efforts on primary risk layers of insurance (as opposed to excess layers), offering meaningful but limited capacity in these layers. This means that we are typically part of the first group of insurers that cover a loss up to a specified limit. Our underwriters are spread among our locations in the United States because we believe it is important to be physically present in the major insurance markets where we compete for business.

We offer general property products from our underwriting platforms in the United States, and cover risks for retail chains, real estate, manufacturers, hotels and casinos, and municipalities. During the year ended December 31, 2011, our general property business accounted for 9.4%, or $78.5 million, of our total gross premiums written in the U.S. insurance segment.

We currently have a total of six insurance programs in the United States, offering a variety of products including professional liability, excess casualty and primary general liability. We retain responsibility for administration of claims, although we may opt to outsource claims in selected situations. Before we enter into a program administration relationship, we analyze historic loss data associated with the program business and perform a diligence review of the administrator s underwriting, financial condition and information technology. In selecting program administrators, we consider the integrity, experience and reputation of the program administrator, the availability of reinsurance and the potential profitability of the business. In order to assure the continuing integrity of the underwriting and related business operations in our program business, we conduct additional reviews and audits of the program administrator on an ongoing basis. To help align our interests with those of our program administrators, we seek to set up incentive-based compensation to encourage better long-

term underwriting results as a component of their fees. During the year ended December 31, 2011, our program business accounted for 10.4%, or $87.1 million, of our total gross premiums written in the U.S. insurance segment.

For more information concerning our gross premiums written by line of business in our U.S. insurance segment, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations U.S. Insurance Segment Comparison of Years Ended December 31, 2011 and 2010 and Comparison of Years Ended December 31, 2010 and 2009.

Distribution

Within our U.S. insurance segment, insurance policies are placed through a network of over 200 insurance intermediaries, including excess and surplus lines wholesalers and regional and national retail brokerage firms. A subset of these intermediaries also access certain of our U.S. casualty products via our proprietary *i-bind* platform that allows for accelerated quote and bind capabilities through the Internet. Marsh & McLennan Companies, Inc. (Marsh) accounted for approximately 10% of gross premiums written in this segment during 2011.

International Insurance Segment

General

The international insurance segment includes our direct insurance operations outside of the United States. It includes our operations in Bermuda, Europe and Asia. Our Bermuda operations underwrite primarily larger, Fortune 1000 casualty and property risks for accounts domiciled in North America. Our Bermuda and European operations have entered into a relationship with Latin American Underwriters to offer trade credit and political risk coverages primarily for clients doing business in Latin America and the Caribbean. Our insurance operations in Europe, with offices in Dublin, London and Switzerland, have focused on mid-sized to large European and multi-national companies domiciled outside of North America, and we are also diversifying into insurance products for smaller commercial clients. In addition, Syndicate 2232 offers select product lines including international property, general casualty, healthcare and professional liability, targeted at key territories such as countries in Latin America and the Asia Pacific region. The international insurance segment also encompasses our offices in Asia that were opened in 2009, including our Hong Kong and Singapore offices and Lloyd s Asia, which underwrite a variety of primary and excess professional liability lines and general casualty and healthcare insurance products. Our staff in the international insurance segment is spread among our locations in Bermuda, Europe and Asia because we believe it is important that our underwriters be physically present in the major insurance markets around the world where we compete for business.

The chart below illustrates the breakdown of the company s international insurance gross premiums written by line of business for the year ended December 31, 2011.

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Products and Customer Base

The casualty business within our international insurance segment offers both primary and excess coverage, with the latter focused primarily on insuring excess layers, with a median attachment point of $80 million for large and Fortune 1000 accounts that constitute our core casualty accounts in this segment. Our international insurance segment utilizes significant gross limit capacity. Our focus with respect to general casualty products is on complex risks in a variety of industries, including manufacturing, energy, chemicals, transportation, real estate, consumer products, medical and healthcare services and construction. During the year ended December 31, 2011, our general casualty business accounted for 24.0%, or $127.2 million, of our total gross premiums written in the international insurance segment.

We provide professional liability products such as directors and officers, employment practices, fiduciary and errors and omissions liability insurance. We offer a diverse mix of coverages for a number of industries including law firms, technology companies, financial institutions, insurance companies and brokers, manufacturing and energy, and engineering and construction firms. During the year ended December 31, 2011, our professional liability business accounted for 31.0%, or $164.4 million, of our total gross premiums written in the international insurance segment.

Our healthcare underwriters provide risk transfer products to numerous healthcare institutions, such as hospitals, managed care organizations and healthcare systems. During the year ended December 31, 2011, our healthcare business accounted for 12.8%, or $68.1 million, of our total gross premiums written in the international insurance segment.

We offer general property products from our underwriting platforms in Bermuda and Europe. Our international property insurance operations provide direct coverage of physical property and business interruption coverage for commercial property risks. We write solely commercial coverages and focus on the insurance of the primary risk layer. The types of commercial property risks we cover include retail chains, real estate, manufacturers, hotels and casinos. During the year ended December 31, 2011, our general property business (including energy lines) accounted for 30.1%, or $159.4 million, of our total gross premiums written in the international insurance segment.

In 2010, we commenced writing trade credit insurance by offering short- and medium-term credit insurance for clients that export to and from Latin America and the Caribbean. During the year ended December 31, 2011, our trade credit business accounted for 2.1%, or $11.3 million, of our total gross premiums written in the international insurance segment.

Because of the large limits we often deploy for casualty and property business written in the international insurance segment, we utilize both facultative and treaty reinsurance to reduce our net exposure. For more information on the reinsurance we purchase for the property and casualty business written in international insurance segment, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Ceded Reinsurance. For more information on our gross premiums written by line of business in our international insurance segment, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations International Insurance Segment Comparison of Years Ended December 31, 2011 and 2010 and Comparison of Years Ended December 31, 2010 and 2009.

Distribution

With regard to our international insurance segment, we utilize our relationships with insurance intermediaries as our principal method for obtaining business. Our international insurance segment maintains significant relationships with Marsh, Aon Corporation (Aon) and Willis Group Holdings (Willis), which accounted for 30%, 26% and 12%, respectively, of our gross premiums written in this segment during 2011.

Reinsurance Segment

General

Our reinsurance segment includes the reinsurance of property, general casualty, professional liability, specialty lines and property catastrophe coverages written by other insurance companies. In order to diversify our portfolio and complement our direct insurance business, we target the overall contribution from reinsurance to be approximately 30% of our total annual gross premiums written.

We presently write reinsurance on both a treaty and a facultative basis, targeting several niche markets including professional liability lines, specialty casualty, property for U.S. regional insurers, accident and health, marine, aerospace and crop risks. Overall, we strive to diversify our reinsurance portfolio through the appropriate combination of business lines, ceding source, geography and contract configuration. Our primary customer focus is on highly-rated carriers with proven underwriting skills and dependable operating models.

We determine appropriate pricing either by using pricing models built or approved by our actuarial staff or by relying on established pricing set by one of our pricing actuaries for a specific treaty. Pricing models are generally used for facultative reinsurance, property catastrophe reinsurance, property per risk reinsurance and workers compensation and personal accident catastrophe reinsurance. Other types of reinsurance rely on actuarially-established pricing. During the year ended December 31, 2011, our reinsurance segment generated gross premiums written of $570.5 million. On a written basis, our business mix is more heavily weighted to reinsurance during the first three months of the year. Our reinsurance segment operates from our offices in Bermuda, London, New York, Singapore and Switzerland.

The chart below illustrates the breakdown of the company s reinsurance gross premiums written by line of business for the year ended December 31, 2011.

Product Lines and Customer Base

Property, general casualty, professional liability and international treaty reinsurance is the principal source of revenue for this segment. The insurers we reinsure range from single state to nationwide insurers located in the United States as well as specialty carriers or the specialty divisions of standard lines carriers. For our international treaty unit, our clients include multi-national insurers, single territory insurers, niche carriers and Lloyd s syndicates. We focus on niche programs and coverages, frequently sourced from excess and surplus lines insurers. In October 2008, we expanded our international reach by opening a branch office in Switzerland that offers property, general casualty and professional liability products throughout Europe. A large portion of this business is now being written by Allied World Assurance Company, AG, our Swiss licensed insurance and reinsurance company. Syndicate 2232 also offers international treaty reinsurance. During 2009, we expanded our reinsurance operations both in Asia, where we opened a branch office in Singapore that serves as the company s hub for all classes of treaty reinsurance business for the region, and in the United States, where we added a property underwriting team to our reinsurance platform. In December 2010, we expanded our specialty reinsurance offerings by launching a marine and specialty division. We target a portfolio of well-rated companies

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that are highly knowledgeable in their product lines, have the financial resources to execute their business plans and are committed to underwriting discipline throughout the underwriting cycle.

Our North American property reinsurance treaties protect insurers who write residential, commercial and industrial accounts where the exposure to loss is chiefly North American. We emphasize monoline, per risk accounts, which are structured as either quota share or excess-of-loss reinsurance. Monoline reinsurance applies to one kind of coverage, and per risk reinsurance coverage applies to a particular risk (for example a building and its contents), rather than on a per accident, event or aggregate basis. Where possible, coverage is provided on a losses occurring basis, which limits coverage to property losses occurring within the treaty year. We selectively write industry loss warranties where we believe market opportunities justify the risks. During the year ended December 31, 2011, our property treaty business accounted for 26.8%, or $153.1 million, of our total gross premiums written in the reinsurance segment.

Our North American general casualty business writes both treaty and facultative business. Our North American generally casualty treaties cover working layer, intermediate layer and catastrophe exposures. We sell both quota share and excess-of-loss reinsurance. We principally underwrite general liability, auto liability and commercial excess and umbrella liability for both admitted and non-admitted companies. Our general casualty facultative business is principally comprised of lower-attachment, individual-risk reinsurance covering automobile liability, general liability and workers compensation risks for many of the largest U.S. property-casualty and surplus lines insurers. During the year ended December 31, 2011, our North American general casualty business accounted for 25.0%, or $142.8 million, of our total gross premiums written in the reinsurance segment.

Our North American professional liability treaties cover several products, primarily directors and officers liability, but also attorneys malpractice, medical malpractice, miscellaneous professional classes and transactional risk liability. The complex exposures undertaken by this unit demand highly technical underwriting and pricing modeling analysis. During the year ended December 31, 2011, our professional liability treaty business accounted for 10.0%, or $57.2 million, of our total gross premiums written in the reinsurance segment.

Our international treaty unit s portfolio protects U.K. insurers, including Lloyd s of London syndicates and Continental European companies. While we continue to concentrate on Euro-centric business, we are now writing and will increasingly expand our capabilities outside of Europe, including in Asia and Latin America. During the year ended December 31, 2011, the international treaty unit accounted for 26.9%, or $153.2 million, of our total gross premiums written in the reinsurance segment.

For our specialty reinsurance business, we underwrite accident and health business, emphasizing catastrophe personal accident programs and workers compensation catastrophe business. Our marine and specialty division offers reinsurance for marine, aerospace and crop risks on a global basis. During the year ended December 31, 2011, our specialty reinsurance business accounted for 11.3%, or $64.2 million, of our total gross premiums written in the reinsurance segment.

For more information on our gross premiums written by line of business in our reinsurance segment, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Reinsurance Segment Comparison of Years Ended December 31, 2011 and 2010 and Comparison of Years Ended December 31, 2010 and 2009.

Distribution

Due to a number of factors, including transactional size and complexity, the distribution infrastructure of the reinsurance marketplace is characterized by relatively few intermediary firms. As a result, we have close business relationships with a small number of reinsurance intermediaries, and our reinsurance segment business during 2011 was primarily with affiliates of Marsh, Aon and Willis accounting for 36%, 32% and 15%, respectively, of total gross premiums written in this segment during 2011. Due to the substantial percentages of premiums produced in our U.S. insurance, international insurance and reinsurance segments by the top three intermediaries, the loss of business from any one of them could have a material adverse effect on our business.

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Security Arrangements

Allied World Assurance Company, Ltd, our Bermuda insurance and reinsurance company, is not admitted as an insurer nor is it accredited as a reinsurer in any jurisdiction in the United States. As a result, it is generally required to post collateral security with respect to any reinsurance liabilities it assumes from ceding insurers domiciled in the United States in order for U.S. ceding companies to obtain credit on their U.S. statutory financial statements with respect to insurance liabilities ceded by them. Under applicable statutory provisions, the security arrangements may be in the form of letters of credit, reinsurance trusts maintained by trustees or funds-withheld arrangements where assets are held by the ceding company. For a description of the security arrangements used by us, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Restrictions and Specific Requirements.

Enterprise Risk Management

General

While the assumption of risk is inherent in our business, we believe we have developed a strong risk management culture that is fostered and maintained by our senior management. Our enterprise risk management (ERM) consists of numerous processes and controls that have been designed by our senior management, with oversight by our Board of Directors, including through its Enterprise Risk Committee, and implemented by employees across our organization. One key element of our ERM is our economic capital model. Utilizing this modeling framework, we review the relative interaction between risks impacting us from underwriting through investment risks. Our ERM supports our firm-wide decision making process by aiming to provide reliable and timely risk information. Our primary ERM objectives are to:

- protect our capital position,
- ensure that our assumed risks (individually and in the aggregate) are within our firm-wide risk appetite,
- maximize our risk-adjusted returns on capital, and
- manage our earnings volatility.

We have identified the following six major categories of risk within our business:

Underwriting risk: Encompasses risks associated with entering into insurance and reinsurance transactions and includes frequency and severity assessments, pricing adequacy issues and exposures posed by new products. For more information concerning our management of underwriting risk, see Underwriting Risk Management below.

Catastrophe and Aggregate Accumulation risk: Addresses the organization s exposure to natural catastrophes, such as windstorms, earthquakes or floods, particularly with regard to managing the concentration of exposed insurance limits within coastal or other areas that are more prone to severe catastrophic events. For more information concerning our management of catastrophe risk, see Underwriting Risk Management below.

Reserving risk: The risks associated with overestimating or underestimating required reserves is a significant risk for any company that writes long-tailed casualty business.

Investment risk: Addresses risks of market volatility and losses associated with individual investments and investment classes, as well as overall portfolio risk associated with decisions as to asset mix, geographic risk, duration and liquidity.

Reinsurance risk: The ceding of policies we write to other reinsurers is a principal risk management activity, and it requires careful monitoring of the concentration of our reinsured exposures and the creditworthiness of the reinsurers to which we cede business.

Operational risk: Encompasses a wide range of risks related to our operations, including: corporate governance, claims settlement processes, regulatory compliance, employment practices and IT exposures (including disaster recovery and business continuity planning).

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Our risk governance structure includes committees comprised of senior underwriting, actuarial, finance, legal, investment and operations staff that identify, monitor and help manage each of these risks. Our management-based Risk Management Committee, chaired by our Chief Risk Officer, focuses primarily on identifying correlations among our primary categories of risk, developing metrics to assess our overall risk position, performing an annual risk assessment and reviewing continually factors that may impact our organizational risk. This risk governance structure is complemented by our internal audit department, which assesses the adequacy and effectiveness of our internal control systems and coordinates risk-based audits and compliance reviews and other specific initiatives to evaluate and address risk within targeted areas of our business. Our ERM is a dynamic process, with periodic updates being made to reflect organizational processes and the recalibration of our models, as well as staying current with changes within our industry and the global economic environment.

Our management s internal ERM efforts are overseen by our Board of Directors, primarily through its Enterprise Risk Committee. This committee, comprised of independent directors, is charged with reviewing and recommending to the Board of Directors our overall firm-wide risk appetite as well as overseeing management s compliance therewith. Our Enterprise Risk Committee reviews our risk management methodologies, standards, tolerances and risk strategies, and assesses whether management is addressing risk issues in a timely and appropriate manner. This committee also works in consultation with our Audit Committee, Investment Committee and Compensation Committee to oversee financial, investment and compensation risks, respectively. Internal controls and ERM can provide a reasonable but not absolute assurance that our control objectives will be met. The possibility of material financial loss remains in spite of our ERM efforts.

Underwriting Risk Management

Underwriting insurance and reinsurance coverage, which is our primary business activity, entails the assumption of risk. Therefore, protecting corporate assets from an unexpected level of loss related to underwriting activities is a major area of focus. We emphasize careful risk selection by evaluating a potential insured s risk management practices, loss history and adequacy of retention. Other factors that go into the effective management of underwriting risk may differ depending on the line of business involved and the type of account being insured or reinsured.

In our direct insurance casualty products, we strive to write diverse books of business across a variety of product lines and industry classes, and we review business concentrations on a regular basis with the objective of creating balanced portfolios. By maintaining a balanced casualty portfolio, we believe we are less vulnerable to adverse market changes in any one product or industry. In addition, because of the large limits we often deploy for casualty business written in the U.S. insurance segment and the international insurance segment, we utilize both facultative and treaty reinsurance to reduce our net exposure. For more information on the reinsurance we purchase for the casualty business written in the U.S. insurance and international insurance segments, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Ceded Reinsurance.

In our direct insurance property products, we have historically managed our property catastrophe exposure by closely monitoring our policy limits in addition to utilizing complex risk models that analyze the locations covered by each insurance policy enabling us to obtain a more accurate assessment of our property catastrophe exposure. In addition to our continued focus on aggregate limits and modeled probable maximum loss, we have implemented a gross exposed policy limits approach that focuses on exposures in catastrophe-prone geographic zones and takes into consideration flood severity, demand surge and business interruption exposures for each critical area. We closely monitor our gross accumulations in each zone and restrict our gross exposed policy limits in each critical property catastrophe zone to an amount consistent with our probable maximum loss. Subsequent to a catastrophic event, we reassess our risk appetite and risk tolerances to ensure they are aligned with our capital preservation targets. Additionally, for our direct property, workers compensation, accident and health catastrophe and property reinsurance business, we seek to manage our risk exposure so that our probable maximum losses for a single catastrophe event, after all applicable reinsurance, in any one-in-250-year event does not exceed approximately 20% of our total capital.

Before we review the specifics of any proposal in our reinsurance segment, we consider the attributes of the client, including the experience and reputation of its management and its risk management strategy. We also examine the level of shareholders equity, industry ratings, length of incorporation, duration of business model, portfolio profitability, types of exposures and the extent of its liabilities. To identify, manage and monitor accumulations of exposures from potential property catastrophes, we employ industry-recognized software. Our underwriters, actuaries and claims personnel collaborate throughout the reinsurance underwriting process. For property proposals, we also obtain information on the nature of the perils to be included and the policy information on all locations to be covered under the reinsurance contract. If a program meets our underwriting criteria, we then assess the adequacy of its proposed pricing, terms and conditions, and its potential impact on our profit targets and risk objectives.

Competition

The insurance and reinsurance industry is highly competitive. Insurance and reinsurance companies compete on the basis of many factors, including premium rates, general reputation and perceived financial strength, the terms and conditions of the products offered, ratings assigned by independent rating agencies, speed of claims payments and reputation and experience in risks underwritten.

We compete with major U.S. and non-U.S. insurers and reinsurers, many of which have greater financial, marketing and management resources than we do. Some of these companies have more capital than our company. In our direct insurance business, we compete with insurers that provide property and casualty-based lines of insurance such as: ACE Limited, Arch Capital Group Ltd., Axis Capital Holdings Limited, Chartis Inc. (a wholly-owned subsidiary of American International Group, Inc. (AIG)), The Chubb Corporation (Chubb), Endurance Specialty Holdings Ltd., Factory Mutual Insurance Company, HCC Insurance Holdings, Inc., Ironshore Inc., Liberty Mutual Insurance Company, Lloyd s, Markel Insurance Company, Munich Re Group, The Navigators Group, Inc., OneBeacon Insurance Group, Ltd, Swiss Reinsurance Company, W.R. Berkeley Corporation, XL Capital Ltd and Zurich Financial Services. In our reinsurance business, we compete with reinsurers that provide property and casualty-based lines of reinsurance such as: ACE Limited, Alterra Capital Holdings, Ltd, Arch Capital Group Ltd., Berkshire Hathaway, Inc., Everest Re Group, Ltd., Lloyd s, Montpelier Re Holdings Ltd., Munich Re Group, PartnerRe Ltd., Platinum Underwriters Holdings, Ltd., RenaissanceRe Holdings Ltd., Swiss Reinsurance Company, Transatlantic Holdings, Inc. and XL Capital Ltd.

In addition, risk-linked securities and derivative and other non-traditional risk transfer mechanisms and vehicles are being developed and offered by other parties, including entities other than insurance and reinsurance companies. The availability of these non-traditional products could reduce the demand for traditional insurance and reinsurance.

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Our Financial Strength Ratings

Ratings are an important factor in establishing the competitive position of insurance and reinsurance companies. A.M. Best, Moody s and Standard & Poor s have each developed a rating system to provide an opinion of an insurer s or reinsurer s financial strength and ability to meet ongoing obligations to its policyholders. Each rating reflects the rating agency s opinion of the capitalization, management and sponsorship of the entity to which it relates, and is neither an evaluation directed to investors in our common shares nor a recommendation to buy, sell or hold our common shares. A.M. Best ratings currently range from A++ (Superior) to F (In Liquidation) and include 16 separate ratings categories. Moody s maintains a letter scale rating from Aaa (Exceptional) to C (Lowest-rated) and includes 21 separate ratings categories. Standard & Poor s maintains a letter scale rating system ranging from AAA (Extremely Strong) to R (under regulatory supervision) and includes 21 separate ratings categories. Our principal operating subsidiaries and their respective ratings from A.M. Best, Moody s and Standard & Poor s are provided in the table below.

Subsidiary	Rated A (Excellent) from A.M. Best(1)	Rated A2 (Good) from Moody s(2)	Rated A (Strong) from Standard & Poor s(3)
Allied World Assurance Company, Ltd	X	X	X
Allied World Assurance Company (U.S.) Inc.	X	X	X
Allied World National Assurance Company	X	X	X
Allied World Reinsurance Company	X	X	X
Darwin National Assurance Company	X		
Darwin Select Insurance Company	X		
Allied World Assurance Company, AG			X
Allied World Assurance Company (Europe) Limited	X		X
Allied World Assurance Company (Reinsurance) Limited	X		X

(1) Third highest of 16 available ratings from A.M. Best.

(2) Sixth highest of 21 available ratings from Moody s.

(3) Sixth highest of 21 available ratings from Standard & Poor s.

In addition to the above-named subsidiaries, we underwrite through our Lloyd s Syndicate 2232. All Lloyd s syndicates benefit from Lloyd s central resources, including Lloyd s brand, its network of global licenses and the central fund. As all of Lloyd s policies are ultimately backed by this common security, a single market rating can be applied. A.M. Best has assigned Lloyd s a financial strength rating of A (Excellent) and Standard & Poor s and Fitch Ratings have assigned Lloyd s a financial strength rating of A+ (Strong). These ratings are subject to periodic review, and may be revised upward, downward or revoked, at the sole discretion of the rating agencies.

Reserve for Losses and Loss Expenses

We are required by applicable insurance laws and regulations in the countries in which we operate and accounting principles generally accepted in the United States (U.S. GAAP) to establish loss reserves to cover our estimated liability for the payment of all losses and loss expenses incurred with respect to premiums earned on the policies and treaties that we write. These reserves are balance sheet liabilities representing estimates of losses and loss expenses we are required to pay for insured or reinsured claims that have occurred as of or before the balance sheet date. It is our policy to establish these losses and loss expense reserves using prudent actuarial methods after reviewing all information known to us as of the date they are recorded. For more specific information concerning the statistical and actuarial methods we use to estimate ultimate expected losses and loss expenses, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Reserve for Losses and Loss Expenses.

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The following tables show the development of gross and net reserves for losses and loss expenses, respectively. The tables do not present accident or policy year development data. Each table begins by showing the original year-end reserves recorded at the balance sheet date for each of the years presented (as originally estimated). This represents the estimated amounts of losses and loss expenses arising in all prior years that are unpaid at the balance sheet date, including reserves for losses incurred but not reported (IBNR). The re-estimated liabilities reflect additional information regarding claims incurred prior to the end of the preceding financial year. A (redundancy) or deficiency arises when the re-estimation of reserves recorded at the end of each prior year is (less than) or greater than its estimation at the preceding year-end. The cumulative (redundancies) or deficiencies represent cumulative differences between the original reserves and the currently re-estimated liabilities over all prior years. Annual changes in the estimates are reflected in the consolidated statement of operations and comprehensive income for each year, as the liabilities are re-estimated.

The lower sections of the tables show the portions of the original reserves that were paid (claims paid) as of the end of subsequent years. This section of each table provides an indication of the portion of the re-estimated liability that is settled and is unlikely to develop in the future. For our quota share treaty reinsurance business, we have estimated the allocation of claims paid to applicable years based on a review of large losses and earned premium percentages.

Development of Reserve for Losses and Loss Expenses Cumulative Deficiency (Redundancy)

Gross Losses

	Year Ended December 31,										
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008(1)**	**2009**	**2010**	**2011**
	($ in thousands)										
As Originally Estimated:	$ 213	$ 310,508	$ 1,062,138	$ 2,084,331	$ 3,543,811	$ 3,900,546	$ 4,307,637	$ 4,576,828	$ 4,761,772	$ 4,879,188	$ 5,225,143
Liability Re-estimated as of											
One Year Later	213	253,691	981,713	1,961,172	3,403,274	3,622,721	3,484,894	4,290,335	4,329,254	4,557,847	
Two Years Later	213	226,943	899,176	1,873,599	3,249,263	3,247,858	3,149,303	3,877,832	3,975,195		
Three Years Later	213	217,712	845,162	1,733,707	2,894,460	2,911,300	2,791,110	3,576,846			
Four Years Later	213	199,860	810,183	1,513,697	2,558,600	2,605,761	2,533,557				
Five Years Later	213	205,432	704,666	1,306,220	2,315,913	2,432,597					
Six Years Later	213	196,495	626,818	1,235,604	2,190,495						
Seven Years Later	213	179,752	619,903	1,207,675							
Eight Years Later	213	184,107	618,248								
Nine Years Later	213	184,104									
Ten Years Later	213										
Cumulative (Redundancy)		(126,404)	(443,890)	(876,656)	(1,353,316)	(1,467,949)	(1,774,080)	(999,982)	(786,577)	(321,341)	
Cumulative Claims Paid as of:											
One Year Later		54,288	138,843	374,605	718,263	560,163	583,447	574,823	634,463	656,568	
Two Years Later		83,465	237,949	574,399	1,154,901	1,002,503	943,879	1,089,540	1,036,171		
Three Years Later		100,978	301,264	725,955	1,521,586	1,252,921	1,311,398	1,391,252			
Four Years Later	18	124,109	372,187	842,931	1,662,811	1,531,899	1,469,345				
Five Years Later	18	163,516	425,394	910,393	1,828,977	1,622,539					

Six Years Later	18	184,691	456,652	971,953	1,864,908
Seven Years Later	18	195,688	478,055	994,769	
Eight Years Later	18	201,516	499,459		
Nine Years Later	18	149,044			
Ten Years Later	18				

(1) Reserve for losses and loss expenses includes the reserves for losses and loss expenses of Finial Insurance Company (renamed Allied World Reinsurance Company), which we acquired in February 2008, and Darwin, which we acquired in October 2008.

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Development of Reserve for Losses and Loss Expenses

Cumulative Deficiency (Redundancy)

Gross Losses

	Year Ended December 31,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Liability Re-estimated as of:										
One Year Later	100%	82%	92%	94%	96%	93%	81%	94%	91%	93%
Two Years Later	100%	73%	85%	90%	92%	83%	73%	85%	83%	
Three Years Later	100%	70%	80%	83%	82%	75%	65%	78%		
Four Years Later	100%	64%	76%	73%	72%	67%	59%			
Five Years Later	100%	66%	66%	63%	65%	62%				
Six Years Later	100%	63%	59%	59%	62%					
Seven Years Later	100%	58%	58%	58%						
Eight Years Later	100%	59%	58%							
Nine Years Later	100%	59%								
Ten Years Later	100%									
Cumulative (Redundancy)		(41)%	(42)%	(42)%	(38)%	(38)%	(41)%	(22)%	(17)%	(7)%
Gross Loss and Loss Expense Cumulative Paid as a Percentage of Originally Estimated Liability										
Cumulative Claims Paid as of:										
One Year Later	0%	17%	13%	18%	20%	14%	14%	13%	13%	13%
Two Years Later	0%	27%	22%	28%	33%	26%	22%	24%	22%	
Three Years Later	0%	33%	28%	35%	43%	32%	30%	30%		
Four Years Later	8%	40%	35%	40%	47%	39%	34%			
Five Years Later	8%	53%	40%	44%	52%	42%				
Six Years Later	8%	59%	43%	47%	53%					
Seven Years Later	8%	63%	45%	48%						
Eight Years Later	8%	65%	47%							
Nine Years Later	8%	48%								
Ten Years Later	8%									

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Losses Net of Reinsurance

	2001	2002	2003	2004	2005	2006	2007	2008(1)	2009	2010	2011
As Originally Estimated:	$ 213	$ 299,946	$ 967,305	$ 1,809,588	$ 2,826,930	$ 3,211,441	$ 3,624,872	$ 3,688,514	$ 3,841,781	$ 3,951,600	$ 4,222,224
Liability Re-estimated as of:											
One Year Later	213	243,129	887,870	1,760,469	2,662,723	2,978,320	3,312,248	3,440,522	3,528,426	3,698,072	
Two Years Later	213	216,381	833,496	1,655,675	2,551,946	2,699,585	3,032,063	3,128,342	3,255,966		
Three Years Later	213	207,945	773,967	1,551,115	2,281,007	2,416,966	2,742,484	2,882,645			
Four Years Later	213	191,471	746,355	1,353,988	1,986,782	2,152,221	2,518,524				
Five Years Later	213	197,656	648,469	1,162,263	1,776,483	1,997,008					
Six Years Later	213	188,733	574,803	1,098,702	1,663,577						
Seven Years Later	213	172,219	568,273	1,075,318							
Eight Years Later	213	176,582	566,975								
Nine Years Later	213	176,579									
Ten Years Later	213										
Cumulative (Redundancy)		(123,367)	(400,330)	(734,270)	(1,163,353)	(1,214,433)	(1,106,348)	(805,869)	(585,815)	(253,528)	
Cumulative Claims Paid as of:											
One Year Later		52,077	133,336	306,865	461,310	377,250	415,214	415,902	498,084	542,649	
Two Years Later		76,843	214,939	482,038	759,276	698,959	681,332	811,697	843,697		
Three Years Later		93,037	272,028	624,894	990,514	884,077	964,790	1,069,303			
Four Years Later	18	116,494	342,898	733,286	1,090,679	1,094,011	1,099,963				
Five Years Later	18	155,904	407,712	783,091	1,219,997	1,167,580					
Six Years Later	18	172,974	426,354	833,918	1,248,296						
Seven Years Later	18	176,390	440,812	851,312							
Eight Years Later	18	177,880	455,271								
Nine Years Later	18	141,507									
Ten Years Later	18										

(1) Reserve for losses and loss expenses net includes the reserves for losses and loss expenses of Finial Insurance Company (renamed Allied World Reinsurance Company), which we acquired in February 2008, and Darwin, which we acquired in October 2008.

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Losses Net of Reinsurance

	Year Ended December 31,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Liability Re-estimated as of:										
One Year Later	100%	81%	92%	97%	94%	93%	91%	93%	92%	94%
Two Years Later	100%	72%	86%	91%	90%	84%	84%	85%	85%	
Three Years Later	100%	69%	80%	86%	81%	75%	76%	78%		
Four Years Later	100%	64%	77%	75%	70%	67%	69%			
Five Years Later	100%	66%	67%	64%	63%	62%				
Six Years Later	100%	63%	59%	61%	59%					
Seven Years Later	100%	57%	59%	59%						
Eight Years Later	100%	59%	59%							
Nine Years Later	100%	59%								
Ten Years Later										
Cumulative (Redundancy)		(41)%	(41)%	(41)%	(41)%	(38)%	(31)%	(22)%	(15)%	(6)%
Net Loss and Loss Expense Cumulative Paid as a Percentage of Originally Estimated Liability										
Cumulative Claims Paid as of:										
One Year Later	0%	17%	14%	17%	16%	12%	11%	11%	13%	14%
Two Years Later	0%	26%	22%	27%	27%	22%	19%	22%	22%	
Three Years Later	0%	31%	28%	35%	35%	28%	27%	29%		
Four Years Later	8%	39%	35%	41%	39%	34%	30%			
Five Years Later	8%	52%	42%	43%	43%	36%				
Six Years Later	8%	58%	44%	46%	44%					
Seven Years Later	8%	59%	46%	47%						
Eight Years Later	8%	59%	47%							
Nine Years Later	8%	47%								
Ten Years Later	8%									

The table below is a reconciliation of the beginning and ending liability for unpaid losses and loss expenses for the years ended December 31, 2011, 2010 and 2009. Losses incurred and paid are reflected net of reinsurance recoveries.

	Year Ended December 31,		
	2011	2010	2009
	($ in thousands)		
Gross liability at beginning of year	4,879,188	$ 4,761,772	$ 4,576,828
Reinsurance recoverable at beginning of year	(927,588)	(919,991)	(888,314)
Net liability at beginning of year	3,951,600	3,841,781	3,688,514
Net losses incurred related to:			
Commutation of variable-rated reinsurance contracts	11,529	8,864	
Current year	1,201,155	1,012,374	852,052
Prior years	(253,528)	(313,355)	(247,992)
Total incurred	959,156	707,883	604,060
Net paid losses related to:			
Current year	142,162	98,646	42,320
Prior years	542,649	498,084	415,901
Total paid	684,811	596,730	458,221
Foreign exchange revaluation	(3,721)	(1,334)	7,428
Net liability at end of year	4,222,224	3,951,600	3,841,781
Reinsurance recoverable at end of year	1,002,919	927,588	919,991
Gross liability at end of year	$ 5,225,143	$ 4,879,188	$ 4,761,772

Investments

Investment Strategy and Guidelines

We believe that we follow a conservative investment strategy designed to emphasize the preservation of our invested assets and provide adequate liquidity for the prompt payment of claims. To help ensure adequate liquidity for payment of claims, we take into account the maturity and duration of our investment portfolio and our general liability profile. In making investment decisions, we consider the impact of various catastrophic events to which we may be exposed. Our portfolio therefore consists primarily of investment grade, fixed-maturity securities of short-to-medium term duration. As of December 31, 2011, these securities, along with cash and cash equivalents, represented 83% of our total investments and cash and cash equivalents, with the remainder invested in non-investment grade securities and loans, equities, hedge funds and other alternative investments. Our current Investment Policy Statement contains restrictions on the maximum amount of our investment portfolio that may be invested in alternative investments (such as hedge funds and private equity vehicles) as well as a minimum amount that must be maintained in investment grade fixed income securities and cash.

In an effort to meet business needs and mitigate risks, our investment guidelines provide restrictions on our portfolio s composition, including limits on the type of issuer, sector limits, credit quality limits, portfolio duration, limits on the amount of investments in approved countries and permissible security types. We may direct our investment managers to invest some of the investment portfolio in currencies other than the U.S. dollar based on the business we have written, the currency in which our loss reserves are denominated on our books or regulatory requirements.

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. Investment guideline restrictions have been established in an effort to minimize the effect of these risks but may not always be effective due to factors beyond our control. Interest rates are highly sensitive to many factors, including

governmental monetary and fiscal policies, domestic and international economic and political conditions and other factors beyond our control. A significant increase in interest rates could result in significant losses, realized or unrealized, in the value of our investment portfolio. Similarly, given our portfolio s exposure to credit assets, a significant increase in credit spreads could result in significant losses to our investment portfolio. Additionally, with respect to some of our investments, we are subject to prepayment and therefore reinvestment risk. Alternative investments, such as our hedge fund and private equity investments, subject us to restrictions on sale, transfer and redemption, which may limit our ability to withdraw funds or realize gains on such investments for some period of time after our initial investment. The values of, and returns on, such investments may also be more volatile.

Investment Committee and Investment Managers

The Investment Committee of our Board of Directors has approved an investment policy statement that contains investment guidelines and supervises our investment activity. The Investment Committee regularly monitors our overall investment results, compliance with investment objectives and guidelines, and ultimately reports our overall investment results to the Board of Directors.

For our fixed income assets and loans we have engaged four outside investment managers to provide us with certain discretionary investment management services. We have agreed to pay investment management fees based on the market values of the investments in the portfolio. The fees, which vary depending on the amount of assets under management, are included as a deduction to net investment income. These investment management agreements may generally be terminated by either party upon 30 days prior written notice.

Our Portfolio

Composition as of December 31, 2011

As of December 31, 2011, we had total investments and cash and cash equivalents of $8.1 billion, including restricted cash, fixed-maturity securities and hedge fund and private equity investments. The average credit quality of our investments is rated AA- by Standard & Poor s and Aa3 by Moody s. Short-term instruments must be rated a minimum of A-1, F-1 or P-1 by Standard & Poor s, Moody s or Fitch. The target duration range was 1.75 to 4.25 years. The portfolio has a total return rather than income orientation. As of December 31, 2011, the average duration of our investment portfolio was 1.9 years and there were approximately $14.5 million of net unrealized gains in the portfolio, net of applicable tax.

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The following table shows the types of securities in our portfolio, their fair market values, average rating and portfolio percentage as of December 31, 2011.

	As of December 31, 2011		
	Fair Value	Average Rating	Portfolio Percentage
	($ in thousands)		
Type of Investment			
Cash and cash equivalents	$ 716,604	AAA	8.8%
U.S. government securities	1,087,633	AA+	13.4%
U.S. government agencies	224,262	AA+	2.7%
Non-U.S. government securities	256,756	AAA	3.2%
Mortgage-backed securities:			
Agency mortgage-backed securities	1,183,893	AA+	14.6%
Non-agency residential mortgage-backed securities	120,345	A+	1.5%
Non-agency residential mortgage-backed securities-non-investment grade strategy	182,482	CCC	2.3%
Commercial mortgage-backed securities	331,371	AAA	4.1%
Total mortgage-backed securities	1,818,091		22.5%
Corporate securities:			
Financial Institutions	1,179,391	A+	14.5%
Industrials	1,064,813	BBB	13.1%
Utilities	187,177	BBB+	2.3%
Total corporate securities	2,431,381		29.9%
Asset-backed securities:			
Credit card receivables	44,424	AAA	0.5%
Automobile loan receivables	73,226	AAA	0.9%
Student loan receivables	178,898	AA+	2.2%
Collateralized loan obligations	139,678	AA+	1.7%
Other	76,972	AAA	0.9%
Total asset-backed securities	513,198		6.2%
State, municipalities and political subdivisions	167,381	AA-	2.1%
Hedge funds	431,544	N/A	5.3%
Private equity	108,865	N/A	1.4%
Equity securities	367,483	N/A	4.5%
Total investment portfolio	$ 8,123,198		100.0%

For more information on the securities in our investment portfolio, please see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Fair Value of Financial Instruments .

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Ratings as of December 31, 2011

The investment ratings (provided by Standard & Poor s and Moody s) for fixed maturity securities held as of December 31, 2011 and the percentage of our total fixed maturity securities they represented on that date were as follows:

	Fair Value	Percentage of Total Fair Value
	($ in millions)	
Ratings		
U.S. government and government agencies	$ 1,311.9	20.2%
AAA/Aaa	1,336.2	20.6%
AA/Aa	1,656.9	25.4%
A/A	1,148.1	17.7%
BBB/Baa	565.1	8.7%
BB	168.1	2.6%
B/B	103.3	1.6%
CCC+ and below	209.1	3.2%
Total	$ 6,498.7	100.0%

Maturity Distribution as of December 31, 2011

The maturity distribution for our fixed maturity securities held as of December 31, 2011 was as follows:

	Fair Value	Percentage of Total Fair Value
	($ in millions)	
Maturity		
Due within one year	$ 661.6	10.2%
Due after one year through five years	2,686.1	41.3%
Due after five years through ten years	725.5	11.2%
Due after ten years	94.2	1.4%
Mortgage-backed	1,818.1	28.0%
Asset backed	513.2	7.9%
Total	$ 6,498.7	100.0%

Investment Returns for the Year Ended December 31, 2011

Our investment returns for year ended December 31, 2011:

Net investment income	$ 195.9
Net realized investment gains	10.1
Net change in unrealized gains	(45.7)

Total net investment return	$ 160.3
Total financial statement portfolio return(1)	2.0%
Effective annualized yield(2)	2.5%

(1) Total financial statement portfolio return for our investment portfolio is calculated using beginning and ending market values adjusted for external cash flows and includes the net change in unrealized gains and losses.

(2) Effective annualized yield is calculated by dividing net investment income by the average balance of aggregate invested assets, on an amortized cost basis.

Our Principal Operating Subsidiaries

Allied World Assurance Company, Ltd is a registered Class 4 Bermuda insurance and reinsurance company that began operations in November 2001. It carries on business from its offices in Bermuda and from branch offices licensed in Hong Kong and Singapore, as well as under its newly-granted license from Labuan. Allied World Assurance Company (Europe) Limited was incorporated as a wholly-owned subsidiary of Allied World Assurance Holdings (Ireland) Ltd and has been approved to carry on business in the E.U. from its office in Ireland since October 2002 and from a branch office in London since May 2003. Since its formation, Allied World Assurance Company (Europe) Limited has written business primarily originating from Ireland, the United Kingdom and Continental Europe. Allied World Assurance Company (Reinsurance) Limited was incorporated as a wholly-owned subsidiary of Allied World Assurance Holdings (Ireland) Ltd and has been approved to carry on business in the E.U. from its office in Ireland since July 2003, from a branch office in London since August 2004 and from a branch office in Zug, Switzerland since October 2008. We include the business produced by Allied World Assurance Company (Reinsurance) Limited in our international insurance segment (other than reinsurance business written through its Swiss branch office) even though the majority of coverages are structured as facultative reinsurance. Allied World Assurance Company, AG is a direct subsidiary of Holdings which was formed in Switzerland in May 2010 and licensed by the Swiss Financial Market Supervisory Authority (FINMA) to write insurance and reinsurance from our office in Zug.

We write insurance in the United States primarily through four subsidiaries, Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company, which we acquired in July 2002, and Darwin National Assurance Company and Darwin Select Insurance Company, which we acquired in October 2008. These companies are authorized or eligible to write insurance on both a surplus lines and admitted basis throughout the United States. In February 2008, we also acquired Allied World Reinsurance Company, through which we write our U.S. reinsurance business.

The activities of AWAC Services Company (Bermuda), Ltd, AWAC Services Company (Ireland) Limited and AWAC Services Company are limited to providing certain administrative services to various subsidiaries of Holdings. During 2010, we formed a new subsidiary, 2232 Services Limited, in the United Kingdom in order to administratively support the operations of Syndicate 2232 at Lloyd s.

Our Employees

As of February 21, 2012, we had a total of 702 full-time employees, of which 128 worked in Bermuda, 467 in the United States, 82 in Europe, and 25 in Hong Kong and Singapore. We believe that our employee relations are good. No employees are subject to collective bargaining agreements.

Regulatory Matters

General

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. Our insurance and reinsurance subsidiaries are required to comply with a wide variety of laws and regulations applicable to insurance and reinsurance companies, both in the jurisdictions in which they are organized and where they sell their insurance and reinsurance products. The insurance regulatory environment has become subject to increased scrutiny in many jurisdictions globally.

Switzerland

Allied World Assurance Company, AG obtained its license from FINMA in March 2011 and is approved to carry on insurance and reinsurance business in specific lines of non-life business. Allied World Assurance

Company, AG is required to comply with the Federal Insurance Supervision Act (the ISA), the Federal Insurance Supervision Ordinance and regulations and guidance issued by FINMA. The following are some significant aspects of the Swiss regulatory framework:

Capital and Solvency Requirements. Allied World Assurance Company, AG is required to satisfy minimum capital and solvency requirements. Solvency is determined based on two independent methodologies:

Solvency I: This involves calculating a solvency margin by applying defined percentages to a base of the higher of gross annual premium or gross claims over a prescribed period of time and comparing coverage in terms of the company s admissible funds against the required solvency margin determined in accordance with the ISA.

Swiss Solvency Test (the SST): The SST is similar in nature to the methodology that will be applied under the E.U. s Solvency II regime. Under this approach, capital adequacy is achieved if risk bearing capital exceeds the required solvency capital. The SST model involves a more sophisticated analysis by providing for a market-consistent valuation of all assets and liabilities of the firm with a methodological approach to risk categories (insurance risk, credit risk etc.) subjecting them to scenario stress tests at a basic level in the context of the use of a standard regulatory model or internal model validated by FINMA.

Allied World Assurance Company, AG is also required to satisfy technical provisions with regard to its assets, which include restrictions concerning the investment of tied assets, which are assets that are secured to ensure the claims of the company s insurance clients.

Corporate Governance, Risk Management and Internal Controls. In addition to quantitative risk measures, FINMA requires full qualitative governance and control of risk in the firm. This includes requirements as to the ongoing fitness, propriety and competence of the directors and senior management, observance of ethical standards, objective and appropriate remuneration procedures, management of conflicts of interests, the institution of a compliance function, independence and adequate resourcing of control functions (including the responsible actuary, the risk management function and the internal audit function). Insurance companies are required to implement documented procedures for risk management and internal control.

In addition, Allied World Assurance Company, AG is subject to annual reporting requirements enacted by FINMA.

Allied World Assurance Company (Reinsurance) Limited also operates a branch office in Zug, Switzerland. As this subsidiary is domiciled outside of Switzerland, conducts only reinsurance business in Switzerland and is regulated by the Central Bank of Ireland (CBI) as a reinsurance undertaking, it is not required to be licensed by FINMA.

Bermuda

The Insurance Act 1978 of Bermuda and related regulations, as amended (the Insurance Act), regulates the insurance and reinsurance business of Allied World Assurance Company, Ltd. The Insurance Act provides that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority (the BMA). Allied World Assurance Company, Ltd has been registered as a Class 4 insurer by the BMA and approved to carry on general insurance and reinsurance business. Allied World Assurance Company Holdings, Ltd and Allied World Assurance Holdings (Ireland) Ltd are holding companies and AWAC Services (Bermuda), Ltd is a services company that do not carry on any insurance or reinsurance business, and as such each is not subject to Bermuda insurance regulations; however, like all Bermuda companies, they are subject to the provisions and regulations of the Companies Act 1981 of Bermuda, as amended (the Companies Act). The Insurance Act imposes solvency and liquidity standards and auditing and reporting requirements on Bermuda insurance and reinsurance companies and grants the BMA powers to supervise, investigate, require information and the production of documents and intervene in the affairs of these companies.

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The following are some significant aspects of the Bermuda insurance and reinsurance regulatory framework:

Solvency and Capital Standards. As a Class 4 insurer, Allied World Assurance Company, Ltd is required to maintain a minimum solvency margin and to hold available statutory capital and surplus equal to or exceeding its enhanced capital requirement and target capital level as determined by the BMA under the Bermuda Solvency Capital Requirement model (BSCR model). The BSCR model is a risk-based capital model that provides a method for determining an insurer s enhanced capital requirement and total capital level taking into account the risk characteristics of different aspects of an insurer s business. Allied World Assurance Company, Ltd is required to maintain a minimum solvency margin that is equal to the greatest of (1) $100,000,000; (2) 50% of net premiums written (being gross premiums written less any premiums ceded, but the company may not deduct more than 25% of gross premiums written when computing net premiums written); and (3) 15% of net losses and loss expense reserves.

Eligible Capital. Allied World Assurance Company, Ltd is now required to disclose the makeup of its capital in accordance with the recently introduced three-tiered capital system . Under this system, all of the insurer s capital instruments will be classified as either basic or ancillary capital, which in turn will be classified into one of three tiers based on their loss absorbency characteristics. Highest quality capital will be classified tier 1 capital, lesser quality capital will be classified as either tier 2 capital or tier 3 capital. Under this regime, not less than 80% of tier 1 capital and up to 20% of tier 2 capital may be used to support the company s minimum solvency margin. Thereafter, a minimum of 60% of tier 1 capital and a maximum of 15% of tier 3 capital may be used to satisfy the company s enhanced capital requirement. Any combination of tier 1, 2 or 3 capital may be used to meet the total capital level.

Liquidity. Allied World Assurance Company, Ltd must maintain a minimum liquidity ratio at least equal to the value of its relevant assets at not less than 75% of the amount of its relevant liabilities.

Dividends. Allied World Assurance Company, Ltd is prohibited from declaring or paying any dividends during any financial year if it is, or would be after such dividend, in breach of its minimum solvency margin, minimum liquidity ratio or enhanced capital requirements. Allied World Assurance Company, Ltd is also prohibited, without prior BMA approval, from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus or from reducing by 15% or more its total statutory capital. Under the Companies Act, Allied World Assurance Company Holdings, Ltd and each of its Bermuda subsidiaries may not declare or pay a dividend if such company has reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or that the realizable value of its assets would thereby be less than its liabilities.

Principal office and representatives. Allied World Assurance Company, Ltd must maintain a principal office and appoint a principal representative, loss reserve specialist and independent auditor approved by the BMA.

Filings. Allied World Assurance Company, Ltd must file with the BMA annual and quarterly statutory financial returns, annual U.S. GAAP financial statements and an annual capital and solvency return.

Group Supervision. In 2011, the BMA notified Allied World Assurance Company, Ltd that it intended to act as group supervisor of our insurance and reinsurance companies and that Allied World Assurance Company, Ltd had been designated as the designated insurer in respect thereof. In accordance with the Group Supervision and Insurance Group Solvency Rules that came into effect on January 16, 2012, Allied World Assurance Company, Ltd is now required to prepare and submit annual audited group U.S. GAAP financial statements, annual group statutory financial statements, an annual group statutory financial return, an annual group capital and solvency return and quarterly group unaudited financial returns. Enhanced group capital requirements will come into effect in 2013.

Currency matters. As the BMA has classified each of our Bermuda subsidiaries as non-residents of Bermuda, these subsidiaries may engage in transactions in currencies other than Bermuda dollars and there are no restrictions on our ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda.

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Code of Conduct. Allied World Assurance Company, Ltd must comply with the Insurance Code of Conduct which prescribes the duties, standards, procedures and sound business principles with which all companies registered under the Insurance Act must comply. Failure to comply with the requirements of the Code will be taken into account by the BMA in determining whether an insurer is conducting its business in a sound and prudent manner as prescribed by the Insurance Act and may result in the BMA exercising its powers of intervention and investigation and will be a factor in calculating the operational risk charge under the insurer s BSCR model.

Shareholder notification requirements. The BMA also requires written notification from any person who, directly or indirectly, becomes a holder of at least 10%, 20%, 33% or 50% of the voting shares of Allied World Assurance Company, Ltd or its parent within 45 days of becoming such a holder. The BMA may object to such a person if it appears to the BMA that the person is not fit and proper to be such a holder and/or require the shareholder to reduce its holdings or voting rights. A person that does not give the required notification or comply with such a notice or direction from the BMA will be guilty of an offense.

If it appears to the BMA that there is a risk of Allied World Assurance Company, Ltd becoming insolvent, or that Allied World Assurance Company, Ltd is in breach of the Insurance Act or any conditions imposed upon its registration, the BMA may take numerous restrictive actions to protect the public interest, including cancelling our registration under the Insurance Act.

Ireland

Allied World Assurance Company (Europe) Limited is authorized as a non-life insurance undertaking and is regulated by the CBI pursuant to the Insurance Acts 1909 to 2011, the Central Bank Acts 1942 to 2010, and all statutory instruments relating to insurance made or adopted under the European Communities Acts 1972 to 2009 (the Irish Insurance Acts and Regulations). The Third Non-Life Directive of the European Union (the Non-Life Directive) established a common framework for the authorization and regulation of non-life insurance undertakings within the E.U. The Non-Life Directive permits non-life insurance undertakings authorized in a member state of the E.U. to operate in other member states of the E.U. either directly from the home member state (on a freedom to provide services basis) or through local branches (by way of permanent establishment). Allied World Assurance Company (Europe) Limited operates a branch office in the United Kingdom and operates on a freedom to provide services basis in other European Union member states.

Allied World Assurance Company (Reinsurance) Limited is authorized and regulated by the CBI pursuant to the Central Bank Acts 1942 to 2010, all statutory instruments relating to reinsurance made or adopted under the European Communities Acts 1972 to 2009 and the provisions of the European Communities (Reinsurance) Regulations 2006 (which transposed the E.U. Reinsurance Directive into Irish law) and operates branches in London, England and Zug, Switzerland. Pursuant to the provisions of these regulations, reinsurance undertakings may, subject to the satisfaction of certain formalities, carry on reinsurance business in other E.U. member states either directly from the home member state (on a freedom to provide services basis) or through local branches (by way of permanent establishment).

United States

Our U.S. insurance and reinsurance subsidiaries are admitted or surplus line eligible in all 50 states and the District of Columbia. Allied World Assurance Company (U.S.) Inc. is admitted in three states, including Delaware, its state of domicile, surplus lines eligible in 49 jurisdictions, including the District of Columbia and Puerto Rico, and an accredited reinsurer in 38 jurisdictions, including the District of Columbia. Allied World National Assurance Company is admitted in 43 jurisdictions, including New Hampshire, its state of domicile, surplus lines eligible in three states and an accredited reinsurer in one state. Allied World Reinsurance Company is admitted to write insurance and reinsurance in all 50 states, including New Hampshire, its state of domicile, and the District of Columbia. Darwin National Assurance Company is domiciled in Delaware and admitted to write in all other U.S. jurisdictions except Arkansas. Darwin Select Insurance Company, which is an Arkansas company, is admitted in that state and is an eligible surplus lines writer in all other states and the District of Columbia, and Vantapro Specialty Insurance Company, which is an inactive Arkansas company, is currently admitted only in Arkansas and Illinois.

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Our U.S. admitted and authorized insurers and reinsurers are subject to considerable regulation and supervision by state insurance regulators. The extent of regulation varies but generally has its source in statutes that delegate regulatory, supervisory and administrative authority to a department of insurance in each state. Among other things, state insurance commissioners regulate insurer solvency standards, insurer and agent licensing, authorized investments, premium rates, restrictions on the size of risks that may be insured under a single policy, loss and expense reserves and provisions for unearned premiums, and deposits of securities for the benefit of policyholders. The states regulatory schemes also extend to policy form approval and market conduct regulation. In addition, some states have enacted variations of competitive rate making laws, which allow insurers to set premium rates for certain classes of insurance without obtaining the prior approval of the state insurance department. State insurance departments also conduct periodic examinations of the affairs of authorized insurance companies and require the filing of annual and other reports relating to the financial condition of companies and other matters.

Holding Company Regulation. Our U.S. insurance subsidiaries are subject to regulation under the insurance holding company laws of certain states. The insurance holding company laws and regulations vary by state, but generally require admitted insurers that are subsidiaries of insurance holding companies to register and file with state regulatory authorities certain reports including information concerning their capital structure, ownership, financial condition and general business operations. Generally, all transactions involving the insurers in a holding company system and their affiliates must be fair and, if material, require prior notice and approval or non-disapproval by the state insurance department.

State insurance holding company laws typically place limitations on the amounts of dividends or other distributions payable by insurers. These limitations vary by state, but generally are based on statutory surplus, statutory net income and investment income. Delaware allows us to pay ordinary dividends without the prior approval of its insurance commissioner so long as the dividend is paid out of earned surplus (as defined under Delaware law). New Hampshire requires 15 days notice to its insurance commissioner prior to paying an ordinary dividend, provided that our surplus with regard to policyholders following such dividend payment would be adequate and could not lead to a hazardous financial condition. Arkansas allows us to pay ordinary dividends upon ten business days prior notice to its insurance commissioner. For extraordinary dividends, each state requires 30 days prior notice to and non-disapproval of its insurance commissioner before being declared. An extraordinary dividend generally includes any dividend whose fair market value together with that of other dividends or distributions made within the preceding 12 months exceeds the greater of: (1) 10% of the insurer s surplus as regards policyholders as of December 31 of the prior year, or (2) the net income of the insurer, not including realized capital gains, for the 12-month period ending December 31 of the prior year, but does not include pro rata distributions of any class of the insurer s own securities.

State insurance holding company laws also require prior notice and state insurance department approval of changes in control of an insurer or its holding company. Under the insurance laws of Delaware, New Hampshire and Arkansas, any beneficial owner of 10% or more of the outstanding voting securities of an insurance company or its holding company is presumed to have acquired control, unless this presumption is rebutted.

Guaranty Fund Assessments. Virtually all states require admitted insurers to participate in various forms of guaranty associations in order to bear a portion of the loss suffered by certain insureds caused by the insolvency of other insurers. Depending upon state law, insurers can be assessed an amount that is generally equal to between 1% and 2% of the annual premiums written for the relevant lines of insurance in that state to pay the claims of insolvent insurers. Most of these assessments are recoverable through premium rates, premium tax credits or policy surcharges.

Involuntary Pools. In the states where they are admitted, our insurance subsidiaries are also required to participate in various involuntary assigned risk pools, principally involving workers compensation and automobile insurance, which provide various insurance coverages to individuals or other entities that otherwise are unable to purchase such coverage in the voluntary market. Participation in these pools in most states is generally in proportion to voluntary writings of related lines of business in that state.

Risk-Based Capital. U.S. insurers are also subject to risk-based capital (or RBC) guidelines that provide a method to measure the total adjusted capital (statutory capital and surplus plus other adjustments) of insurance

companies taking into account the risk characteristics of the company s investments and products. The RBC formulas establish capital requirements for four categories of risk: asset risk, insurance risk, interest rate risk and business risk. As of December 31, 2011, we believe all of our U.S. insurance and reinsurance subsidiaries had adjusted capital in excess of amounts requiring company or regulatory action.

NAIC Ratios. The National Association of Insurance Commissioners (NAIC) Insurance Regulatory Information System, or IRIS, was developed to help state regulators identify companies that may require special attention. IRIS is comprised of statistical and analytical phases consisting of key financial ratios whereby financial examiners review annual statutory basis statements and financial ratios. Each ratio has an established usual range of results and assists state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies. As of December 31, 2011, we do not believe that any of our U.S. insurance and reinsurance subsidiaries had an IRIS ratio range warranting any regulatory action.

Surplus Lines Regulation. The regulation of our U.S. subsidiaries excess and surplus lines insurance business differs significantly from their regulation as admitted or authorized insurers. These companies are subject to the surplus lines regulation and reporting requirements of the jurisdictions in which they are eligible to write surplus lines insurance. Allied World Assurance Company (U.S.) Inc. and Darwin Select Insurance Company, which conduct business on a surplus lines basis in a particular state, are generally exempt from that state s guaranty fund laws and from participation in its involuntary pools. Although surplus lines business is generally less regulated than the admitted market, strict regulations apply to surplus lines placements under the laws of every state, and the regulation of surplus lines insurance may undergo changes in the future. Federal and/or state measures may be introduced and promulgated that would result in increased oversight and regulation of surplus lines insurance.

Lloyd s of London

General. Syndicate 2232 was licensed to start underwriting certain lines of insurance and reinsurance business effective June 2010. Allied World Capital (Europe) Limited is the sole corporate member of Syndicate 2232. Syndicate 2232 is managed by Capita Managing Agency Limited, an unaffiliated entity (Capita).

Lloyd s intervention powers. As a member of Lloyd s, Allied World Capital (Europe) Limited is obliged to comply with Lloyd s bye laws and regulations (made pursuant to the Lloyd s Acts 1871 to 1982) and applicable provisions of the Financial and Services and Markets Act 2000 (the FSMA). The Council of Lloyd s has wide discretionary powers to regulate members underwriting at Lloyd s and its exercise of these powers might affect the return on an investment of the corporate member in a given underwriting year.

Capital requirements. The capital required to support a Syndicate s underwriting capacity, referred to as funds at Lloyd s , is assessed annually and is determined by Lloyd s in accordance with the capital adequacy rules established by the FSA. If a member of Lloyd s is unable to pay its debts to policyholders, such debts may be payable from the Lloyd s Central Fund, which in many respects acts as an equivalent to a state guaranty fund in the United States. If Lloyd s determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd s members. The Council of Lloyd s has discretion to call or assess up to 3% of a member s underwriting capacity in any one year as a Central Fund contribution.

Our business plan, including the maximum underwriting capacity, for Syndicate 2232 requires annual approval by Lloyd s. The Lloyd s Franchise Board may require changes to any business plan and may also require the provision of additional capital to support an approved business plan. If material changes in the business plan for Syndicate 2232 were required by Lloyd s or if charges and assessments payable by Allied World Capital (Europe) Limited to Lloyd s were to increase significantly, these events could have an adverse effect on the operations and financial results of Allied World Capital (Europe) Limited.

The Company has provided capital to support the underwriting of Syndicate 2232 in the form of a letter of credit. An underwriting year of account is closed by way of reinsurance to close on the third anniversary of the inception of the relevant underwriting year. Upon the closing of an underwriting year, a profit or loss will be declared for the closed year of account. Prior to the closure of an underwriting year, funds at Lloyd s cannot typically be reduced unless the consent of Lloyd s is obtained and such consent will only be considered where a

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member has surplus funds at Lloyd s . Lloyd s approval is also required before any person can acquire control of a Lloyd s managing agent or Lloyd s corporate member.

FSA regulation. Lloyd s is authorized by the FSA and required to implement certain rules prescribed by the FSA under the Lloyd s Act of 1982 regarding the operation of the Lloyd s market. With respect to managing agents and corporate members, Lloyd s prescribes certain minimum standards relating to management and control, solvency and other requirements and monitors managing agents compliance with such standards. Future regulatory changes or rulings by the FSA could impact the business strategy or financial assumptions made by Capita and/or Allied World Capital (Europe) Limited and such impact could adversely affect the Syndicate 2232 s financial conditions and results.

Other applicable laws. Lloyd s worldwide insurance and reinsurance business is subject to various laws, regulations, treaties and policies of the E.U. as well as each jurisdiction in which it operates. Material changes in governmental requirements or laws could have an adverse effect on Lloyd s and its member companies, including Allied World Capital (Europe) Limited.

Asia

In March 2009, Allied World Assurance Company, Ltd received regulatory approval from the Office of the Insurance Commissioner in Hong Kong to operate as a branch office from which it conducts general insurance business in certain specified classes under Section 8 of the Insurance Companies Ordinance.

In December 2009, Allied World Assurance Company, Ltd received regulatory approval from the Monetary Authority of Singapore to operate a branch office from which it conducts general insurance and reinsurance business under Section 8 of the Insurance Act.

In July 2011, Allied World Assurance Company, Ltd received regulatory approval from the Labuan Financial Services Authority to operate a branch office from which it underwrites treaty reinsurance and long-tail facultative business from within Labuan, the Malaysian financial district.

Item 1A. Risk Factors.

Factors that could cause our actual results to differ materially from those in the forward-looking statements contained in this Annual Report on Form 10-K and other documents we file with the SEC include the following:

Risks Related to Our Company

Downgrades or the revocation of our financial strength ratings would affect our standing among brokers and customers and may cause our premiums and earnings to decrease significantly.

Ratings have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies. Each rating is subject to periodic review by, and may be revised downward or revoked at the sole discretion of, the rating agency. The ratings are neither an evaluation directed to our investors nor a recommendation to buy, sell or hold our securities. For the financial strength rating of each of our principal operating subsidiaries, please see Item 1. Business Our Financial Strength Ratings .

If the rating of any of our subsidiaries 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.

Additionally, it is common for our reinsurance contracts to contain terms that would allow the ceding companies to cancel the contract for the portion of our obligations if our insurance subsidiaries are downgraded below an A- by either A.M. Best or Standard & Poor s. Whether a ceding company would exercise the cancellation right (and, in the case of Allied World Reinsurance Company, as described in the paragraph below, the right to require the posting of security) would depend, among other factors, on the reason for such

downgrade, the extent of the downgrade, the prevailing market conditions and the pricing and availability of replacement reinsurance coverage. Therefore, we cannot predict in advance the extent to which these rights would be exercised, if at all, or what effect any such cancellations or security postings would have on our financial condition or future operations, but such effect could be material.

For example, if all ceding companies for which we have in force business as of December 31, 2011 were to exercise their cancellation rights or require the posting of security, the estimated impact could result in the return of premium, the commutation of loss reserves, the posting of collateral or a combination thereof. The unearned premium and reserve for losses and loss expenses associated with our reinsurance segment was $306.5 million and $1,313.7 million at December 31, 2011, respectively.

Our U.S. reinsurance subsidiary, Allied World Reinsurance Company, does not typically post security for the reinsurance contracts it writes. In addition to the cancellation right discussed above, should the company s A.M. Best rating or Standard & Poor s rating be downgraded below A-, some ceding companies would have the right to require Allied World Reinsurance Company to post security for its portion of the obligations under such contracts. If this were to occur, Allied World Reinsurance Company may not have the liquidity to post security as stipulated in such reinsurance contracts.

All Lloyd s syndicates benefit from Lloyd s central resources, including the Lloyd s brand, its network of global licenses and the central fund. The central fund is available at the discretion of the Council of Lloyd s to meet any valid claim that cannot be met by the resources of any member. Because all Lloyd s policies are ultimately backed by the central fund, a single market rating can be applied. The ability of Lloyd s syndicates to trade in certain classes of business at current levels is dependent on the maintenance of a satisfactory credit rating issued by an accredited rating agency. A. M. Best has assigned Lloyd s a financial strength rating of A (Excellent) and Standard & Poor s and Fitch Ratings have assigned Lloyd s a financial strength rating of A+ (Strong). Syndicate 2232 benefits from Lloyd s current ratings and would be adversely affected if the current ratings were downgraded from their present levels.

We also cannot assure you that A.M. Best, Standard & Poor s or Moody s will not downgrade our insurance subsidiaries.

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 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 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. Our results for the year ended December 31, 2011 included $157.9 million and $95.6 million of favorable (i.e., a loss reserve decrease) and adverse development (i.e., a loss reserve increase), respectively, of reserves relating to losses incurred for prior loss years. In comparison, our results for the year-ended December 31, 2010 included $369.8 million and $56.4 million of favorable and adverse development, respectively, of reserves relating to losses incurred for prior loss years. Our results for the year ended December 31, 2009 included $376.9 million and $128.9 million of favorable and adverse development, respectively, of reserves relating to losses incurred for prior loss years.

We have estimated our net losses from catastrophes based on actuarial analyses of claims information received to date, industry modeling and discussions with individual insureds and reinsureds. Accordingly, actual losses may vary from those estimated and will be adjusted in the period in which further information becomes available.

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We may experience significant losses and volatility in our financial results from catastrophic events.

As a multi-line casualty and property insurer and reinsurer, we may experience significant losses from claims arising out of catastrophic events, particularly from our direct property insurance operations and our property, workers compensation and personal accident reinsurance operations. Catastrophes can be caused by various unpredictable events, including earthquakes, volcanic eruptions, hurricanes, windstorms, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or man-made disasters, including oil spills and other environmental contamination. The international geographic distribution of our business subjects us to catastrophe exposure from natural events occurring in a number of areas throughout the world, examples of which include floods and windstorms in Europe, hurricanes and windstorms in Mexico, Florida, the Gulf Coast and the Atlantic Coast regions of the United States, typhoons and earthquakes in Japan and Taiwan, and earthquakes in California and parts of the Midwestern United States known as the New Madrid zone. Our largest exposure to wind events is concentrated in the Southeast and Gulf Coast of the United States. Our largest exposure to earthquake events is concentrated in California. The loss experience of catastrophe insurers and reinsurers has historically been characterized as low frequency but high severity in nature. In recent years, the frequency of major catastrophes appears to have increased and may continue to increase as a result of global climate change and other factors. Increases in the values and concentrations of insured property and the effects of inflation have resulted in increased severity of losses to the industry in recent years, and we expect this trend to continue.

The loss limitation methods we employ, such as establishing maximum aggregate exposed limits on policies written in key coastal and other defined geographical zones, restrictive underwriting guidelines and purchasing reinsurance, may not be sufficient protection against losses from catastrophes. In the event we do not accurately estimate losses from catastrophes that have already occurred, there is a possibility that loss reserves for such catastrophes will be inadequate to cover the losses. Because U.S. GAAP does not permit insurers and reinsurers to reserve for catastrophes until they occur, claims from these events could cause substantial volatility in our financial results for any fiscal quarter or year and could have a material adverse effect on our financial condition and results of operations. In addition, losses from catastrophic events could result in downward revisions to our financial strength ratings from the various rating agencies that cover us.

The risk models we use to quantify catastrophe exposures and risk accumulations may prove inadequate in predicting all outcomes from potential catastrophe events.

We use widely accepted and industry-recognized catastrophe risk modeling programs to help us quantify our aggregate exposure to any one event. As with any model of physical systems, particularly those with low frequencies of occurrence and potentially high severity of outcomes, the accuracy of the model s predictions is largely dependent on the accuracy and quality of the data provided in the underwriting process and the judgments of our employees and other industry professionals. These models do not anticipate all potential perils or events that could result in a catastrophic loss to us. Furthermore, it is often difficult for models to anticipate and incorporate events that have not been experienced during or as a result of prior catastrophes. Accordingly, it is possible for us to be subject to events or contingencies that have not been anticipated by our catastrophe risk models and which could have a material adverse effect on our reserves and results of operations.

We may be adversely impacted by inflation.

Our operations, like those of other property and casualty insurers and reinsurers, are susceptible to the effects of inflation because premiums are established before the ultimate amounts of loss and loss adjustment expense are known. Although we consider the potential effects of inflation when setting premium rates, our premiums may not fully offset the effects of inflation and essentially result in our under pricing the risks we insure and reinsure. Our reserve for losses and loss adjustment expenses includes assumptions about future payments for settlement of claims and claims-handling expenses, such as the value of replacing property and associated labor costs for the property business we write, the value of medical treatments and litigation costs. To the extent inflation causes theses costs to increase above reserves established for these claims, we will be required to increase our loss reserves with a corresponding reduction in our net income in the period in which the deficiency is identified, which may have a material adverse effect on our financial condition and results of operations.

We could face losses from terrorism and political unrest.

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.

Our trade credit and political risk insurance program protects insureds with interests in foreign jurisdictions in the event governmental action prevents them from exercising their contractual rights and may also protect their assets against physical damage perils. This may include risks arising from expropriation, forced abandonment, license cancellation, trade embargo, contract frustration, non-payment, war on land or political violence, including terrorism, revolution, insurrection and civil unrest. Political risk insurance is typically provided to financial institutions, equity investors, exporters, importers, export credit agencies and multilateral agencies in an array of industries, in connection with investments and contracts in both emerging markets and developed countries.

Our trade credit and political risk insurance program also protects insureds in foreign jurisdictions against non-payment coverage on specific loan obligations as a result of commercial as well as political risk events. We attempt to manage our exposure, by among other things, setting credit limits by country, region, industry and individual counterparty and regularly reviewing our aggregate exposures. The occurrence of one or more large losses in our credit and political risk insurance portfolio could have a material adverse effect on our results of operations or financial condition.

We could face losses from pandemic diseases.

A pandemic disease could also cause us to suffer significantly 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.

Our business and our financial results may be adversely affected by unexpected levels of loss due to climate change.

A substantial portion of our revenues are derived from the underwriting of property insurance and reinsurance around the world. Therefore, large scale climate change (often referred to as global warming) as well as changing ocean temperatures could increase the frequency and severity of our loss costs related to property damage and/or business interruption due to hurricanes, windstorms, flooding, blizzards, tornadoes or other severe weather events particularly with respect to properties located in coastal areas. Additionally, if changes in climatic patterns and ocean temperature conditions continue, it is likely that such changes will further impair the ability to predict the frequency and severity of future weather-related disasters in many parts of the world. Over the longer term, such decreased predictability will create additional uncertainty as to future trends and exposures. In addition to unexpected increases in covered losses and decreased predictability, global climate change may also give rise to new environmental liability claims against policyholders that compete in the energy, automobile manufacturing and other industries that we serve. There would be an increase in claims against policyholders of directors and officers liability of related management liability policies alleging a failure to supervise, manage or properly disclose climate change exposures. We may also incur greater-than-expected expense levels due to the costs involved in responding to regulators, rating agencies and other interested constituencies with respect to climate change and other environmental disclosures.

The perceived effects of climate change on debt obligations can impact our investment mix in any one issuer, industry or region. The largest per-issuer exposure, outside of government and government-related issuers, represented less than 1% of our investment portfolio and the largest ten exposures represented less than 6% of the portfolio.

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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 (which limits our exposure to losses in any one geographic area), limiting program size for each client (which limits our exposure to losses with respect to any one client), adjusting retention levels and establishing per risk and per occurrence limitations for each event and establishing prudent underwriting guidelines for each insurance program written (all of which limit our liability on any one policy). Most of our direct liability insurance policies include maximum aggregate limitations. We cannot assure you that any of these loss limitation methods will be effective. In particular, geographic zone limitations involve significant underwriting judgments, including the determination of the areas of the zones and whether a policy falls within particular zone limits. 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 (which limit the range and amount of liability to which we are exposed on a policy) or choice of forum (which provides us with a predictable set of laws to govern our policies and the ability to lower costs by retaining legal counsel in fewer jurisdictions), may not be enforceable in the manner we intend and some or all of our other loss limitation methods may prove to be ineffective. One or more catastrophic or other events could result in claims and expenses that substantially exceed our expectations and could have a material adverse effect on our results of operations.

A prolonged recession and other adverse consequences as a result of the turmoil in the U.S. and international financial markets could harm our business, liquidity and financial condition, and our share price.

The U.S. and international financial markets have been severely disrupted. Recent U.S. debt ceiling and budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe have increased the possibility of economic slowdowns. Although U.S. lawmakers passed legislation to raise the federal debt ceiling, Standard & Poor s lowered its long-term sovereign credit rating on the United States from AAA to AA+ in August 2011. These conditions, including the possibility of a prolonged recession, may potentially affect various aspects of our business, including the demand for and claims made under our products, our counterparty credit risk and the ability of our customers, counterparties and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources and our investment performance. Continued volatility in the U.S. and other securities markets may also adversely affect our share price.

We may be impacted from claims relating to the financial market turmoil, including subprime and other credit and insurance exposures, beyond our current estimates.

We write corporate directors and officers, errors and omissions and other insurance coverages for financial institutions and financial services companies. We also write liability coverages for fiduciaries of pension funds. In addition, we also reinsure other insurance companies that write these types of coverages. The financial institutions and financial services segment has been particularly impacted by the financial market turmoil. 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, swap and derivative transactions and executive compensation. During this time, a number of U.S. and international financial institutions, insurance companies and other companies have failed, been acquired under distressed circumstances, become reliant upon the central governments of their jurisdictions for financial assistance to remain solvent and/or suffered significant declines in their stock price. Fraud or other claims may be made against financial institutions and members of other industries, including the insurance industry. These events may give rise to increased bankruptcies and increased 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.

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We may be adversely impacted by the European sovereign debt crisis.

Developments in Europe have created uncertainty with respect to the ability of certain European countries to continue to service their sovereign debt obligations. The debt crisis and related European financial restructuring efforts may cause the value of the Euro to deteriorate. These factors could lead to an exit by a member country from the European Union. A country s exit from the European Union could lead to a devaluation of any currency that such country introduces to replace the Euro. Our customers or brokers located in the impacted country may be unable to pay the monies due to us or may seek to renegotiate their insurance policies or reinsurance contracts in the new currency at terms that are less favorable or unfavorable to us. The resulting financial climate from such an event could also lead to greater-than-expected losses on some of the in-force insurance policies or reinsurance contracts. For example, directors and officers policies issued to financial institutions may experience higher losses as a result. We may also experience increased loss activity in our trade credit and political risk portfolio. To the extent we suffer losses from the crisis in Europe, such losses could be significant.

For our reinsurance business, we depend on the policies, procedures and expertise of ceding companies; these companies may fail to accurately assess the risks they underwrite which may lead us to inaccurately assess the risks we assume.

Because we participate in reinsurance markets, the success of our reinsurance underwriting efforts depends in part on the policies, procedures and expertise of the ceding companies making the original underwriting decisions (when an insurer transfers some or all of its risk to a reinsurer, the insurer is sometimes referred to as a ceding company). Underwriting is a matter of judgment, involving important assumptions about matters that are inherently unpredictable and beyond the ceding companies control and for which historical experience and statistical analysis may not provide sufficient guidance. We face the risk that the ceding companies may fail to accurately assess the risks they underwrite, which, in turn, may lead us to inaccurately assess the risks we assume as reinsurance; if this occurs, the premiums that are ceded to us may not adequately compensate us and we could face significant losses on these reinsurance contracts.

The availability and cost of security arrangements for reinsurance transactions may materially impact our ability to provide reinsurance from Bermuda to insurers domiciled in the United States.

Allied World Assurance Company, Ltd, our Bermuda insurance and reinsurance company, is not admitted as an insurer, nor is it accredited as a reinsurer, in any jurisdiction in the United States. As a result, it is required to post collateral security with respect to any reinsurance liabilities it assumes from ceding insurers domiciled in the United States in order for U.S. ceding companies to obtain credit on their U.S. statutory financial statements with respect to the insurance liabilities ceded to them. Under applicable statutory provisions, the security arrangements may be in the form of letters of credit, reinsurance trusts maintained by trustees or funds-withheld arrangements where assets are held by the ceding company. Allied World Assurance Company, Ltd uses trust accounts and has access to up to $1.7 billion in letters of credit under two letter of credit facilities. The letter of credit facilities impose restrictive covenants, including restrictions on asset sales, limitations on the incurrence of certain liens and required collateral and financial strength levels. Violations of these or other covenants could result in the suspension of access to letters of credit or such letters of credit becoming due and payable. Our access to our existing letter of credit facilities is dependent on the ability of the banks that are parties to these facilities to meet their commitments. Our $900 million letter of credit facility with Citibank Europe plc is on an uncommitted basis, which means Citibank Europe has agreed to offer us up to $900 million in letters of credit, but they are not contractually obligated for that full amount. Our $800 million syndicated letter of credit facility expires in November 2012. The lenders under our letter of credit facilities may not be able to meet their commitments if they become insolvent, file for bankruptcy protection or if they otherwise experience shortages of capital and liquidity. If these letter of credit facilities are not sufficient or drawable or if Allied World Assurance Company, Ltd is unable to renew either or both of these facilities or to arrange for trust accounts or other types of security on commercially acceptable terms, its ability to provide reinsurance to U.S.-domiciled insurers may be severely limited and adversely affected.

In addition, security arrangements with ceding insurers may subject our assets to security interests or may require that a portion of our assets be pledged to, or otherwise held by, third parties. Although the investment

income derived from our assets while held in trust typically accrues to our benefit, the investment of these assets is governed by the terms of the letter of credit facilities and the investment regulations of the state of domicile of the ceding insurer, which generally regulate the amount and quality of investments permitted and which may be more restrictive than the investment regulations applicable to us under Bermuda law. These restrictions may result in lower investment yields on these assets, which could adversely affect our profitability.

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 and reinsurance products worldwide through insurance and reinsurance brokers. For the year ended December 31, 2011, our top three brokers represented approximately 55% of our total gross premiums written. Marsh, Aon (including Benfield Group Ltd.) and Willis were responsible for the distribution of approximately 23%, 21% and 11%, respectively, of our total gross premiums written for the year ended December 31, 2011. Loss of all or a substantial portion of the business produced by any one of those brokers could have a material adverse effect on our financial condition, results of operations and business.

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 and reinsurance 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 associated with the brokers we use with respect to our insurance and reinsurance business.

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, the recent financial market turmoil may significantly adversely affect the ability of our reinsurers and retrocessionaires to meet their obligations to us. A reinsurer s insolvency, or inability or refusal to make payments under a reinsurance or retrocessional reinsurance agreement with us, could have a material adverse effect on our financial condition and results of operations because we remain liable to the insured under the corresponding coverages written by us.

Our investment performance may adversely affect our financial performance and ability to conduct business.

We derive a significant portion of our income from our invested assets. As a result, our operating results depend in part on the performance of our investment portfolio. Ongoing conditions in the U.S. and international financial markets have and could continue to adversely affect our investment portfolio. Depending on market conditions, we could incur additional losses in future periods, which could have a material adverse effect on our financial condition, results of operations and business.

Our investment portfolio is overseen by our Chief Investment Officer and managed by professional investment management firms in accordance with the Investment Policy Statement approved by the Investment

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Committee of the Board of Directors. Our investment performance is subject to a variety of risks, including risks related to general economic conditions, market volatility and interest rate fluctuations, liquidity risk, and credit and default risk. Additionally, with respect to some of our investments, we are subject to pre-payment or reinvestment risk. Our current Investment Policy Statement constrains the amount of our investment portfolio that may be invested in alternatives (such as hedge funds and private equity). As a result, we may be subject to restrictions on redemption, which may limit our ability to withdraw funds or realize on such investments for some period of time after our initial investment. The values of, and returns on, such investments may also be more volatile. In addition, investments in hedge funds may involve certain other risks, including the limited operating history of a fund as well as risks associated with the strategies employed by the managers of the fund.

Because of the unpredictable nature of losses that may arise under insurance or reinsurance policies written by us, our liquidity needs could be substantial and may arise at any time. To the extent we are unsuccessful in managing our investment portfolio within the context of our expected liabilities, we may be forced to liquidate our investments at times and prices that are not optimal, or we may have difficulty in liquidating some of our alternative investments due to restrictions on sales, transfers and redemptions noted above. This could have a material adverse effect on the performance of our investment portfolio. If our liquidity needs or general liability profile unexpectedly change, we may not be successful in continuing to structure our investment portfolio in its current manner. In addition, investment losses could significantly decrease our book value, thereby affecting our ability to conduct business.

While we maintain an investment portfolio with instruments rated highly by the recognized rating agencies, there are no assurances that these high ratings will be maintained. Over the past several years companies with highly-rated debt have filed for bankruptcy. The assignment of a high credit rating does not preclude the potential for the risk of default on any investment instrument.

Any increase in interest rates and/or credit spread levels could result in significant losses in the fair value of our investment portfolio.

Our investment portfolio contains interest-rate-sensitive instruments that may be adversely affected by changes in interest rates. Fluctuations in interest rates affect our returns on fixed income investments. Generally, investment income will be reduced during sustained periods of lower interest rates as higher-yielding fixed income securities are called, mature or are sold and the proceeds reinvested at lower rates. During periods of rising interest rates, prices of fixed income securities tend to fall and realized gains upon their sale are reduced. 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. We may not be able to effectively mitigate interest rate sensitivity. In particular, a significant increase in interest rates could result in significant losses, realized or unrealized, in the fair value of our investment portfolio and, consequently, could have a material adverse effect on our financial condition and results of operations. Additionally, changes in the credit spread (the difference in the percentage yield) between U.S. Treasury securities and non-U.S. Treasury securities may negatively impact our investment portfolio as we may not be able to effectively mitigate credit spread sensitivity. In particular, a significant increase in credit spreads could result in significant losses, realized or unrealized, in the fair value of our investment portfolio and, consequently, could have a material adverse effect on our financial condition and results of operations.

In addition, our investment portfolio includes U.S. government agency and non-agency commercial and residential mortgage-backed securities. As of December 31, 2011, mortgage-backed securities constituted approximately 23% of the fair value of our total investments and cash and cash equivalents, of which 15% of the fair value was invested in U.S. government agency mortgage-backed securities. Changes in interest rates can expose us to prepayment risks on these investments. In periods of declining interest rates, mortgage prepayments generally increase and mortgage-backed securities are generally prepaid more quickly, requiring us to reinvest the proceeds at the then current market rates. In periods of rising interest rates, mortgage-backed securities may have declining levels of prepayments, extending their maturity and duration, thereby negatively impacting the security s price.

Our non-agency commercial and residential mortgage-backed securities are subject to delinquencies, defaults and losses on the underlying mortgage loans. While many of the factors that led to such delinquencies,

defaults and losses have moderated over the last 12 months, further deterioration is possible. Delinquencies, defaults and losses with regard to non-agency residential mortgage-backed securities are driven in part by residential property values. A decline or an extended flattening in property values may result in increased delinquencies, defaults and losses on residential mortgage loans generally, especially with respect to second homes and investor properties, and with respect to any residential mortgage loans where the aggregate loan amounts (including any subordinate loans) are close to or greater than the related property values. This would negatively impact the value of our securities. Additionally, as of December 31, 2011 commercial mortgage-backed securities constituted 4% of the fair value of our total investments and cash and cash equivalents. While delinquencies, defaults and losses have been slower to materialize in the commercial sector than in the residential sector, this market remains susceptible to price declines on the underlying properties based on local supply/demand factors as well as overall levels of economic activity. We continue to believe the risk is most acute in the commercial mortgage-backed securities offerings issued in 2007 and 2008. As of December 31, 2011, we had approximately $37 million of exposure to commercial mortgage-backed securities transactions of the 2007 and 2008 vintage.

The valuation of our investments may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our financial condition or results of operations.

During periods of market disruptions, it may be difficult to value certain of our securities if trading becomes less frequent or market data becomes less observable. In addition, there may be certain asset classes that were in active markets with significant observable data that become illiquid due to the recent financial environment. In such cases, the valuation of a greater number of securities in our investment portfolio may require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods that are more sophisticated or require greater estimation thereby resulting in values which may be less than the value at which the investments may be ultimately sold. Further, rapidly changing and unpredictable credit and equity market conditions could materially affect the valuation of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value could have a material adverse effect on our financial condition and results of operations.

The determination of the impairments taken on our investments is highly subjective and could materially impact our financial position or results of operations.

The determination of the impairments taken on our investments varies by investment type and is based upon our periodic evaluations and assessments of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations quarterly and reflects impairments in operations as such evaluations are revised. There can be no assurance that our management has accurately assessed the level of impairments taken in our financial statements. Furthermore, additional impairments may need to be taken in the future, which could have a material adverse effect on our financial condition or results of operations. Historical trends may not be indicative of future impairments.

We may be adversely affected by fluctuations in currency exchange rates.

The U.S. dollar is our reporting currency and the functional currency of all of our operating subsidiaries. We enter into insurance and reinsurance contracts where the premiums receivable and losses payable are denominated in currencies other than the U.S. dollar. In addition, we maintain a portion of our investments and liabilities in currencies other than the U.S. dollar. Assets in non-U.S. currencies are generally converted into U.S. dollars at the time of receipt. When we incur a liability in a non-U.S. currency, we carry such liability on our books in the original currency. These liabilities are converted from the non-U.S. currency to U.S. dollars at the time of payment. We may incur foreign currency exchange gains or losses as we ultimately receive premiums and settle claims required to be paid in foreign currencies.

We have currency hedges in place that seek to alleviate our potential exposure to volatility in foreign exchange rates and intend to consider the use of additional hedges when we are advised of known or probable significant losses that will be paid in currencies other than the U.S. dollar. To the extent that we do not seek to hedge our foreign currency risk or our hedges prove ineffective, the impact of a movement in foreign currency exchange rates could adversely affect our financial condition or results of operations. The sovereign debt crisis in Europe and the related restructuring efforts may, among other factors, magnify the risk of exchange rate volatility.

We may require additional capital in the future that may not be available to us on commercially favorable 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 reduce our assets. Financial market volatility since 2008 has created uncertainty in the equity and credit markets and may have affected our ability, and the ability of others within our industry, to raise additional capital in the public or private markets. Any future financing, if available at all, may be on terms that are not favorable to us. In the case of equity financing, 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.

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 executive management team, our business could be adversely affected. 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. We currently have written employment agreements with our Chief Executive Officer, Chief Financial Officer, General Counsel, Chief Actuary and the other members of our executive management team. We do not maintain key man life insurance policies for any of our employees.

Employee error and misconduct may be difficult to detect and prevent and could adversely affect our business, results of operations and financial condition.

We may experience losses from, among other things, fraud, errors, the failure to document transactions properly or to obtain proper internal authorization or the failure to comply with regulatory or legal requirements. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases. Losses related to employee error or misconduct could adversely affect our financial condition, results of operations and business.

If a program administrator were to exceed its underwriting authority or otherwise breach obligations owed to us, we could be adversely affected.

We write a portion of our insurance business through relationships with program administrators, under contracts pursuant to which we authorize such program administrators to underwrite and bind business on our behalf, within guidelines we prescribe. In this structure, we rely on controls incorporated in the provisions of the program administration agreement, as well as on the administrator s internal controls, to limit the risks insured to those which are within the prescribed parameters. Although we monitor program administrators on an ongoing basis, our monitoring efforts may not be adequate or our program administrators could exceed their underwriting authorities or otherwise breach obligations owed to us. We are liable to policyholders under the terms of policies underwritten by program administrators, and to the extent such administrators exceed their authorities or otherwise breach their obligations to us, our financial condition or results of operations could be material adversely affected.

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If we experience difficulties with our information technology and telecommunications systems and/or data security, our ability to conduct our business might be adversely affected.

We rely heavily on the successful, uninterrupted functioning of our information technology (IT) and telecommunications systems. Our business and continued expansion is highly dependent upon our ability to perform, in an efficient and uninterrupted fashion, necessary business functions, such as pricing, quoting and processing policies, paying claims, performing actuarial and other modeling functions. A failure of our IT and telecommunication systems or the termination of third-party software licenses we rely on in order to maintain such systems could materially impact our ability to write and process business, provide customer service, pay claims in a timely manner or perform other necessary actuarial, legal, financial and other business functions. Computer viruses, hackers and other external hazards, as well as internal exposures such as potentially dishonest employees, could expose our IT and data systems to security breaches that may result in liability to us, cause our data to be corrupted and cause us to commit resources, management time and money to prevent or correct security breaches. Some of our key business partners rely on our systems for critical underwriting and administration functions and interruption and/or failure of these systems could cause significant liability to them. If we do not maintain adequate IT and telecommunications systems, we could experience adverse consequences, including inadequate information on which to base critical decisions, the loss of existing customers, difficulty in attracting new customers, litigation exposures and increased administrative expenses. As a result, our ability to conduct our business might be adversely affected.

The integration of acquired companies, the growth of our operations through new lines of insurance or reinsurance business, the expansion into new geographic regions and/or the entering into joint ventures or partnerships may expose us to operational risks.

Acquisitions involve numerous risks, including operational, strategic and financial risks such as potential liabilities associated with the acquired business. We may experience difficulties in integrating an acquired company, which could adversely affect the acquired company s performance or prevent us from realizing anticipated synergies, cost savings and operational efficiencies. Our existing businesses could also be negatively impacted by acquisitions. Expanding our lines of business, expanding our geographic reach and entering into joint ventures or partnerships also involve operational, strategic and financial risks, including retaining qualified management and implementing satisfactory budgetary, financial and operational controls. Our failure to manage successfully these risks may adversely affect our financial condition, results of operations or business, or we may not realize any of the intended benefits.

As a result of the higher par value of our common shares and increased shareholder approval power under Swiss law, we have less flexibility with respect to certain aspects of capital management.

The par value of our common shares is CHF 14.03 per share (as may be adjusted in connection with the payment of dividends by virtue of a par value reduction, as approved by our shareholders). Under Swiss law, we may not issue shares below par value. In the event we need to raise common equity capital at a time when the trading price of our shares is below the par value of such shares, we will be unable to do so. As a consequence we would have to consider reducing the par value of our common shares, which in turn would reduce our ability to make tax-free distributions by par value reductions to our shareholders. We would also need to obtain approval of our shareholders to decrease the par value of our common shares, which would require us to file a proxy statement with the SEC and convene a meeting of shareholders. This would delay any capital raising plans and there is no assurance that we would be able to obtain such shareholder approval. See Risks Related to Taxation We may not be able to make distributions or repurchase shares without subjecting you to Swiss withholding tax.

Swiss law affords shareholders more powers and allows our shareholders to authorize share and participation capital that can be issued by the Board of Directors without shareholder approval. Under Swiss law, this authorization is limited to 50% of a company s existing registered share and participation capital and must be renewed by the shareholders every two years. Under our Articles of Association, this authorization is further limited to 20% of our existing registered share and participation capital. Additionally, subject to specified exceptions described in our Articles of Association, Swiss law grants preemptive rights to existing shareholders

to subscribe for new issuances of shares and other securities. Swiss law also does not provide as much flexibility in the various terms that can attach to different classes of shares. For example, we will not be able to issue preferred stock without the approval of a majority of the votes cast at a shareholder meeting. Swiss law also reserves for approval by shareholders many corporate actions, such as that dividends must be approved by shareholders. There may be situations where the restrictions on capital management flexibility under Swiss law could have a material adverse effect on us and our shareholders.

We may become subject to additional Swiss regulation.

Under so-called group supervision, FINMA has the right to supervise us on a group-wide basis. On December 11, 2009, we received non-binding written confirmation from FINMA that it will not subject us to group supervision based primarily on the fact that most of our senior management will not reside in Switzerland. Factors which can cause FINMA to subject us to group supervision include the location of our top management and corresponding requests by foreign regulators. We cannot assure you that our future business needs may not require us to have a greater management presence in Switzerland or that FINMA will not otherwise determine to exercise group supervision over us. If subjected to group supervision, we may incur additional costs and administrative obligations. These additional costs and administrative obligations may have a substantial impact on our organizational and operational flexibility.

Risks Related to the Insurance and Reinsurance Business

The insurance and reinsurance business is historically cyclical and we expect to experience periods with excess underwriting capacity and unfavorable premium rates and policy terms and conditions.

Historically, insurers and reinsurers have experienced significant fluctuations in operating results due to competition, frequency of occurrence or severity of catastrophic events, levels of underwriting capacity, general economic conditions and other factors. The supply of insurance and reinsurance is related to prevailing prices, the level of insured losses and the level of industry surplus which, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance and reinsurance industry. The occurrence, or non-occurrence, of catastrophic events, the frequency and severity of which are unpredictable, affects both industry results and consequently prevailing market prices for certain of our products. As a result of these factors, the insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense competition on price and policy terms due to excessive underwriting capacity as well as periods when shortages of capacity permit favorable premium rates and policy terms and conditions. Increases in the supply of insurance and reinsurance may have adverse consequences for us, including fewer policies and contracts written, lower premium rates, increased expenses for customer acquisition and retention and less favorable policy terms and conditions.

Increased competition in the insurance and reinsurance markets in which we operate could adversely impact our operating margins.

The insurance and reinsurance industry are highly competitive. We compete with major U.S. and international insurers and reinsurers. Many of our competitors have greater financial, marketing and management resources. We also compete with new companies that continue to be formed to enter the insurance and reinsurance markets.

In addition, risk-linked securities and derivative and other non-traditional risk transfer mechanisms and vehicles are being developed and offered by other parties, including entities other than insurance and reinsurance companies. The availability of these non-traditional products could reduce the demand for traditional insurance and reinsurance. A number of new, proposed or potential industry or legislative developments could further increase competition in our industry.

New competition from these developments could result in fewer contracts written, lower premium rates, increased expenses for customer acquisition and retention and less favorable policy terms and conditions, which could have a material adverse effect on our growth, financial condition or results of operations.

The effects of emerging claims and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after we have issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance and reinsurance contracts may not be known for many years after a contract is issued. Examples of emerging claims and coverage issues include:

- larger defense costs, settlements and jury awards in cases involving professionals and corporate directors and officers covered by professional liability and directors and officers liability insurance; and

- a trend of plaintiffs targeting property and casualty insurers in class action litigation related to claims handling, insurance sales practices and other practices related to the conduct of our business.

Risks Related to Laws and Regulations Applicable to Us

Compliance by our insurance subsidiaries with the legal and regulatory requirements to which they are subject is expensive. Any failure to comply could have a material adverse effect on our business.

Our insurance subsidiaries are required to comply with a wide variety of laws and regulations applicable to insurance or reinsurance companies, both in the jurisdictions in which they are organized and where they sell their insurance and reinsurance products. The insurance and regulatory environment, in particular for offshore insurance and reinsurance companies, has become subject to increased scrutiny in many jurisdictions, including the United States, various states within the United States and the United Kingdom. In the past, there have been Congressional and other initiatives in the United States regarding increased supervision and regulation of the insurance industry. 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 subsidiaries could have a material adverse effect on our business.

In addition, our subsidiaries may not always be able to obtain or maintain necessary licenses, permits, authorizations or accreditations. They also may not be able to fully comply with, or to obtain appropriate exemptions from, the laws and regulations applicable to them. 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 produce business for us. In addition, any such failure to comply with applicable laws 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.

Our Bermuda insurance subsidiary, Allied World Assurance Company, Ltd, is registered as a Class 4 Bermuda insurance and reinsurance company and is subject to regulation and supervision in Bermuda. The applicable Bermudian statutes and regulations generally are designed to protect insureds and ceding insurance companies rather than shareholders or noteholders. Among other things, those statutes and regulations:

- require Allied World Assurance Company, Ltd to maintain minimum levels of capital and surplus,

- impose liquidity requirements which restrict the amount and type of investments it may hold,

- prescribe solvency standards that it must meet, and

- restrict payments of dividends and reductions of capital and provide for the performance of periodic examinations of Allied World Assurance Company, Ltd and its financial condition.

These statutes and regulations may, in effect, restrict the ability of Allied World Assurance Company, Ltd to write new business or distribute funds. Although it conducts its operations from Bermuda, Allied World Assurance Company, Ltd is not authorized to directly underwrite local risks in Bermuda.

Allied World Assurance Company, Ltd also operates branch offices in Hong Kong, Singapore and Labuan, which offices are regulated by the Office of the Insurance Commissioner in Hong Kong, the Monetary Authority of Singapore and the Labuan Financial Services Authority, respectively.

Our U.S. insurance and reinsurance subsidiaries, Allied World Assurance Company (U.S.) Inc. and Darwin National Assurance Company, each a Delaware domiciled subsidiary, Allied World National Assurance Company and Allied World Reinsurance Company, each a New Hampshire domiciled subsidiary, and Darwin Select Insurance Company and Vantapro Specialty Insurance Company, each an Arkansas domiciled subsidiary, are subject to the statutes and regulations of their relevant state of domicile as well as any other state in the United States where they conduct business. In the states where the companies are admitted, the companies must comply with all insurance laws and regulations, including insurance rate and form requirements. Insurance laws and regulations may vary significantly from state to state. In those states where the companies act as surplus lines carriers, the states regulation focuses mainly on the company s solvency.

Allied World Assurance Company (Europe) Limited, an Irish domiciled insurer, operates within the E.U. non-life insurance legal and regulatory framework as established under the Non-Life Directive, and operates a branch in London, England. Allied World Assurance Company (Europe) Limited is required to operate in accordance with the provisions of the Irish Insurance Acts and Regulations and the requirements of the CBI.

Allied World Assurance Company (Reinsurance) Limited, an Irish domiciled reinsurer, is regulated by the CBI pursuant to the Central Bank Acts 1942 to 2010, all statutory instruments relating to reinsurance made or adopted under the European Communities Acts 1972 to 2009, and the provisions of the European Communities (Reinsurance) Regulations 2006 (which transposed the E.U. Reinsurance Directive into Irish law) and operates branches in London, England and Zug, Switzerland. Pursuant to the provisions of these regulations, reinsurance undertakings may, subject to the satisfaction of certain formalities, carry on reinsurance business in other E.U. member states either directly from the home member state (on a freedom to provide services basis) or through local branches (by way of permanent establishment).

Allied World Assurance Company, AG, a Swiss domiciled insurer and reinsurer located in Zug, is regulated by FINMA.

Our Bermuda operating company could become subject to regulation in the United States.

Allied World Assurance Company, Ltd, our Bermuda operating company is not admitted as an insurer, nor accredited as a reinsurer, in any jurisdiction in the United States. For the year ended December 31, 2011, more than 72% of the gross premiums written by Allied World Assurance Company, Ltd, however, are derived from insurance or reinsurance contracts entered into with entities domiciled in the United States. The insurance laws of each state in the United States regulate the sale of insurance and reinsurance within the state s jurisdiction by foreign insurers. Allied World Assurance Company, Ltd conducts its business through its Bermuda office and does not maintain an office, and its personnel do not solicit insurance business, resolve claims or conduct other insurance business, in the United States. While Allied World Assurance Company, Ltd does not believe it is in violation of insurance laws of any jurisdiction in the United States, we cannot be certain that inquiries or challenges to our insurance and reinsurance activities will not be raised in the future. It is possible that, if Allied World Assurance Company, Ltd were to become subject to any laws of this type at any time in the future, we would not be in compliance with the requirements of those laws.

Our holding company structure and regulatory and other constraints affect our ability to pay dividends and make other payments.

Allied World Assurance Company Holdings, AG is a holding company, and as such has no substantial operations of its own. It does not have any significant assets other than its ownership of the shares of its direct and indirect subsidiaries. Dividends and other permitted distributions from subsidiaries are expected to be the sole source of funds for Allied World Assurance Company Holdings, AG to meet any ongoing cash requirements and to pay any dividends to shareholders.

Swiss Law

Under Swiss law, dividends may be paid out only if we have sufficient distributable profits from previous fiscal years or if we have legal reserves, each as will be presented on Holdings audited statutory financial statements prepared in accordance with Swiss law. Payments out of the share and participation capital (in other

words, the aggregate par value of our share and participation capital) in the form of dividends are not allowed; however, payments out of share and participation capital may be made by way of a capital reduction to achieve a similar result as the payment of dividends. The affirmative vote of shareholders holding a majority of the votes cast at a shareholder meeting must approve reserve reclassifications and distributions of dividends. Our Board of Directors may propose to shareholders that a dividend be paid but cannot itself authorize the dividend. In addition, our shareholders may propose dividends without any dividend proposal by the Board of Directors. Under Swiss law, upon satisfaction of all legal requirements (including shareholder approval of a par value reduction as described in this proposal), we will be required to submit an application to the Swiss Commercial Register to register each applicable par value reduction. Without effective registration of the applicable par value reduction with the Swiss Commercial Register, we will not be able to proceed with the payment of any installment of any dividend. We cannot assure you that the Swiss Commercial Register will approve the registration of any applicable par value reduction.

Under Swiss law, if our general capital reserves amount to less than 20% of the share and participation capital recorded in the Swiss Commercial Register (i.e., 20% of the aggregate par value of our capital), then at least 5% of our annual profit must be retained as general reserves. Swiss law permits us to accrue additional general reserves. In addition, we are required to create a special reserve on Holdings audited statutory financial statements in the amount of the purchase price of voting shares and non-voting shares we or any of our subsidiaries repurchases, which amount may not be used for dividends.

Swiss companies generally must maintain separate audited statutory financial statements for the purpose of, among other things, determining the amounts available for the return of capital to shareholders, including by way of a distribution of dividends. Amounts available for the return of capital as indicated on Holdings audited statutory financial statements may be materially different from amounts reflected in our consolidated U.S. GAAP financial statements. Our auditor must confirm that a dividend proposal made to shareholders complies with Swiss law and our Articles of Association.

We are required under Swiss law to declare any dividends and other capital distributions in Swiss francs. We have made and intend to continue to make any dividend payments to holders of our common shares in U.S. dollars. Continental Stock Transfer & Trust Company, our transfer agent, will be responsible for paying the U.S. dollars to registered holders of voting shares and non-voting participation certificates, less amounts subject to withholding for taxes. As a result, shareholders may be exposed to fluctuations in the U.S. dollar Swiss franc exchange rate between the date used for purposes of calculating the Swiss franc amount of any proposed dividend or par value reduction and the relevant payment date.

Bermuda Law

Bermuda law, including Bermuda insurance regulations and the Companies Act, restricts the declaration and payment of dividends and the making of distributions by our Bermuda entities, unless specified requirements are met. Allied World Assurance Company, Ltd is prohibited from paying dividends of more than 25% of its total statutory capital and surplus (as shown in its previous financial year s statutory balance sheet) without prior BMA approval. Allied World Assurance Company, Ltd is also prohibited from declaring or paying dividends without the approval of the BMA if Allied World Assurance Company, Ltd failed to meet its minimum solvency margin and minimum liquidity ratio on the last day of the previous financial year.

Furthermore, in order to reduce its total statutory capital by 15% or more, Allied World Assurance Company, Ltd would require the prior approval of the BMA. In addition, Bermuda corporate law prohibits a company from declaring or paying a dividend if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of the company s assets would thereby be less than the aggregate of its liabilities, its issued share capital and its share premium accounts.

U.S. and Irish Law

In addition, our U.S. and Irish insurance subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay any dividends.

In general, a U.S. insurance company subsidiary may not pay an extraordinary dividend or distribution until 30 days after the applicable insurance regulator has received notice of the intended payment and has not objected to, or has approved, the payment within the 30-day period. In general, an extraordinary dividend or distribution is defined by these laws and regulations as a dividend or distribution that, together with other dividends and distributions made within the preceding 12 months, exceeds the greater (or, in some jurisdictions, the lesser) of: (a) 10% of the insurer s statutory surplus as of the immediately prior year end; or (b) or the statutory net income during the prior calendar year. The laws and regulations of some of these U.S. jurisdictions also prohibit an insurer from declaring or paying a dividend except out of its earned surplus. For example, payments of dividends by U.S. insurance companies are subject to restrictions on statutory surplus pursuant to state law. In addition, insurance regulators may prohibit the payment of ordinary dividends or other payments by our U.S. insurance subsidiaries (such as a payment under a tax sharing agreement or for employee or other services) if they determine that such payment could be adverse to such subsidiaries policyholders.

Without the consent of the CBI, Allied World Assurance Company (Europe) Limited and Allied World Assurance Company (Reinsurance) Limited are not permitted to reduce the level of their capital, may not make any dividend payments, may not make inter-company loans and must maintain a minimum solvency margin. These rules and regulations may have the effect of restricting the ability of these companies to declare and pay dividends.

In addition, we have insurance subsidiaries that are the parent company for other insurance subsidiaries, and dividends and other distributions are subject to multiple layers of the regulations discussed above as funds are pushed up to our ultimate parent company. The inability of any of our insurance subsidiaries to pay dividends in an amount sufficient to enable Allied World Assurance Company Holdings, AG to meet its cash requirements at the holding company level could have a material adverse effect on our business, our ability to transfer capital from one subsidiary to another and our ability to declare and pay dividends to our shareholders. Furthermore, Allied World Bermuda has senior notes outstanding. The inability of any of our insurance subsidiaries to pay dividends in an amount sufficient to enable Allied World Bermuda to make payments on the outstanding senior notes could have a material adverse effect on our business.

In 2010, the U.S. Congress enacted healthcare reform legislation that could have a material impact on our business.

Our U.S. insurance segment and our international insurance segment derive substantial revenues from healthcare liability underwriting in the United States, that is, providing insurance to individuals and institutions that participate in the U.S. healthcare delivery infrastructure. U.S. healthcare legislation in 2010 will effect far-reaching changes in the healthcare delivery system and the healthcare cost reimbursement structure in the United States and could negatively impact our healthcare liability business. Additionally, future healthcare proposals could include tort reform provisions under which plaintiffs would be restricted in their ability to bring suit against healthcare providers, which could negatively impact the demand for our healthcare liability products. While the impact of this healthcare legislation or future healthcare proposals on our business is difficult to predict, any material changes in how healthcare providers insure their malpractice liability risks could have a material adverse effect on our results of operations.

In 2010, the U.S. Congress enacted the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which could have an impact on our business.

The Dodd-Frank Act, which effects sweeping changes to financial services regulation in the United States, was enacted in July 2010. The Dodd-Frank Act establishes the Financial Services Oversight Council (FSOC) and the Federal Insurance Office (FIO) and in limited instances authorizes the federal preemption of certain state insurance laws. The FSOC and FIO are authorized to study, monitor and report to Congress on the U.S. insurance industry and the significance of global reinsurance to the U.S. insurance market. The potential impact of the Dodd-Frank Act on the U.S. insurance business is not clear; however, our business could be affected by changes to the U.S. system of insurance regulation or the designation of insurers or reinsurers with which we do business as systemically significant non-bank financial companies.

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Other legislative, regulatory and industry initiatives could adversely affect our business.

The insurance and reinsurance regulatory framework is subject to heavy scrutiny by U.S. federal and individual state governments as well as an increasing number of international authorities. Government regulators are generally concerned with the protection of policyholders to the exclusion of other constituencies, including shareholders. Governmental authorities in the United States and worldwide seem increasingly interested in the potential risks posed by the insurance industry as a whole, and to commercial and financial systems in general. While we do not believe these inquiries have identified meaningful, new risks posed by the insurance and reinsurance industry, and while we cannot predict the exact nature, timing or scope of possible governmental initiatives, there may be increased regulatory intervention in our industry in the future. For example, the U.S. federal government has increased its scrutiny of the insurance regulatory framework in recent years, and some state legislators have considered or enacted laws that will alter and likely increase state regulation of insurance and reinsurance companies and holding companies. Moreover, the NAIC, which is an association of the insurance commissioners of all 50 states and the District of Columbia and state insurance regulators, regularly reexamine existing laws and regulations.

For example, we could be adversely affected by proposals to:

- provide insurance and reinsurance capacity in markets and to consumers that we target;

- require our participation in industry pools and guaranty associations;

- expand the scope of coverage under existing policies;

- increasingly mandate the terms of insurance and reinsurance policies;

- establish a new federal insurance regulator or financial industry systemic risk regulator;

- revise laws and regulations under which we operate, including a potential change to U.S. tax laws to disallow or limit the current tax deduction for reinsurance premiums paid by our U.S. subsidiaries to our Bermuda insurance subsidiary for reinsurance protections it provides to our U.S. subsidiaries; or

- disproportionately benefit the companies of one country over those of another.

With respect to international measures, an E.U. directive concerning the capital adequacy, risk management and regulatory reporting for insurers and reinsurers (Solvency II) which was adopted by the European Parliament in April 2009, may affect our insurance businesses. Implementation of Solvency II by E.U. member states is anticipated at the beginning of 2014. Implementing those measures necessary for compliance with the requirements of Solvency II may require us to utilize a significant amount of resources to ensure compliance. In addition, the capital and solvency margin requirements of Solvency II may lead to either an increase or decrease of the capital required by our E.U. domiciled insurers in order that they comply with Solvency II. Solvency II provides for the supervision of insurers and reinsurers on both a solo (entity level) and group basis. In respect of our non-E.U. subsidiaries engaging in E.U. insurance or reinsurance business, should the regulatory regime in which they are operating not be deemed equivalent to that established within the E.U. pursuant to Solvency II, additional capital requirements may be imposed in order that such companies may continue to insure or reinsure E.U. domiciled risk/cedents.

We are unable to predict the future impact on our operations of changes in the laws and regulations to which we are or may become subject. Moreover, our exposure to potential regulatory initiatives could be heightened by the fact that our principal insurance subsidiary is domiciled in, and operates exclusively from, Bermuda. For example, Bermuda, a small jurisdiction, may be disadvantaged in participating in global or cross-border regulatory matters as compared with larger jurisdictions such as the United States or the leading E.U. countries. In addition, Bermuda, which is currently an overseas territory of the United Kingdom, may consider changes to its relationship with the United Kingdom in the future. These changes could adversely affect Bermuda s position with respect to its regulatory initiatives, which could adversely impact us

commercially.

Changes in current accounting practices and future pronouncements may materially impact our reported financial results.

Developments in accounting practices, for example a convergence of U.S. GAAP with International Financial Reporting Standards, or IFRS, may require considerable additional expense to comply with, particularly if we are required to prepare information relating to prior periods for comparison purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted, but may affect the results of our operations, including among other things, the calculation of net income.

Risks Related to Ownership of Our Common Shares

Future sales of our common shares may adversely affect the market price.

As of February 21, 2012, we had 36,835,178 common shares outstanding. Up to an additional 2,607,942 common shares may be issuable upon the vesting and exercise of outstanding stock options, restricted stock units (RSUs) and performance-based equity awards. We have filed a registration statement on Form S-8 under the Securities Act of 1933, as amended (the Securities Act) to register common shares issued or reserved for issuance under the Allied World Assurance Company Holdings, AG Third Amended and Restated 2001 Employee Stock Option Plan, the Allied World Assurance Company Holdings, AG Third Amended and Restated 2004 Stock Incentive Plan, the Allied World Assurance Company Holdings, AG Third Amended and Restated Long-Term Incentive Plan (the LTIP) and the Allied World Assurance Company Holdings, AG Amended and Restated 2008 Employee Share Purchase Plan. Subject to the exercise of issued and outstanding stock options, shares registered under the registration statement on Form S-8 will be available for sale to the public. We cannot predict what effect, if any, future sales of our common shares, or the availability of common shares for future sale, will have on the market price of our common shares. Sales of substantial amounts of our common shares in the public market, or the perception that sales of this type could occur, could depress the market price of our common shares and may make it more difficult for you to sell your common shares at a time and price that you deem appropriate.

Our Articles of Association contain restrictions on voting, ownership and transfers of our common shares.

Our Articles of Association generally provide that shareholders have one vote for each common share held by them and are entitled to vote at all meetings of shareholders. However, the voting rights exercisable by a shareholder may be limited so that certain persons or groups are not deemed to hold 10% or more of the voting power conferred by our common shares. Moreover, these provisions could have the effect of reducing the voting power of some shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership. Our Board of Directors may refuse to register holders of shares as shareholders with voting rights based on certain grounds, including if the holder would, directly or indirectly, formally, constructively or beneficially own (as described in Articles 8 and 14 of our Articles of Association) or otherwise control voting rights with respect to 10% or more of our registered share capital recorded in the Swiss Commercial Register. In addition, our Board of Directors shall reject entry of holders of voting shares as shareholders with voting rights in the share register or shall decide on their deregistration when the acquirer or shareholder upon request does not expressly state that it has acquired or holds the voting shares for its own account and benefit. Furthermore, our Board of Directors may cancel, with retroactive application, the registration of a shareholder with voting rights if the initial registration was on the basis of false information in the shareholder s application. Shareholders registered without voting rights may not participate in or vote at our shareholders meetings, but will be entitled to dividends, preemptive rights and liquidation proceeds. Only shareholders that are registered as shareholders with voting rights on the relevant record date are permitted to participate in and vote at a shareholders meeting.

Anti-takeover provisions in our Articles of Association could impede an attempt to replace or remove our directors, which could diminish the value of our common shares.

Our Articles of Association contain provisions that may entrench directors and make it more difficult for shareholders to replace directors even if the shareholders consider it beneficial to do so. In addition, these provisions could delay or prevent a change of control that a shareholder might consider favorable. For example,

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these provisions may prevent a shareholder from receiving the benefit from any premium over the market price of our shares offered by a bidder in a potential takeover. Even in the absence of an attempt to effect a change in management or a takeover attempt, these provisions may adversely affect the prevailing market price of our common shares if they are viewed as discouraging changes in management and takeover attempts in the future.

For example, the following provisions in our Articles of Association could have such an effect:

- the election of our directors is staggered, meaning that members of only one of three classes of our directors are elected each year, thus limiting a shareholder s ability to replace directors;

- shareholders whose shares represent 10% or more of our total voting shares will be reduced to less than 10% of the total voting power. Conversely, shareholders owning less than 10% of the total voting power may gain increased voting power as a result of these cutbacks;

- our directors may decline the registration of a shareholder as a shareholder with voting rights in the share register if and to the extent such shareholder owns or otherwise controls alone or together with others 10% of our total voting rights or if such shareholder refuses to confirm to us that it has acquired the voting shares for its own account and benefit; and

- at any time until November 30, 2012, our Board of Directors has the power to issue a number of voting shares up to 20% of our share capital registered in the Swiss Commercial Register and to limit or withdraw the preemptive rights of the existing shareholders in various circumstances.

As a shareholder of our company, you may have greater difficulties in protecting your interests than as a shareholder of a U.S. corporation.

Swiss law differs in material respects from laws generally applicable to U.S. corporations and their shareholders. Taken together with the provisions of our Articles of Association, some of these differences may result in your having greater difficulties in protecting your interests as a shareholder of our company than you would have as a shareholder of a U.S. corporation. This affects, among other things, the circumstances under which transactions involving an interested director are voidable, whether an interested director can be held accountable for any benefit realized in a transaction with our company, what approvals are required for business combinations by our company with a large shareholder or a wholly-owned subsidiary, what rights you may have as a shareholder to enforce specified provisions of Swiss corporate law or our Articles of Association, the rights of shareholders to bring class action and derivative lawsuits and the circumstances under which we may indemnify our directors and officers.

It may be difficult to enforce service of process and enforcement of judgments against us and our officers and directors.

Holdings is incorporated pursuant to the laws of Switzerland. In addition, certain of our directors and officers reside outside the United States, and all or a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the United States. As such, it may be difficult or impossible to effect service of process within the United States upon us or those persons or to recover against us or them on judgments of U.S. courts, including judgments predicated upon civil liability provisions of the U.S. federal securities laws.

We have been advised by Swiss counsel, that there is doubt as to whether the courts in Switzerland would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, predicated upon the civil liability provisions of the U.S. federal securities laws or original actions brought in Switzerland against us or such persons predicated solely upon U.S. federal securities laws. Further, we have been advised by Swiss counsel that there is no treaty in effect between the United States and Switzerland providing for the enforcement of judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Swiss courts as contrary to that jurisdiction s public policy. Because judgments of U.S. courts are not automatically enforceable in Switzerland, it may be difficult for investors to recover against us based upon such judgments.

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There are regulatory limitations on the ownership and transfer of our common shares.

The BMA must approve all issuances and transfers of securities of our Bermuda exempted companies. Before any shareholder acquires 10% or more of the voting shares, either directly or indirectly, of any of our U.S. insurance subsidiaries, that shareholder must file an acquisition statement with and obtain prior approval from the domiciliary insurance commissioner of the respective company. Similar provisions apply to our Lloyd s corporate member. Any company or individual that, together with its or his associates, directly or indirectly acquires 10% or more of the shares in a Lloyd s corporate member or its parent company, or is entitled to exercise or control the exercise of 10% or more of the voting power in such Lloyd s corporate member or its parent company, would be considered to have acquired control for the purposes of the relevant legislation, as would a person who had significant influence over the management of such Lloyd s corporate member or its parent company by virtue of his shareholding or voting power in either. In such a case, the controlling entity would be required to provide notice to Lloyd s.

Risks Related to Taxation

U.S. taxation of our non-U.S. companies could materially adversely affect our financial condition and results of operations.

We believe that our non-U.S. companies, including our Swiss, Bermuda and Irish companies, have operated and will operate their respective businesses in a manner that will not cause them to be subject to U.S. tax (other than U.S. federal excise tax on insurance and reinsurance premiums and withholding tax on specified investment income from U.S. sources) on the basis that none of them are engaged in a U.S. trade or business. However, there are no definitive standards under current law as to those activities that constitute a U.S. trade or business and the determination of whether a non-U.S. company is engaged in a U.S. trade or business is inherently factual. Therefore, we cannot assure you that the U.S. Internal Revenue Service (the IRS) will not contend that a non-U.S. company is engaged in a U.S. trade or business. If any of the non-U.S. companies are engaged in a U.S. trade or business and does not qualify for benefits under the applicable income tax treaty, such company may be subject to U.S. federal income taxation at regular corporate rates on its premium income from U.S. sources and investment income that is effectively connected with its U.S. trade or business. In addition, a U.S. federal branch profits tax at the rate of 30% may be imposed on the earnings and profits attributable to such income. All of the premium income from U.S. sources and a significant portion of investment income of such company, as computed under Section 842 of the Code, requiring that a foreign company carrying on a U.S. insurance or reinsurance business have a certain minimum amount of effectively connected net investment income, determined in accordance with a formula that depends, in part, on the amount of U.S. risks insured or reinsured by such company, may be subject to U.S. federal income and branch profits taxes.

If Allied World Assurance Company, Ltd, our Bermuda insurance subsidiary, or any Bermuda insurance subsidiary we form or acquire in the future is engaged in a U.S. trade or business and qualifies for benefits under the United States-Bermuda tax treaty, U.S. federal income taxation of such subsidiary will depend on whether (i) it maintains a U.S. permanent establishment and (ii) the relief from taxation under the treaty generally applies to non-premium income. We believe that our Bermuda insurance subsidiary has operated and will continue to operate its business in a manner that will not cause it to maintain a U.S. permanent establishment. However, the determination of whether an insurance company maintains a U.S. permanent establishment is inherently factual. Therefore, we cannot assure you that the IRS will not successfully assert that our Bermuda insurance subsidiary maintains a U.S. permanent establishment. In such case, our Bermuda insurance subsidiary will be subject to U.S. federal income tax at regular corporate rates and branch profit tax at the rate of 30% with respect to its income attributable to the permanent establishment. Furthermore, although the provisions of the treaty clearly apply to premium income, it is uncertain whether they generally apply to other income of a Bermuda insurance company. Therefore, if a Bermuda insurance subsidiary of our company qualifies for benefits under the treaty and does not maintain a U.S. permanent establishment but is engaged in a U.S. trade or business, and the treaty is interpreted not to apply to income other than premium income, such subsidiary will be subject to U.S. federal income and branch profits taxes on its investment and other non-premium income as described in the preceding paragraph. In addition, a Bermuda subsidiary will qualify for benefits under the treaty only if more than 50% of

its shares are beneficially owned, directly or indirectly, by individuals who are Bermuda residents or U.S. citizens or residents. Our Bermuda subsidiaries may not be able to continually satisfy such beneficial ownership test or be able to establish it to the satisfaction of the IRS.

If any of our Swiss or Irish companies are engaged in a U.S. trade or business and qualify for benefits under the relevant income tax treaty with the United States, U.S. federal income taxation of such company will depend on whether it maintains a U.S. permanent establishment. We believe that each such company has operated and will continue to operate its business in a manner that will not cause it to maintain a U.S. permanent establishment. However, the determination of whether a non-U.S. company maintains a U.S. permanent establishment is inherently factual. Therefore, we cannot assure you that the IRS will not successfully assert that any of such companies maintains a U.S. permanent establishment. In such case, the company will be subject to U.S. federal income tax at regular corporate rates and branch profits tax at the rate of 5% with respect to its income attributable to the permanent establishment.

U.S. federal income tax, if imposed, will be based on effectively connected or attributable income of a non-U.S. company computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that all deductions and credits claimed by a non-U.S. company in a taxable year can be disallowed if the company does not file a U.S. federal income tax return for such year. Penalties may be assessed for failure to file such return. None of our non-U.S. companies filed U.S. federal income tax returns for the 2002 and 2001 taxable years. However, we have filed protective U.S. federal income tax returns on a timely basis for each non-U.S. company for subsequent years in order to preserve our right to claim tax deductions and credits in such years if any of such companies is determined to be subject to U.S. federal income tax.

If any of our non-U.S. companies is subject to such U.S. federal taxation, our financial condition and results of operations could be materially adversely affected.

Our U.S. subsidiaries may be subject to additional U.S. taxes in connection with our interaffiliate arrangements.

Our U.S. subsidiaries reinsure a significant portion of their insurance policies with Allied World Assurance Company, Ltd. While we believe that the terms of these reinsurance arrangements are arm s length, we cannot assure you that the IRS will not successfully assert that the payments made by the U.S. subsidiaries with respect to such arrangements exceed arm s length amounts. In such case, our U.S. subsidiaries will be treated as realizing additional income that may be subject to additional U.S. income tax, possibly with interest and penalties. Such excess amount may also be deemed to have been distributed as dividends to the indirect parent of the U.S. subsidiaries, Allied World Assurance Holdings (Ireland) Ltd, in which case this deemed dividend will also be subject to a U.S. federal withholding tax of 5%, assuming that the parent is eligible for benefits under the United States-Ireland income tax treaty (or a withholding tax of 30% if the parent is not so eligible). If any of these U.S. taxes are imposed, our financial condition and results of operations could be materially adversely affected. In addition, if legislation is enacted in the U.S. that limits or eliminates our ability to enter into interaffiliate arrangements, our financial condition or results of operations could be materially adversely affected.

We may not be able to make distributions or repurchase shares without subjecting you to Swiss withholding tax.

If we are not successful in our efforts to make distributions, if any, through a reduction of par value or pay dividends out of qualifying additional paid-in-capital, then any dividends paid by us will generally be subject to a Swiss federal withholding tax at a rate of 35%. The withholding tax must be withheld from the gross distribution and paid to the Swiss Federal Tax Administration. A U.S. holder that qualifies for benefits under the Convention between the United States of America and the Swiss Confederation for the Avoidance of Double Taxation with Respect to Taxes on Income may apply for a refund of the tax withheld in excess of the 15% treaty rate (or in excess of the 5% reduced treaty rate for qualifying corporate shareholders with at least 10% participation in our voting shares, or for a full refund in case of qualified pension funds). Payment of a capital distribution in the form of a par value reduction is not subject to Swiss withholding tax. However, there can be no assurance that our shareholders will approve a reduction in par value, that we will be able to meet the other legal requirements

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for a reduction in par value, or that Swiss withholding rules will not be changed in the future. In addition, over the long term, the amount of par value available for us to use for par value reductions will be limited. If we are unable to make a distribution through a reduction in par value or, pay a dividend out of qualifying additional paid-in-capital, we may not be able to make distributions without subjecting you to Swiss withholding taxes.

The repurchase of our shares to be held in treasury will generally not be subject to Swiss withholding tax. However, under Swiss law, we are generally prohibited from holding in treasury an aggregate amount of voting shares and non-voting shares in excess of 10% of our aggregate share capital, which could limit our ability to repurchase our shares in the future.

You may be subject to U.S. income taxation with respect to income of our non-U.S. companies and ordinary income characterization of gains on disposition of our shares under the controlled foreign corporation (CFC) rules.

Generally, each United States shareholder of a CFC will be subject to (i) U.S. federal income taxation on its ratable share of the CFC s subpart F income, even if the earnings attributable to such income are not distributed, provided that such United States shareholder holds directly or through non-U.S. entities shares of the CFC; and (ii) potential ordinary income characterization of gains from the sale or exchange of the directly owned shares of the non-U.S. corporation. For these purposes, any U.S. person who owns directly, through non-U.S. entities, or under applicable constructive ownership rules, 10% or more of the total combined voting power of all classes of stock of any non-U.S. company will be considered to be a United States shareholder. An insurance company is classified as a CFC only if its United States shareholders own 25% or more of the vote or value of its stock. Although our non-U.S. companies may be or become CFCs, for the following reasons we believe it is unlikely that any U.S. person holding our shares directly, or through non-U.S. entities, would be subject to tax as a United States shareholder.

First, although certain of our principal U.S. shareholders previously owned 10% or more of our common shares, no such shareholder currently owns more than 10%. We will be classified as a CFC only if United States shareholders own 25% or more of our stock; one United States shareholder alone will not be subject to tax on subpart F income unless that shareholder owns 25% or more of our stock or there is at least one other United States shareholder that in combination with the first United States shareholder owns 25% or more of our common stock. Second, our Articles of Association provide that no individual or legal entity may, directly or through Constructive Ownership (as defined in Article 14 of our Articles of Association) or otherwise control voting rights with respect to 10% or more of our registered share capital recorded in the Swiss Commercial Register and authorize our Board of Directors to refuse to register holders of shares as shareholders with voting rights under certain circumstances. We cannot assure you, however, that the provisions of the Articles of Association referenced in this paragraph will operate as intended or that we will be otherwise successful in preventing a U.S. person from exceeding, or being deemed to exceed, these voting limitations. Accordingly, U.S. persons who hold our shares directly or through non-U.S. entities should consider the possible application of the CFC rules.

You may be subject to U.S. income taxation under the related person insurance income (RPII) rules.

Our non-U.S. insurance and reinsurance subsidiaries may currently insure and reinsure and may continue to insure and reinsure directly or indirectly certain of our U.S. shareholders and persons related to such shareholders. We believe that U.S. persons that hold our shares directly or through non-U.S. entities will not be subject to U.S. federal income taxation with respect to the income realized in connection with such insurance and reinsurance prior to distribution of earnings attributable to such income either on the basis (i) that RPII, determined on a gross basis, realized by each non-U.S. insurance and reinsurance subsidiary will be less than 20% of its gross insurance income in each taxable year; or (ii) that at all times during the year U.S. insureds hold less than 20% of the combined voting power of all classes of our shares entitled to vote and hold less than 20% of the total value of our shares. However, the identity of all of our shareholders, as well as some of the factors that determine the extent of RPII in any period, may be beyond our knowledge or control. For example, we may be considered to insure indirectly the risk of our shareholder if an unrelated company that insured such risk in the first instance reinsures such risk with us. Therefore, we cannot assure you that we will be successful in keeping

the RPII realized by the non-U.S. insurance and reinsurance subsidiaries or the ownership of us by U.S. insureds below the 20% limit in each taxable year. Furthermore, even if we are successful in keeping the RPII or the ownership of us by U.S. insureds below the 20% limit, we cannot assure you that we will be able to establish that fact to the satisfaction of the U.S. tax authorities. If we are unable to establish that the RPII of any non-U.S. insurance or reinsurance subsidiary is less than 20% of that subsidiary s gross insurance income in any taxable year, and no other exception from the RPII rules applies, each U.S. person who owns our shares, directly or through non-U.S. entities, on the last day of the taxable year will be generally required to include in its income for U.S. federal income tax purposes that person s ratable share of that subsidiary s RPII for the taxable year, determined as if that RPII were distributed proportionately to U.S. holders at that date, regardless of whether that income was actually distributed.

The RPII rules provide that if a holder who is a U.S. person disposes of shares in a foreign insurance corporation that has RPII (even if the amount of RPII is less than 20% of the corporation s gross insurance income and the ownership of us by U.S. insureds is below 20%) and in which U.S. persons own 25% or more of the shares, any gain from the disposition will generally be treated as a dividend to the extent of the holder s share of the corporation s undistributed earnings and profits that were accumulated during the period that the holder owned the shares (whether or not those earnings and profits are attributable to RPII). In addition, such a shareholder will be required to comply with specified reporting requirements, regardless of the amount of shares owned. These rules should not apply to dispositions of our shares because Allied World Assurance Company Holdings, AG is not itself directly engaged in the insurance business and these rules appear to apply only in the case of shares of corporations that are directly engaged in the insurance business. We cannot assure you, however, that the IRS will interpret these rules in this manner or that the proposed regulations addressing the RPII rules will not be promulgated in final form in a manner that would cause these rules to apply to dispositions of our shares.

U.S. tax-exempt entities may recognize unrelated business taxable income (UBTI).

A U.S. tax-exempt entity holding our shares generally will not be subject to U.S. federal income tax with respect to dividends and gains on our shares, provided that such entity does not purchase our shares with borrowed funds. However, if a U.S. tax-exempt entity realizes income with respect to our shares under the CFC or RPII rules, as discussed above, such entity will be generally subject to U.S. federal income tax with respect to such income as UBTI. Accordingly, U.S. tax-exempt entities that are potential investors in our shares should consider the possible application of the CFC and RPII rules.

You may be subject to additional U.S. federal income taxation with respect to distributions on and gains on dispositions of our shares under the passive foreign investment company (PFIC) rules.

We believe that U.S. persons holding our shares should not be subject to additional U.S. federal income taxation with respect to distributions on and gains on dispositions of shares under the PFIC rules. We expect that our insurance subsidiaries will be predominantly engaged in, and derive their income from the active conduct of, an insurance business and will not hold reserves in excess of reasonable needs of their business, and therefore qualify for the insurance exception from the PFIC rules. However, the determination of the nature of such business and the reasonableness of such reserves is inherently factual. Furthermore, we cannot assure you, as to what positions the IRS or a court might take in the future regarding the application of the PFIC rules to us. Therefore, we cannot assure you that we will not be considered to be a PFIC. If we are considered to be a PFIC, U.S. persons holding our shares could be subject to additional U.S. federal income taxation on distributions on and gains on dispositions of shares. Accordingly, each U.S. person who is considering an investment in our shares should consult his or her tax advisor as to the effects of the PFIC rules.

Application of a published IRS Revenue Ruling with respect to our insurance or reinsurance arrangements can materially adversely affect us.

The IRS published Revenue Ruling 2005-40 (the Ruling) addressing the requirement of adequate risk distribution among insureds in order for a primary insurance arrangement to constitute insurance for U.S. federal income tax purposes. If the IRS successfully contends that our insurance or reinsurance arrangements, including

such arrangements with affiliates of our principal shareholders, and with our U.S. subsidiaries, do not provide for adequate risk distribution under the principles set forth in the Ruling, we could be subject to material adverse U.S. federal income tax consequences.

Our non-U.K. companies may be subject to U.K. tax, which may have a material adverse effect on our results of operations.

Two of our subsidiaries, Allied World Capital (Europe) Limited and 2232 Services Limited, are incorporated in the United Kingdom and, are therefore, subject to tax in the United Kingdom. None of our other companies are incorporated in the United Kingdom. Accordingly, none of our other companies should be treated as being resident in the United Kingdom for corporation tax purposes unless the central management and control of any such company is exercised in the United Kingdom. The concept of central management and control is indicative of the highest level of control of a company, which is wholly a question of fact. Each of our companies currently intend to manage our affairs so that none of our other companies are resident in the United Kingdom for tax purposes.

The rules governing the taxation of foreign companies operating in the United Kingdom through a branch or agency were amended by the Finance Act 2003. The current rules apply to the accounting periods of non-U.K. resident companies which start on or after January 1, 2003. Accordingly, a non-U.K. resident company will only be subject to U.K. corporation tax if it carries on a trade in the United Kingdom through a permanent establishment in the United Kingdom. In that case, the company is, in broad terms, taxable on the profits and gains attributable to the permanent establishment in the United Kingdom. Broadly a company will have a permanent establishment if it has a fixed place of business in the United Kingdom through which the business of the company is wholly or partly carried on or if an agent acting on behalf of the company has and habitually exercises authority in the United Kingdom to do business on behalf of the company. Each of our companies, other than Allied World Assurance Company (Reinsurance) Limited and Allied World Assurance Company (Europe) Limited (which have established branches in the United Kingdom), currently intend to operate in such a manner so that none of our companies, other than Allied World Assurance Company (Reinsurance) Limited and Allied World Assurance Company (Europe) Limited, carry on a trade through a permanent establishment in the United Kingdom.

If any of our U.S. subsidiaries were trading in the United Kingdom through a branch or agency and the U.S. subsidiaries were to qualify for benefits under the applicable income tax treaty between the United Kingdom and the United States, only those profits which were attributable to a permanent establishment in the United Kingdom would be subject to U.K. corporation tax.

If Allied World Assurance Holdings (Ireland) Ltd was trading in the United Kingdom through a branch or agency and it was entitled to the benefits of the tax treaty between Ireland and the United Kingdom, it would only be subject to U.K. taxation on its profits which were attributable to a permanent establishment in the United Kingdom. The branches established in the United Kingdom by Allied World Assurance Company (Reinsurance) Limited and Allied World Assurance Company (Europe) Limited constitute a permanent establishment of those companies and the profits attributable to those permanent establishments are subject to U.K. corporation tax.

The United Kingdom has no income tax treaty with Bermuda.

There are circumstances in which companies that are neither resident in the United Kingdom nor entitled to the protection afforded by a double tax treaty between the United Kingdom and the jurisdiction in which they are resident may be exposed to income tax in the United Kingdom (other than by deduction or withholding) on income arising in the United Kingdom (including the profits of a trade carried on there even if that trade is not carried on through a branch agency or permanent establishment), but each of our companies currently operates in such a manner that none of our companies will fall within the charge to income tax in the United Kingdom (other than by deduction or withholding) in this respect.

If any of our non-U.K. companies were treated as being resident in the United Kingdom for U.K. corporation tax purposes, or if any of our companies, other than Allied World Assurance Company (Reinsurance) Limited and Allied World Assurance Company (Europe) Limited, were to be treated as carrying on a trade in the

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United Kingdom through a branch agency or of having a permanent establishment in the United Kingdom, our results of operations and your investment could be materially adversely affected.

We may be subject to Irish tax, which may have a material adverse effect on our results of operations.

Companies resident in Ireland are generally subject to Irish corporation tax on their worldwide income and capital gains. None of our companies, other than our Irish companies and Allied World Assurance Holdings (Ireland) Ltd, which resides in Ireland, should be treated as being resident in Ireland unless the central management and control of any such company is exercised in Ireland. The concept of central management and control is indicative of the highest level of control of a company, and is wholly a question of fact. Each of our companies, other than Allied World Assurance Holdings (Ireland) Ltd and our Irish companies, currently intend to operate in such a manner so that the central management and control of each of our companies, other than Allied World Assurance Holdings (Ireland) Ltd and our Irish companies, is exercised outside of Ireland. Nevertheless, because central management and control is a question of fact to be determined based on a number of different factors, the Irish Revenue Commissioners might contend successfully that the central management and control of any of our companies, other than Allied World Assurance Holdings (Ireland) Ltd or our Irish companies, is exercised in Ireland. Should this occur, such company will be subject to Irish corporation tax on their worldwide income and capital gains.

The trading income of a company not resident in Ireland for Irish tax purposes can also be subject to Irish corporation tax if it carries on a trade through a branch or agency in Ireland. Each of our companies currently intend to operate in such a manner so that none of our companies carry on a trade through a branch or agency in Ireland. Nevertheless, because neither case law nor Irish legislation definitively defines the activities that constitute trading in Ireland through a branch or agency, the Irish Revenue Commissioners might contend successfully that any of our companies, other than Allied World Assurance Holdings (Ireland) Ltd and our Irish companies, is trading through a branch or agency in Ireland. Should this occur, such companies will be subject to Irish corporation tax on profits attributable to that branch or agency.

If any of our companies, other than Allied World Assurance Holdings (Ireland) Ltd and our Irish companies, were treated as resident in Ireland for Irish corporation tax purposes, or as carrying on a trade in Ireland through a branch or agency, our results of operations and your investment could be materially adversely affected.

If corporate tax rates in Ireland increase, our business and financial results could be adversely affected.

Trading income derived from the insurance and reinsurance businesses carried on in Ireland by our Irish companies is generally taxed in Ireland at a rate of 12.5%. Over the past number of years, various E.U. Member States have, from time to time, called for harmonization of corporate tax rates within the E.U. Ireland, along with other member states, has consistently resisted any movement towards standardized corporate tax rates in the E.U. The Government of Ireland has also made clear its commitment to retain the 12.5% rate of corporation tax until at least the year 2025. Should, however, tax laws in Ireland change so as to increase the general corporation tax rate in Ireland, our results of operations could be materially adversely affected.

If investments held by our Irish companies are determined not to be integral to the insurance and reinsurance businesses carried on by those companies, additional Irish tax could be imposed and our business and financial results could be adversely affected.

Based on administrative practice, taxable income derived from investments made by our Irish companies is generally taxed in Ireland at the rate of 12.5% on the grounds that such investments either form part of the permanent capital required by regulatory authorities, or are otherwise integral to the insurance and reinsurance businesses carried on by those companies. Our Irish companies intend to operate in such a manner so that the level of investments held by such companies does not exceed the amount that is integral to the insurance and reinsurance businesses carried on by our Irish companies. If, however, investment income earned by our Irish companies exceeds these thresholds, or if the administrative practice of the Irish Revenue Commissioners changes, Irish corporation tax could apply to such investment income at a higher rate (currently 25%) instead of the general 12.5% rate, and our results of operations could be materially adversely affected.

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We may become subject to taxes in Bermuda after March 31, 2035, which may have a material adverse effect on our results of operations and our investment.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, has given our Bermuda subsidiaries an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to such entities or their operations, shares, debentures or other obligations until March 31, 2035. Given the limited duration of the Minister of Finance s assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 31, 2035.

Item 1B. Unresolved Staff Comments.

None.

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GLOSSARY OF SELECTED INSURANCE AND OTHER TERMS

Admitted insurer

An insurer that is licensed or authorized to write insurance in a particular state; to be distinguished from an insurer eligible to write excess and surplus lines insurance on risks located within a jurisdiction.

Assumed reinsurance

That portion of a risk that a reinsurer accepts from an insurer in return for a stated premium.

Attachment point

The loss point of which an insurance or reinsurance policy becomes operative and below which any losses are retained by either the insured or other insurers or reinsurers, as the case may be.

Capacity

The maximum percentage of surplus, or the dollar amount of exposure, that an insurer or reinsurer is willing or able to place at risk. Capacity may apply to a single risk, a program, a line of business or an entire book of business. Capacity may be constrained by legal restrictions, corporate restrictions or indirect restrictions.

Case reserves

Loss reserves, established with respect to specific, individual reported claims.

Casualty lines

Insurance that is primarily concerned with losses due to injuries to persons and liability imposed on the insured for such injury or for damage to the property of others.

Catastrophe exposure or event

A severe loss, typically involving multiple claimants. Common perils include earthquakes, hurricanes, tsunamis, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or man-made disasters. Catastrophe losses may also arise from acts of war, acts of terrorism and political instability.

Catastrophe reinsurance

A form of excess-of-loss reinsurance that, subject to a specified limit, indemnifies the ceding company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event. The actual reinsurance document is called a catastrophe cover. These reinsurance contracts are typically designed to cover property insurance losses but can be written to cover other types of insurance losses such as workers compensation policies.

Cede, cedent, ceding company

When an insurer transfers some or all of its risk to a reinsurer, it cedes business and is referred to as the ceding company or cedent.

Commercial coverage

Insurance products that are sold to entities and individuals in their business or professional capacity, and which are intended for other than the insured s personal or household use.

Deductible	The amount of exposure an insured retains on any one risk or group of risks. The term may apply to an insurance policy, where the insured is an individual or business, or a reinsurance contract, where the insured is an insurance company. See Retention.
Direct insurance	Insurance sold by an insurer that contracts directly with the insured, as distinguished from reinsurance.

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Directors and officers liability	Insurance that covers liability for corporate directors and officers for wrongful acts, subject to applicable exclusions, terms and conditions of the policy.
Earned premiums or Premiums earned	That portion of premiums written that applies to the expired portion of the policy term. Earned premiums are recognized as revenues under both statutory accounting practice and U.S. GAAP.
Employment practices liability insurance	Insurance that primarily provides liability coverage to organizations and their employees for losses arising from acts of discrimination, harassment and retaliation against current and prospective employees of the organization.
Excess and surplus lines	A risk or a part of a risk for which there is no insurance market available among admitted insurers; or insurance written by non-admitted insurance companies to cover such risks.
Excess layer	Insurance to cover losses in one or more layers above a certain amount with losses below that amount usually covered by the insured s primary policy and its self-insured retention.
Excess-of-loss reinsurance	Reinsurance that indemnifies the insured against all or a specified portion of losses over a specified amount or retention.
Exclusions	Provisions in an insurance or reinsurance policy excluding certain risks or otherwise limiting the scope of coverage.
Exposure	The possibility of loss. A unit of measure of the amount of risk a company assumes.
Facultative reinsurance	The reinsurance of all or a portion of the insurance provided by a single policy. Each policy reinsured is separately negotiated.
Fiduciary liability insurance	Insurance that primarily provides liability coverage to fiduciaries of employee benefit and welfare plans for losses arising from the breach of any fiduciary duty owed to plan beneficiaries.
Frequency	The number of claims occurring during a specified period of time.
General casualty	Insurance that is primarily concerned with losses due to injuries to persons and liability imposed on the insured for such injury or for damage to the property of others.
Gross premiums written	Total premiums for insurance and reinsurance written during a given period.

Healthcare liability or Healthcare lines	Insurance coverage, often referred to as medical malpractice insurance, which addresses liability risks of doctors, surgeons, nurses, other healthcare professionals and the institutions (hospitals, clinics) in which they practice.
Incurred but not reported (IBNR) reserves	Reserves established by us for claims that have occurred but have not yet been reported to us as well as for changes in the values of claims that have been reported to us but are not yet settled.
In-force	Policies that have not expired or been terminated and for which the insurer remains on risk as of a given date.

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Limits or gross maximum limits	The maximum amount that an insurer or reinsurer will insure or reinsure for a specified risk, a portfolio of risks or on a single insured entity. The term also refers to the maximum amount of benefit payable for a given claim or occurrence.
Loss development	The difference between the original loss as initially reserved by an insurer or reinsurer and its subsequent evaluation at a later date or at the time of its closure. Loss development occurs because of inflation and time lags between the occurrence of claims and the time they are actually reported to an insurer or reinsurer. To account for these increases, a loss development factor or multiplier is usually applied to a claim or group of claims in an effort to more accurately project the ultimate amount that will be paid.
Losses incurred	The total losses and loss adjustment expenses paid, plus the change in loss and loss adjustment expense reserves, including IBNR, sustained by an insurance or reinsurance company under its insurance policies or other insurance or reinsurance contracts.
Losses and loss expenses	Losses are an occurrence that is the basis for submission or payment of a claim. Losses may be covered, limited or excluded from coverage, depending on the terms of the insurance policy or other insurance or reinsurance contracts. Loss expenses are the expenses incurred by an insurance or reinsurance company in settling a loss.
Loss reserves	Liabilities established by insurers and reinsurers to reflect the estimated cost of claims incurred that the insurer or reinsurer will ultimately be required to pay. Reserves are established for losses and for loss expenses, and consist of case reserves and IBNR reserves. As the term is used in this Form 10-K, loss reserves is meant to include reserves for both losses and for loss expenses.
Loss year	The year to which a claim is attributed based upon the terms in the underlying policy or contract. All years referred to are years ending December 31.
Net premiums earned	The portion of net premiums written during or prior to a given period that was recognized as income during such period.
Net premiums written	Gross premiums written, less premiums ceded to reinsurers.
Paid losses	Claim amounts paid to insureds or ceding companies.
Per occurrence limitations	The maximum amount recoverable under an insurance or reinsurance policy as a result of any one event, regardless of the number of claims.
Primary insurance (primary layer)	Insurance that absorbs the losses immediately above the insured s retention layer. A primary insurer will pay up to a certain dollar amount of losses over the insured s retention, at which point a higher layer excess insurer will be liable for additional losses. The coverage terms of a primary insurance layer typically assume an element of regular loss frequency.

Probable maximum loss (PML)	An estimate of the loss on any given insurance policy or group of policies at some pre-defined probability of occurrence. The probability of occurrence is usually expressed in terms of the number of years between loss events of that size (e.g., 1 in 100 years or 1 in 200 years).

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Producer	A licensed professional, often referred to as either an insurance agent, insurance broker or intermediary, who acts as intermediary between the insurance carrier and the insured or reinsured (as the case may be).
Product liability	Insurance that provides coverage to manufacturer and/or distributors of tangible goods against liability for personal injury caused if such products are unsafe or defective.
Professional liability	Insurance that provides liability coverage to directors and officers, attorneys, doctors, accountants and other professionals who offer services to the general public and claim expertise in a particular area greater than the ordinary layperson for their negligence or malfeasance.
Property catastrophe coverage	In reinsurance, coverage that protects the ceding company against accumulated losses in excess of a stipulated sum that arise from a catastrophic event such as an earthquake, fire or windstorm. Catastrophe loss generally refers to the total loss of an insurer arising out of a single catastrophic event.
Quota share reinsurance	A proportional reinsurance treaty in which the ceding company cedes an agreed-on percentage of every risk it insures that falls within a class or classes of business subject to the treaty.
Reinsurance	The practice whereby one insurer, called the reinsurer, in consideration of a premium paid to that reinsurer, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance that it has issued.
Reserves	Liabilities established by insurers and reinsurers to reflect the estimated cost of claims incurred that the insurer or reinsurer will ultimately be required to pay. Reserves are established for losses and for loss expenses, and consist of case reserves and IBNR reserves. As the term is used in this report, reserves are meant to include reserves for both losses and for loss expenses.
Retention	The amount of exposure an insured retains on any one risk or group of risks. The term may apply to an insurance policy, where the insured is an individual or business, or a reinsurance contract, where the insured is an insurance company. See Deductible.
Retrocessional coverage	A transaction whereby a reinsurer cedes to another reinsurer, the retrocessionaire, all or part of the reinsurance that the first reinsurer has assumed. Retrocessional reinsurance does not legally discharge the ceding reinsurer from its liability with respect to its obligations to the reinsured. Reinsurance companies cede risks to retrocessionaires for reasons similar to those that cause insurers to purchase reinsurance: to reduce net liability on individual risks, to protect against catastrophic losses, to stabilize financial ratios and to obtain additional underwriting capacity.
Run-off	

Liability of an insurance or reinsurance company for existing claims that it expects to pay in the future and for which a loss reserve has been established.

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Self-insured	A term which describes a risk, or part of a risk, retained by the insured in lieu of transferring the risk to an insurer. A policy deductible or retention feature allows a policyholder to self-insure a portion of an exposure and thereby reduce its risk-transfer costs.
Specialty lines	A term used in the insurance and reinsurance industry to describe types of insurance or classes of business that require specialized expertise to underwrite. Insurance and reinsurance for these classes of business is not widely available and is typically purchased from the specialty lines divisions of larger insurance companies or from small specialty lines insurers.
Subpart F income	Insurance and reinsurance income (including underwriting and investment income) and foreign personal holding company income (including interest, dividends and other passive investment income).
Surplus (or statutory surplus)	As determined under statutory accounting principles, the amount remaining after all liabilities, including loss reserves, are subtracted from all of the admitted assets (i.e., those permitted by regulation to be recognized on the statutory balance sheet). Surplus is also referred to as statutory surplus or surplus as regards policyholders for statutory accounting purposes.
Surplus lines	A risk or a part of a risk for which there is no insurance market available among admitted insurers or insurance written by non-admitted insurance companies to cover such risks.
Swing-rated reinsurance contract	A reinsurance contract, that links the ultimate amount of ceded premium to the ultimate loss ratio on the reinsured business. This type of reinsurance contract enables the cedent to retain a greater portion of premium if the ultimate loss ratio develops at a level below the initial loss threshold set by the reinsurers, but requires a higher amount of ceded premium if the ultimate loss ratio develops above the initial threshold.
Treaties	Reinsurance contracts under which the ceding company agrees to cede and the reinsurer agrees to assume risks of a particular class or classes of business.
Treaty year	The year in which the contract incepts. Exposure from contracts incepting during the current treaty year will potentially affect both the current loss year as well future loss years.
Ultimate loss	Total of all expected settlement amounts, whether paid or reserved together with any associated loss adjustment expenses, and is the estimated total amount of loss at the measurement date. For purposes of this Form 10-K, ultimate loss is the sum of paid losses, case reserves and IBNR.
Underwriter	An employee of an insurance or reinsurance company who examines, accepts or rejects risks and classifies accepted risks in order to charge an appropriate premium for each accepted risk. The underwriter is expected to select business that will produce an average

risk of loss no greater than that anticipated for the class of business.

Underwriting results	The pre-tax profit or loss experienced by an insurance company that is calculated by deducting net losses and loss expenses, net acquisition costs and general and administration expenses from net

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premiums earned. This profit or loss calculation includes reinsurance assumed and ceded but excludes investment income.

Unearned premium

The portion of premiums written that is allocable to the unexpired portion of the policy term or underlying risk.

Working layer

Primary insurance that absorbs the losses immediately above the insured s retention layer. A working layer insurer will pay up to a certain dollar amount of losses over the insured s retention, at which point a higher layer excess insurer will be liable for additional losses. The coverage terms of a working layer typically assume an element of loss frequency.

Written premium

The premium entered on an insurer s books for a policy issued during a given period of time, whether coverage is provided only during that period of time or also during subsequent periods.

Item 2. Properties.

Our corporate headquarters are located in offices we lease in Switzerland. We also lease space in Bermuda, England, Hong Kong, Ireland, Singapore and the United States for the operation of our U.S. insurance, international insurance and reinsurance segments. Our leases have remaining terms ranging from six months to approximately ten years in length. We renew and enter into new leases in the ordinary course of business as needed. While we believe that the office space from these leased properties is sufficient for us to conduct our operations for the foreseeable future, we may need to expand into additional facilities to accommodate future growth. For more information on our leasing arrangements, please see Note 15 of the notes to the consolidated financial statements in this Form 10-K.

Item 3. Legal Proceedings.

New Cingular Wireless

In April 2006, a complaint was filed in the U.S. District Court for the Northern District of Georgia (Atlanta Division) entitled *New Cingular Wireless Headquarters, LLC et al. v. Marsh & McLennan Companies, Inc., et al*. Among the 78 insurers named as defendants is our insurance subsidiary in Bermuda, Allied World Assurance Company, Ltd. Plaintiffs allege that the broker defendants used a variety of illegal schemes and anti-competitive practices that resulted in the plaintiffs either paying more for insurance *products* or receiving less beneficial terms than the competitive market would have produced. Plaintiffs seek equitable and legal remedies, including injunctive relief, consequential and punitive damages, treble damages and attorneys fees. In October 2006, the litigation was transferred to the U.S. District Court for the District of New Jersey for pretrial purposes. The District Court subsequently stayed the litigation while its decision to grant motions to dismiss the related class actions was being appealed. On appeal, the District Court s dismissals were affirmed in large part but were vacated in part and remanded to the District Court. In October 2011, the District Court lifted the stay and authorized the filing of renewed class action motions to dismiss, and it is expected to issue an order governing the timing of discovery and motions in this litigation. Because of the stay and the pending order, neither our subsidiary nor any of the other defendants have responded to the complaint and written discovery that had begun has not been completed. While it is not possible to predict the outcome of the litigation, the Company does not believe that the outcome will have a material adverse effect on its operations or financial position.

Litigation Related to the Terminated Merger Agreement with Transatlantic

In connection with our proposed merger with Transatlantic Holdings, Inc. (Transatlantic), which was mutually terminated by the parties on September 15, 2011, two putative stockholder class action lawsuits filed against Holdings, and the members of the Transatlantic board of directors challenging the merger, remained outstanding as of December 31, 2011: *Ivers v. Transatlantic Holdings, Inc., et al.* (filed June 17, 2011 in the Court of Chancery of the State of Delaware) and *Kramer v. Transatlantic Holdings, Inc., et al.* (filed June 30, 2011 in the Court of Chancery of the State of Delaware) (collectively, the Lawsuits). Each of the Lawsuits was filed against Transatlantic, the members of the Transatlantic board of directors, and Holdings and/or its subsidiaries. Alleghany Corporation and Shoreline Merger Sub, LLC were later added as defendants. Plaintiffs in each Lawsuit asserted that the members of the Transatlantic board of directors breached their fiduciary duties and that Holdings and/or its subsidiaries, or Alleghany Corporation and/or its subsidiaries, aided and abetted the alleged breaches of fiduciary duties. On January 30, 2012, the defendants entered into a memorandum of understanding with the plaintiffs regarding the settlement of the Lawsuits against Transatlantic and Transatlantic s directors, Holdings and its subsidiaries, and Alleghany Corporation and Shoreline Merger Sub, LLC. The memorandum of understanding contemplates that the parties will enter into a stipulation of settlement. The stipulation of settlement will be subject to customary conditions, including court approval. In the event that the parties enter into a stipulation of settlement, a hearing will be scheduled at which the Court of Chancery of the State of Delaware will consider the fairness, reasonableness and adequacy of the settlement. If the settlement is approved by the court, it will resolve and release all claims in all actions that were or could have been brought challenging any aspect of the proposed merger, the merger agreement, and any disclosure made in connection therewith (but excluding claims for appraisal under Section 262 of the Delaware General Corporation Law),

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among other claims. In addition, in connection with the settlement, the parties contemplate that plaintiffs counsel will file a petition in the Court of Chancery of the State of Delaware for an award of attorneys fees and expenses to be paid by Transatlantic or its successor, which the defendants may oppose. There can be no assurance that the parties will ultimately enter into a stipulation of settlement or that the Court of Chancery of the State of Delaware will approve the settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated.

We may become involved in various claims and legal proceedings that arise in the normal course of our business, which are not likely to have a material adverse effect on our results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common shares began publicly trading on the New York Stock Exchange under the symbol AWH on July 12, 2006. The following table sets forth, for the periods indicated, the high and low sales prices per share of our common shares as reported on the New York Stock Exchange Composite Tape.

	High	Low
2011:		
First quarter	$ 63.95	$ 57.67
Second quarter	$ 65.70	$ 53.70
Third quarter	$ 59.00	$ 49.00
Fourth quarter	$ 63.33	$ 51.00
2010:		
First quarter	$ 47.05	$ 43.77
Second quarter	$ 47.96	$ 40.60
Third quarter	$ 57.25	$ 44.42
Fourth quarter	$ 61.24	$ 54.53

On February 21, 2012, the last reported sale price for our common shares was $68.02 per share. At February 21, 2012, there were 36 holders of record of our common shares.

During the year ended December 31, 2010, we declared a regular quarterly dividend of $0.20 per common share for each quarter. Additionally, on November 4, 2010, the Board declared a special dividend of $ 0.25 per share. Because Swiss law prevented the company from paying a regular dividend until at least two months following the annual shareholder meeting in May 2011, the special dividend provided a distribution to shareholders for the interim period between the effectiveness of the redomestication and the next available regular dividend payment date. At the Annual Shareholder Meeting in May 2011, our shareholders approved the payment of a cash dividend to shareholders in four installments in the form of distributions through par value reductions. During the year ended December 31, 2011, we paid regular dividends of $0.375 per common share in August and October. We also paid a regular dividend of $0.375 on January 6, 2012 to shareholders of record December 23, 2011. The fourth installment of the dividend is anticipated to be paid in April 2012.

The continued declaration and payment of dividends to holders of common shares is expected but will be at the discretion of our Board of Directors and subject to legal, regulatory, financial and other restrictions. Specifically, any future declaration and payment of any cash dividends by the company will:

- depend upon its results of operations, financial condition, cash requirements and other relevant factors;
- be subject to shareholder approval;
- be subject to restrictions contained in our credit facilities and other debt covenants; and
- be subject to other restrictions on dividends imposed by Swiss law.

Under Swiss law, our shareholders have the power to declare dividends without the agreement of the Board of Directors. Consequently, dividends may be declared by resolution of the shareholders even if our Board of Directors and management do not believe it is in the best interest of the company or the shareholders. As a holding company, our principal source of income is dividends or other statutorily permissible payments from our subsidiaries. The ability of our subsidiaries to pay dividends is limited by the applicable laws and regulations of the various

countries in which we operate, including Bermuda, the United States and Ireland. See Item 1.

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Business Regulatory Matters, Item 1A. Risk Factors Our holding company structure and regulatory and other constraints affect our ability to pay dividends and make other payments, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Restrictions and Specific Requirements and Note 16 of the notes to consolidated financial statements included in this Form 10-K.

Issuer Purchases of Equity Securities

The following table summarizes our repurchases of our common shares during the three months ended December 31, 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
October 1 31, 2011		$		$ 200,872,527
November 1 30, 2011				200,872,527
December 1 31, 2011	450,000	59.33	450,000	174,172,769
Total	450,000	$ 59.33	450,000	$ 174,172,769

(1) In May 2010, the company established a share repurchase program in order to repurchase Holdings common shares. Repurchases may be effected from time to time through open market purchases, privately negotiated transactions and tender offers or otherwise. We received shareholder approval for the capacity that remained available under this share repurchase program at the time of Holdings redomestication to Switzerland.

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PERFORMANCE GRAPH

The following information is not deemed to be soliciting material or to be filed with the SEC or subject to the liabilities of Section 18 of the Exchange Act, and the report shall not be deemed to be incorporated by reference into any prior or subsequent filing by the company under the Securities Act or the Exchange Act.

The following graph shows the cumulative total return, including reinvestment of dividends, on the common shares compared to such return for Standard & Poor s 500 Composite Stock Price Index (S&P 500), and Standard & Poor s Property & Casualty Insurance Index for the five year period beginning on December 31, 2006 and ending on December 31, 2011, assuming $100 was invested on December 31, 2006. The measurement point on the graph represents the cumulative shareholder return as measured by the last reported sale price on such date during the relevant period.

TOTAL RETURN TO SHAREHOLDERS

(INCLUDES REINVESTMENT OF DIVIDENDS)

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Item 6. Selected Financial Data.

The following table sets forth our summary historical statement of operations data and summary balance sheet data as of and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007. Statement of operations data and balance sheet data are derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. These historical results are not necessarily indicative of results to be expected from any future period. For further discussion of this risk see Item 1A. Risk Factors in this Form 10-K. You should read the following selected financial data in conjunction with the other information contained in this Form 10-K, including Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data .

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	($ in millions, except per share amounts and ratios)				
Summary Statement of Operations Data:					
Gross premiums written	$ 1,939.5	$ 1,758.4	$ 1,696.3	$ 1,445.6	$ 1,505.5
Net premiums written	$ 1,533.8	$ 1,392.4	$ 1,321.1	$ 1,107.2	$ 1,153.1
Net premiums earned	$ 1,457.0	$ 1,359.5	$ 1,316.9	$ 1,117.0	$ 1,159.9
Net investment income	195.9	244.1	300.7	308.8	297.9
Net realized investment gains (losses)	10.1	285.6	126.4	(60.0)	37.0
Net impairment charges recognized in earnings		(0.2)	(49.6)	(212.9)	(44.6)
Other income	101.7	0.9	1.5	0.7	
Net losses and loss expenses	959.2	707.9	604.1	641.1	682.3
Acquisition costs	167.3	159.5	148.9	112.6	119.0
General and administrative expenses	271.6	286.5	248.6	185.9	141.6
Amortization and impairment of intangible assets	3.0	3.5	11.1	0.7	
Interest expense	55.0	40.2	39.0	38.7	37.8
Foreign exchange loss (gain)	3.1	0.4	0.7	(1.4)	(0.8)
Income tax expense (benefit)	31.0	26.9	36.6	(7.6)	1.1
Net income	$ 274.5	$ 665.0	$ 606.9	$ 183.6	$ 469.2
Per Share Data:					
Earnings per share(1) :					
Basic	$ 7.21	$ 14.30	$ 12.26	$ 3.75	$ 7.84
Diluted	6.92	13.32	11.67	3.59	7.53
Weighted average number of common shares outstanding:					
Basic	38,093,351	46,491,279	49,503,438	48,936,912	59,846,987
Diluted	39,667,905	49,913,317	51,992,674	51,147,215	62,331,165
Dividends paid per share	$ 0.75	$ 1.05	$ 0.74	$ 0.72	$ 0.63

	Year Ended December 31,				
	2011	2010	2009	2008	2007
Selected Ratios:					
Loss and loss expense ratio(2)	65.8%	52.1%	45.9%	57.4%	58.8%
Acquisition cost ratio(3)	11.5%	11.7%	11.3%	10.1%	10.3%
General and administrative expense ratio(4)	18.6%	21.1%	18.9%	16.6%	12.2%
Expense ratio(5)	30.1%	32.8%	30.2%	26.7%	22.5%
Combined ratio(6)	95.9%	84.9%	76.1%	84.1%	81.3%

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	($ in millions, except per share amounts and ratios)				
Summary Balance Sheet Data:					
Cash and cash equivalents	$ 634.0	$ 757.0	$ 292.2	$ 655.8	$ 202.6
Investments at fair value	7,406.6	7,183.6	7,156.3	6,157.1	6,029.3
Reinsurance recoverable	1,002.9	927.6	920.0	888.3	682.8
Total assets	11,122.2	10,427.6	9,653.2	9,022.5	7,899.1
Reserve for losses and loss expenses	5,225.1	4,879.2	4,761.8	4,576.8	3,919.8
Unearned premium	1,078.4	962.2	928.6	930.4	811.1
Total debt	797.9	797.7	498.9	742.5	498.7
Total shareholders equity	3,149.0	3,075.8	3,213.3	2,416.9	2,239.8

(1) Please refer to Note 14 of the notes to consolidated financial statements for the calculation of basic and diluted earnings per share.

(2) Calculated by dividing net losses and loss expenses by net premiums earned.

(3) Calculated by dividing acquisition costs by net premiums earned.

(4) Calculated by dividing general and administrative expenses by net premiums earned.

(5) Calculated by combining the acquisition cost ratio and the general and administrative expense ratio.

(6) Calculated by combining the loss ratio, acquisition cost ratio and general and administrative expense ratio.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Some of the statements in this Form 10-K include forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 that involve inherent risks and uncertainties. These statements include in general forward-looking statements both with respect to us and the insurance industry. Statements that are not historical facts, including statements that use terms such as anticipates, believes, expects, intends, plans, projects, seeks and will and that relate to our plans and objectives for future operations, are forward-looking statements. In l of the risks and uncertainties inherent in all forward-looking statements, the inclusion of such statements in this Form 10-K should not be considered as a representation by us or any other person that our objectives or plans will be achieved. These statements are based on current plans, estimates and expectations. Actual results may differ materially from those projected in such forward-looking statements and therefore you should not place undue reliance on them. Important factors that could cause actual results to differ materially from those in such forward-looking statements are set forth in Item 1A. Risk Factors in this Form 10-K. We undertake no obligation to release publicly the results

of any future revisions we make to the forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

Our Business

We write a diversified portfolio of property and casualty insurance and reinsurance internationally through our subsidiaries and branches based in Bermuda, Europe, Hong Kong, Singapore and the United States as well as our Lloyd s Syndicate 2232. We manage our business through three operating segments: U.S. insurance, international insurance and reinsurance. As of December 31, 2011, we had approximately $11.1 billion of total assets, $3.1 billion of total shareholders equity and $3.9 billion of total capital, which includes shareholders equity and senior notes.

During the year ended December 31, 2011, we experienced rate increases on property lines that had experienced significant loss activity on a year-to-date basis. We also continued to see rate improvement on our general casualty line of business while rates continued to decline in some of our other casualty lines. We believe these premium rate decreases are generally due to increased competition and excess capacity over the past several years. Despite the challenging pricing environment, we believe that there are opportunities where certain products have adequate premium rates and that the expanded breadth of our operations allows us to target those classes of business. Given these trends, we continue to be selective in the insurance policies and reinsurance contracts we underwrite. Our consolidated gross premiums written increased by $181.1 million, or 10.3%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. Our net income for the year ended December 31, 2011 decreased by $390.5 million, or 58.7%, to $274.5 million compared to $665.0 million for the year ended December 31, 2010. The decrease in net income for the year ended December 31, 2011 compared to the year ended December 31, 2010 was primarily due to lower total return from investments and higher net losses and loss expenses from property catastrophe losses of $171.8 million in the Asia-Pacific region, $53.7 million from the Midwestern U.S. storms, $43.0 million related to the Thailand floods and $23.7 million from Hurricane Irene.

Recent Developments

On September 15, 2011, we reached a mutual agreement with Transatlantic to terminate our previously announced merger agreement. Under the terms of the termination agreement, we received a termination fee of $35.0 million plus a $13.3 million partial reimbursement for merger-related expenses. We received an additional fee of $66.7 million from Transatlantic on November 23, 2011, upon its execution of a merger agreement with Alleghany Corporation.

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Financial Highlights

	Year Ended December 31,		
	2011	2010	2009
	($ in millions except share and per share data)		
Gross premiums written	$ 1,939.5	$ 1,758.4	$ 1,696.3
Net income	274.5	665.0	606.9
Operating income	183.7	397.8	537.7
Basic earnings per share:			
Net income	$ 7.21	$ 14.30	$ 12.26
Operating income	$ 4.82	$ 8.56	$ 10.86
Diluted earnings per share:			
Net income	$ 6.92	$ 13.32	$ 11.67
Operating income	$ 4.63	$ 7.97	$ 10.34
Weighted average common shares outstanding:			
Basic	38,093,351	46,491,279	49,503,438
Diluted	39,667,905	49,913,317	51,992,674
Basic book value per common share	$ 83.44	$ 80.75	$ 64.61
Diluted book value per common share	$ 80.11	$ 74.29	$ 59.56
Annualized return on average equity (ROAE), net income	8.9%	21.9%	22.6%
Annualized ROAE, operating income	6.0%	13.1%	20.0%

Non-GAAP Financial Measures

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

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Operating income & operating income per share

Operating income is an internal performance measure used in the management of our operations and represents after-tax operational results excluding, as applicable, net realized investment gains or losses, net impairment charges recognized in earnings, net foreign exchange gain or loss, impairment of intangible assets and other non-recurring items. We exclude net realized investment gains or losses, net impairment charges recognized in earnings, net foreign exchange gain or loss and other non-recurring items from our calculation of operating income because these amounts are heavily influenced by and fluctuate in part according to the availability of market opportunities and other factors. We exclude impairment of intangible assets as these are non-recurring charges. We have excluded from our operating income the aggregate $101.7 million termination fee received resulting from our previously announced merger agreement with Transatlantic as this is a non-recurring item. In addition to presenting net income determined in accordance with U.S. GAAP, we believe that showing operating income enables investors, analysts, rating agencies and other users of our financial information to more easily analyze our results of operations and our underlying business performance. Operating income should not be viewed as a substitute for U.S. GAAP net income. The following is a reconciliation of operating income to its most closely related U.S. GAAP measure, net income.

	Year Ended December 31,		
	2011	2010	2009
	($ in millions except per share data)		
Net income	$ 274.5	$ 665.0	$ 606.9
Add after tax affect of:			
Net realized investment gains	(0.2)	(267.7)	(126.4)
Net impairment charges recognized in earnings		0.1	49.6
Impairment of intangible assets			6.9
Other income termination fee	(93.7)		
Foreign exchange loss	3.1	0.4	0.7
Operating income	$ 183.7	$ 397.8	$ 537.7
Basic per share data:			
Net income	$ 7.21	$ 14.30	$ 12.26
Add after tax affect of:			
Net realized investment gains	(0.01)	(5.75)	(2.55)
Net impairment charges recognized in earnings			1.00
Impairment of intangible assets			0.14
Other income termination fee	(2.46)		
Foreign exchange loss	0.08	0.01	0.01
Operating income	$ 4.82	$ 8.56	$ 10.86
Diluted per share data:			
Net income	$ 6.92	$ 13.32	$ 11.67
Add after tax affect of:			
Net realized investment gains	(0.01)	(5.36)	(2.43)
Net impairment charges recognized in earnings			0.96
Impairment of intangible assets			0.13
Other income termination fee	(2.36)		
Foreign exchange loss	0.08	0.01	0.01
Operating income	$ 4.63	$ 7.97	$ 10.34

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Diluted book value per share

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

	Year Ended December 31,		
	2011	2010	2009
	($ in millions except share and per share data)		
Price per share at period end	$ 62.93	$ 59.44	$ 46.07
Total shareholders equity	$ 3,149.0	$ 3,075.8	$ 3,213.3
Basic common shares outstanding	37,742,131	38,089,226	49,734,487
Add:			
Unvested restricted share units	249,251	571,178	915,432
Performance based equity awards	889,939	1,440,017	1,583,237
Employee purchase plan	11,053	10,576	
Dilutive options/warrants outstanding	1,525,853	3,272,739	6,805,157
Weighted average exercise price per share	$ 45.72	$ 35.98	$ 34.44
Deduct:			
Options bought back via treasury method	(1,108,615)	(1,980,884)	(5,087,405)
Common shares and common share equivalents outstanding	39,309,612	41,402,852	53,950,908
Basic book value per common share	$ 83.44	$ 80.75	$ 64.61
Diluted book value per common share	$ 80.11	$ 74.29	$ 59.56

Annualized return on average equity

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

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

	Year Ended December 31,		
	2011	2010	2009
	($ in millions)		
Opening shareholders equity	$ 3,075.8	$ 3,213.3	$ 2,416.9
Deduct: accumulated other comprehensive income	(57.1)	(149.8)	(105.6)
Adjusted opening shareholders equity	$ 3,018.7	$ 3,063.5	$ 2,311.3
Closing shareholders equity	$ 3,149.0	$ 3,075.8	$ 3,213.3
Deduct: accumulated other comprehensive income	(14.5)	(57.1)	(149.8)
Adjusted closing shareholders equity	$ 3,134.5	$ 3,018.7	$ 3,063.5
Average shareholders equity	$ 3,076.6	$ 3,041.1	$ 2,687.3
Net income available to shareholders	$ 274.5	$ 665.0	$ 606.9
Annualized return on average shareholders equity net income available to shareholders	8.9%	21.9%	22.6%
Operating income available to shareholders	$ 183.7	$ 397.8	$ 537.7
Annualized return on average shareholders equity operating income available to shareholders	6.0%	13.1%	20.0%

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Relevant Factors

Revenues

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

Due to changes in the recognition and presentation of other-than-temporary impairments (OTTI) of our available for sale debt securities based on guidance issued by the FASB in April 2009, OTTI, which was previously included in net realized investment gains or losses , has been presented separately in the consolidated income statements as net impairment charges recognized in earnings . See -Critical Accounting Policies-Other-Than-Temporary Impairments of Investments for further discussion of the recognition and presentation of OTTI.

Expenses

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

- losses paid, which are actual cash payments to insureds and reinsureds, net of recoveries from reinsurers;
- outstanding loss or case reserves, which represent management s best estimate of the likely settlement amount for known claims, less the portion that can be recovered from reinsurers; and
- reserves for losses incurred but not reported, or IBNR , which are reserves (in addition to case reserves) established by us that we believe are needed for the future settlement of claims. The portion recoverable from reinsurers is deducted from the gross estimated loss.

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

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

Ratios

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

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Critical Accounting Policies

It is important to understand our accounting policies in order to understand our financial position and results of operations. Our consolidated financial statements reflect determinations that are inherently subjective in nature and require management to make assumptions and best estimates to determine the reported values. If events or other factors cause actual results to differ materially from management s underlying assumptions or estimates, there could be a material adverse effect on our financial condition or results of operations. The following are the accounting estimates that, in management s judgment, are critical due to the judgments, assumptions and uncertainties underlying the application of those estimates and the potential for results to differ from management s assumptions.

Reserve for Losses and Loss Expenses

Reserves for losses and loss expenses by segment as of December 31, 2011, 2010 and 2009 were comprised of the following:

	U.S. Insurance December 31,			International Insurance December 31,			Reinsurance December 31,			Total December 31,		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
	($ in millions)											
Case reserves	$ 387.6	$ 295.3	$ 268.1	$ 522.6	$ 498.3	$ 570.4	$ 456.2	$ 373.0	$ 313.5	$ 1,366.4	$ 1,166.5	$ 1,152.0
IBNR	1,274.8	1,136.4	985.6	1,726.4	1,728.4	1,786.0	857.5	847.8	838.2	3,858.7	3,712.7	3,609.8
Reserve for losses and loss expenses	1,662.4	1,431.7	1,253.7	2,249.0	2,226.7	2,356.4	1,313.7	1,220.8	1,151.7	5,225.1	4,879.2	4,761.8
Reinsurance recoverables	(438.3)	(396.6)	(351.8)	(564.3)	(531.0)	(566.3)	(0.3)		(1.9)	(1,002.9)	(927.6)	(920.0)
Net reserve for losses and loss expenses	$ 1,224.1	$ 1,035.1	$ 901.9	$ 1,684.7	$ 1,695.7	$ 1,790.1	$ 1,313.4	$ 1,220.8	$ 1,149.8	$ 4,222.2	$ 3,951.6	$ 3,841.8

The reserve for losses and loss expenses is comprised of two main elements: outstanding loss reserves, also known as case reserves, and reserves for IBNR. Outstanding loss reserves relate to known claims and represent management s best estimate of the likely loss settlement. IBNR reserves relate primarily to unreported 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. IBNR reserves also relate to estimated development of reported events that based on industry information, management s experience and actuarial evaluation, can reasonably be expected to reach our attachment point and are reasonably likely to result in a loss to our company. We also include IBNR changes in the values of claims that have been reported to us but are not yet settled. Each claim is settled individually based upon its merits and it is not unusual for a claim to take years after being reported to settle, especially if legal action is involved. As a result, reserves for losses and loss expenses include significant estimates for IBNR reserves.

The reserve for IBNR is estimated by management for each line of business based on various factors, including underwriters expectations about loss experience, actuarial analysis, comparisons with the results of industry benchmarks and loss experience to date. The reserve for IBNR is calculated as the ultimate amount of losses and loss expenses less cumulative paid losses and loss expenses and case reserves. Our actuaries employ generally accepted actuarial methodologies to determine estimated ultimate loss reserves.

While management believes that our case reserves and IBNR are sufficient to cover losses assumed by us, there can be no assurance that losses will not deviate from our reserves, possibly by material amounts. The methodology of estimating loss reserves is periodically reviewed to ensure that the assumptions made continue to be appropriate. To the extent actual reported losses exceed estimated losses, the carried estimate of the ultimate losses will be increased (i.e., unfavorable reserve development), and to the extent actual reported losses are less than estimated losses, the carried estimate of ultimate losses will be reduced (i.e., favorable reserve development). We record any changes in our loss reserve estimates and the related reinsurance recoverables in the periods in which they are determined.

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

Our casualty insurance and casualty reinsurance lines of business include general liability risks, healthcare and professional liability risks. Claims may be reported or settled several years after the coverage period has terminated for these lines of business (longer tail lines), which increases uncertainties of our reserve estimates in such lines. In addition, our attachment points for these longer tail lines are often relatively high, making reserving for these lines of business more difficult than shorter tail lines due to having to estimate whether the severity of the estimated losses will exceed our attachment point. We establish a case reserve when sufficient information is gathered to make a reasonable estimate of the liability, which often requires a significant amount of information and time. Due to the lengthy reporting pattern of these casualty lines, reliance is placed on industry benchmarks supplemented by our own experience. For expected loss ratio selections, we are giving greater consideration to our existing experience supplemented with analysis of loss trends, rate changes and experience of peer companies.

Our reinsurance treaties are reviewed individually, based upon individual characteristics and loss experience emergence. Loss reserves on assumed reinsurance have unique features that make them more difficult to estimate than direct insurance. We establish loss reserves upon receipt of advice from a cedent that a reserve is merited. Our claims staff may establish additional loss reserves where, in their judgment, the amount reported by a cedent is potentially inadequate. The following are the most significant features that make estimating loss reserves on assumed reinsurance difficult:

Reinsurers have to rely upon the cedents and reinsurance intermediaries to report losses in a timely fashion.

Reinsurers must rely upon cedents to price the underlying business appropriately.

Reinsurers have less predictable loss emergence patterns than direct insurers, particularly when writing excess-of-loss reinsurance.

For excess-of-loss reinsurance, cedents generally are required to report losses that either exceed 50% of the retention, have a reasonable probability of exceeding the retention or meet serious injury reporting criteria. All reinsurance claims that are reserved are reviewed at least every six months. For quota share reinsurance treaties, cedents are required to give a periodic statement of account, generally monthly or quarterly. These periodic statements typically include information regarding written premiums, earned premiums, unearned premiums, ceding commissions, brokerage amounts, applicable taxes, paid losses and outstanding losses. They can be submitted 60 to 90 days after the close of the reporting period. Some quota share reinsurance treaties have specific language regarding earlier notice of serious claims.

Reinsurance generally has a greater time lag than direct insurance in the reporting of claims. The time lag is caused by the claim first being reported to the cedent, then the intermediary (such as a broker) and finally the reinsurer. This lag can be up to six months or longer in certain cases. There is also a time lag because the insurer may not be required to report claims to the reinsurer until certain reporting criteria are met. In some instances this could be several years while a claim is being litigated. We use reporting factors based on data from the Reinsurance Association of America to adjust for time lags. We also use historical treaty-specific reporting factors when applicable. Loss and premium information are entered into our reinsurance system by our claims department and our accounting department on a timely basis.

We record the individual case reserves sent to us by the cedents through the reinsurance intermediaries. Individual claims are reviewed by our reinsurance claims department and adjusted as deemed appropriate. The loss data received from the intermediaries is checked for reasonableness and for known events. Details of the loss listings are reviewed during routine claim audits.

The expected loss ratios that we assign to each treaty are based upon analysis and modeling performed by a team of actuaries. The historical data reviewed by the team of pricing actuaries is considered in setting the reserves for each cedent. The historical data in the submissions is matched against our carried reserves for our historical treaty years.

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. In addition, the relatively long periods between when a loss occurs and when it may be reported to our claims department for our casualty insurance and casualty reinsurance lines of business increase the uncertainties of our reserve estimates in such lines.

We utilize a variety of standard actuarial methods in our analysis. The selections from these various methods are based on the loss development characteristics of the specific line of business. For lines of business with long reporting periods such as casualty reinsurance, we may rely more on an expected loss ratio method (as described below) until losses begin to develop. For lines of business with short reporting periods such as property insurance, we may rely more on a paid loss development method (as described below) as losses are reported relatively quickly. The actuarial methods we utilize include:

Paid Loss Development Method. We estimate ultimate losses by calculating past paid loss development factors and applying them to exposure periods with further expected paid loss development. The paid loss development method assumes that losses are paid at a consistent rate. The paid loss development method provides an objective test of reported loss projections because paid losses contain no reserve estimates. In some circumstances, paid losses for recent periods may be too varied for accurate predictions. For many coverages, especially casualty coverages, claim payments are made slowly and it may take years for claims to be fully reported and settled. These payments may be unreliable for determining future loss projections because of shifts in settlement patterns or because of large settlements in the early stages of development. Choosing an appropriate tail factor to determine the amount of payments from the latest development period to the ultimate development period may also require considerable judgment, especially for coverages that have long payment patterns. As we have limited payment history, we have had to supplement our paid loss development patterns with appropriate benchmarks.

Reported Loss Development Method. We estimate ultimate losses by calculating past reported loss development factors and applying them to exposure periods with further expected reported loss development. Since reported losses include payments and case reserves, changes in both of these amounts are incorporated in this method. This approach provides a larger volume of data to estimate ultimate losses than the paid loss development method. Thus, reported loss patterns may be less varied than paid loss patterns, especially for coverages that have historically been paid out over a long period of time but for which claims are reported relatively early and have case loss reserve estimates established. This method assumes that reserves have been established using consistent practices over the historical period that is reviewed. Changes in claims handling procedures, large claims or significant numbers of claims of an unusual nature may cause results to be too varied for accurate forecasting. Also, choosing an appropriate tail factor to determine the change in reported loss from the latest development period to the ultimate development period may require considerable judgment. As we have limited reported history, we have had to supplement our reported loss development patterns with appropriate benchmarks.

Expected Loss Ratio Method. To estimate ultimate losses under the expected loss ratio method, we multiply earned premiums by an expected loss ratio. The expected loss ratio is selected utilizing industry data, historical company data and professional judgment. This method is particularly useful for new insurance companies or new lines of business where there are no historical losses or where past loss experience is not credible.

Bornhuetter-Ferguson Paid Loss Method. The Bornhuetter-Ferguson paid loss method is a combination of the paid loss development method and the expected loss ratio method. The amount of losses yet to be paid is based upon the expected loss ratios and the expected percentage of losses unpaid. These

expected loss ratios are modified to the extent paid losses to date differ from what would have been expected to have been paid based upon the selected paid loss development pattern. This method avoids some of the distortions that could result from a large development factor being applied to a small base of paid losses to calculate ultimate losses. This method will react slowly if actual loss ratios develop differently because of major changes in rate levels, retentions or deductibles, the forms and conditions of reinsurance coverage, the types of risks covered or a variety of other changes.

Bornhuetter-Ferguson Reported Loss Method. The Bornhuetter-Ferguson reported loss method is similar to the Bornhuetter-Ferguson paid loss method with the exception that it uses reported losses and reported loss development factors.

During 2011, 2010 and 2009, we adjusted our reliance on actuarial methods utilized for certain casualty lines of business and loss years within our U.S. insurance and international insurance segments from using a blend of the Bornhuetter-Ferguson reported loss method and the expected loss ratio method to using only the Bornhuetter-Ferguson reported loss method. We also began adjusting our reliance on actuarial methods utilized for certain other casualty lines of business and loss years within all of our operating segments including the reinsurance segment, by placing greater reliance on the Bornhuetter-Ferguson reported loss method than on the expected loss ratio method. Placing greater reliance on more responsive actuarial methods for certain casualty lines of business and loss years within each of our operating segments is a natural progression as we mature as a company and gain sufficient historical experience of our own that allows us to further refine our estimate of the reserve for losses and loss expenses. We believe utilizing only the Bornhuetter-Ferguson reported loss method for older loss years will more accurately reflect the reported loss activity we have had thus far in our ultimate loss ratio selections, and will better reflect how the ultimate losses will develop over time. We will continue to utilize the expected loss ratio method for the most recent loss years until we have sufficient historical experience to utilize other acceptable actuarial methodologies.

We expect that the trend of placing greater reliance on more responsive actuarial methods, for example from the expected loss ratio method to the Bornhuetter-Ferguson reported loss method, to continue as both (1) our loss years mature and become more statistically reliable and (2) as we build databases of our internal loss development patterns. The expected loss ratio remains a key assumption as the Bornhuetter-Ferguson methods rely upon an expected loss ratio selection and a loss development pattern selection.

The key assumptions used to arrive at our best estimate of loss reserves are the expected loss ratios, rate of loss cost inflation, selection of benchmarks and reported and paid loss emergence patterns. Our reporting factors and expected loss ratios are based on a blend of our own experience and industry benchmarks for longer tailed business and primarily our own experience for shorter tail business. The benchmarks selected were those that we believe are most similar to our underwriting business.

Our expected loss ratios for shorter tail lines change from year to year. As our losses from shorter tail lines of business are reported relatively quickly, we select our expected loss ratios for the most recent years based upon our actual loss ratios for our older years adjusted for rate changes, inflation, cost of reinsurance and average storm activity. For the shorter tail lines, we initially used benchmarks for reported and paid loss emergence patterns. As we mature as a company, we have begun supplementing those benchmark patterns with our actual patterns as appropriate. For the longer tail lines, we continue to use benchmark patterns, although we update the benchmark patterns as additional information is published regarding the benchmark data.

For shorter tail lines, the primary assumption that changed during both 2011 as compared to 2010 and 2010 as compared to 2009 as it relates to prior year losses was actual paid and reported loss emergence patterns were generally less severe than estimated for each year due to lower frequency and severity of reported losses. As a result of this change, we recognized net favorable prior year reserve development in both 2011 and 2010. However, we did experience significant property insurance and property reinsurance losses, which resulted in us increasing our reserves related to current year losses. Of the $304.8 million of reserve increases for the year ended December 31, 2011 in our property insurance and property reinsurance lines of business for current year losses, $292.2 million was catastrophe related (New Zealand earthquake, Japan earthquake and tsunami, Australian storms, Midwestern U.S. storms, Thailand floods and Hurricane Irene), and $12.6 million related to attritional losses. Of the $121.0 million of reserve increases for the year ended December 31, 2010 in our

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property insurance and property reinsurance lines of business, $98.3 million was catastrophe related (Chilean and New Zealand earthquakes and the Australian floods), and $22.7 million related to attritional losses. We will continue to evaluate and monitor the development of these losses and the impact it has on our current and future assumptions. We believe recognition of the reserve changes in the period they were recorded was appropriate since a pattern of reported losses had not emerged and the loss years were previously too immature to deviate from the expected loss ratio method in prior periods.

The selection of the expected loss ratios for the longer tail lines is our most significant assumption. Due to the lengthy reporting pattern of longer tail lines, we supplement our own experience with industry benchmarks of expected loss ratios and reporting patterns in addition to our own experience. For our longer tail lines, the primary assumption that changed during both 2011 as compared to 2010 and 2010 as compared to 2009 as it relates to prior year losses was using the Bornhuetter-Ferguson loss development method for certain casualty lines of business and loss years as discussed above. This method calculated a lower projected loss ratio based on loss emergence patterns to date. As a result of the change in the expected loss ratio, we recognized net favorable prior year reserve development in 2011, 2010 and 2009. We believe that recognition of the reserve changes in the period they were recorded was appropriate since a pattern of reported losses had not emerged and the loss years were previously too immature to deviate from the expected loss ratio method in prior periods.

Our overall change in the loss reserve estimates related to prior years decreased as a percentage of total carried reserves during 2011. On an opening carried reserve base of $3,951.6 million, after reinsurance recoverable, we had a net decrease of $253.5 million, or 6.4%, during 2011, and for 2010 we had a net decrease of $313.3 million, or 8.2%, on an opening carried reserve base of $3,841.8 million, after reinsurance recoverables. We believe that these changes are reasonable given the long-tail nature of our business.

There is potential for significant variation in the development of loss reserves, particularly for the casualty lines of business due to their long tail nature and high attachment points. The maturing of our casualty insurance and reinsurance loss reserves have caused us to reduce what we believe is a reasonably likely variance in the expected loss ratios for older loss years. As of December 31, 2011 and 2010, we believe reasonably likely variances in our expected loss ratio in percentage points for our loss years are as follows:

	As of December 31,	
Loss Year	**2011**	**2010**
2004	2.0%	4.0%
2005	4.0%	6.0%
2006	6.0%	8.0%
2007	8.0%	10.0%
2008	10.0%	10.0%
2009	10.0%	10.0%
2010	10.0%	10.0%
2011	10.0%	

The change in the reasonably likely variance for the 2004 through 2007 loss years in 2011 compared to 2010 is due to giving greater weight to the Bornhuetter-Ferguson loss development method for additional lines of business during 2011 and additional development of losses. The reasonably likely variance of our expected loss ratio for all loss years for our casualty insurance and casualty reinsurance lines of business was seven percentage points as of December 31, 2011 and 2010. If our final casualty insurance and reinsurance loss ratios vary by seven percentage points from the expected loss ratios in aggregate, our required net reserves after reinsurance recoverable would increase or decrease by approximately $598.1 million. Because we expect a small volume of large claims, it is more difficult to estimate the ultimate loss ratios, so we believe the variance of our loss ratio selection could be relatively wide. This would result in either an increase or decrease to income, before income taxes, and total shareholders equity of approximately $598.1 million. As of December 31, 2011, this represented approximately 19% of total shareholders equity. In terms of liquidity, our contractual obligations for reserves for losses and loss expenses would also increase or decrease by approximately $598.1 million after reinsurance recoverable. If our obligations were to increase by $598.1 million, we believe we currently have sufficient cash

and investments to meet those obligations. We believe showing the impact of an increase or decrease in the expected loss ratios is useful information despite the fact that we have realized only net favorable prior year loss development each calendar year. We continue to use industry benchmarks to supplement our expected loss ratios, and these industry benchmarks have implicit in them both favorable and unfavorable loss development, which we incorporate into our selection of the expected loss ratios.

The following tables provide our ranges of loss and loss expense reserve estimates by business segment as of December 31, 2011:

	Reserve for Losses and Loss Expenses Gross of Reinsurance Recoverable(1)		
	Carried Reserves	Low Estimate	High Estimate
		($ in millions)	
U.S. insurance	$ 1,662.4	$ 1,342.3	$ 1,857.5
International insurance	2,249.0	1,696.9	2,527.8
Reinsurance	1,313.7	1,067.7	1,511.2

	Reserve for Losses and Loss Expenses Net of Reinsurance Recoverable(2)		
	Carried Reserves	Low Estimate	High Estimate
		($ in millions)	
U.S. insurance	$ 1,224.1	$ 984.3	$ 1,360.2
International insurance	1,684.7	1,262.7	1,899.0
Reinsurance	1,313.4	1,067.4	1,510.4

(1) For statistical reasons, it is not appropriate to add together the ranges of each business segment in an effort to determine the low and high range around the consolidated loss reserves. On a gross basis, the consolidated low estimate is $4,369.0 million and the consolidated high estimate is $5,634.4 million.

(2) For statistical reasons, it is not appropriate to add together the ranges of each business segment in an effort to determine the low and high range around the consolidated loss reserves. On a net basis, the consolidated low estimate is $3,527.5 million and the consolidated high estimate is $4,556.4 million.

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

Our selection of the actual carried reserves has typically been above the midpoint of the range. As of December 31, 2011, we were 4.5% above the midpoint of the consolidated net loss reserve range. We believe that we should be prudent in our reserving practices due to the lengthy reporting patterns and relatively large limits of net liability for any one risk of our direct excess casualty business and of our casualty reinsurance business. Thus, due to this uncertainty regarding estimates for reserve for losses and loss expenses, we have carried our consolidated reserve for losses and loss expenses, net of reinsurance recoverable, above the midpoint of the low and high estimates for the consolidated net losses and loss expenses. We believe that relying on the more prudent actuarial indications is appropriate for these lines of business.

Ceded Reinsurance

We cede insurance to reinsurers in order to limit our maximum loss, to protect against concentration of risk within our portfolio and to manage our exposure to catastrophic events. Because the ceding of insurance does not discharge us from our primary obligation to the insureds, we

remain liable to the extent that our reinsurers do not meet their obligations under the reinsurance agreements. Therefore, we regularly evaluate the financial condition of our reinsurers and monitor concentration of credit risk. No provision has been made for unrecoverable reinsurance as of December 31, 2011 and 2010 as we believe that all reinsurance balances will be recovered.

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When we reinsure a portion of our exposures, we pay reinsurers a portion of premiums received on the reinsured policies. Total premiums ceded pursuant to reinsurance contracts entered into by our company with a variety of reinsurers were $405.8 million, $365.9 million and $375.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The following table illustrates our gross premiums written and ceded for the years ended December 31, 2011, 2010 and 2009:

	Gross Premiums Written and Premiums Ceded Year Ended December 31,		
	2011	2010	2009
		($ in millions)	
Gross	$ 1,939.5	$ 1,758.4	$ 1,696.3
Ceded	(405.8)	(365.9)	(375.2)
Net	$ 1,533.8	$ 1,392.5	$ 1,321.1
Ceded as percentage of gross	20.9%	20.8%	22.1%

The following table illustrates the effect of our reinsurance ceded strategies on our results of operations:

	Year Ended December 31,		
	2011	2010	2009
		($ in millions)	
Premiums written ceded	405.8	365.9	375.2
Premiums earned ceded	366.3	365.3	381.2
Losses and loss expenses ceded	214.6	165.8	196.6
Acquisition costs ceded	92.6	81.5	79.6

We had net cash outflows relating to ceded reinsurance activities (premiums paid less losses recovered and net ceding commissions received) of approximately $148.3 million, $128.5 million and $116.0 million for the years ended December 31, 2011, 2010 and 2009, respectively. The net cash outflows in all years are reflective of fewer losses that were recoverable under our reinsurance coverages.

Our reinsurance treaties are generally purchased on an annual basis and are therefore subject to yearly renegotiation. The treaties typically specify ceding commissions, and include provisions for required reporting to the reinsurers, responsibility for taxes, arbitration of disputes and the posting of security for the reinsurance recoverable under certain circumstances, such as a downgrade in the reinsurer s financial strength rating. The amount of risk ceded by us to reinsurers is subject to maximum limits which vary by line of business and by type of coverage. We also purchase a limited amount of facultative reinsurance, which provides cover for specified policies, rather than for whole classes of business.

The examples below illustrate the types of treaty reinsurance arrangements in force at December 31, 2011:

General Property: We purchased both quota share reinsurance for our general property business written in our U.S. insurance and international insurance segments, as well as excess-of-loss cover providing protection for specified classes of catastrophe. We have also purchased a limited amount of facultative reinsurance, which provides cover for specified general property policies.

General Casualty: We have purchased variable quota share reinsurance for our general casualty business since December 2002. At year-end 2011, the percentage ceded varied by both location of writing office and by limits reinsured, with a significantly larger cession being effective for policies above $25 million in limits. We also have excess-of-loss cover in place for general casualty business written in our Asian branch offices.

Professional Liability: For professional liability policies, our reinsurance varied by writing office and by policy type. Professional liability policies written in our Bermuda, European and U.S. offices were quota-

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share reinsured with cession percentages dependent upon location. Additionally, the professional liability policies written in the United States, as well as those originating within our Asian branch offices were reinsured on an excess-of-loss basis.

Healthcare: We purchased quota share and excess-of-loss reinsurance protection for our healthcare line of business written by our Bermuda and U.S. offices, respectively. As is the case with general casualty and professional liability, our healthcare business originating in Asia is under an excess-of-loss reinsurance arrangement.

The following table illustrates our reinsurance recoverable as of December 31, 2011 and 2010:

	Reinsurance Recoverable as of December 31,	
	2011	2010
	($ in millions)	
Ceded case reserves	$ 196.5	$ 206.2
Ceded IBNR reserves	806.4	721.4
Reinsurance recoverable	$ 1,002.9	$ 927.6

As noted above, we remain obligated for amounts ceded in the event our reinsurers do not meet their obligations. Accordingly, we have evaluated the reinsurers that are providing reinsurance protection to us and will continue to monitor their credit ratings and financial stability. We generally have the right to terminate our treaty reinsurance contracts at any time, upon prior written notice to the reinsurer, under specified circumstances, including the assignment to the reinsurer by A.M. Best of a financial strength rating of less than A-. As of December 31, 2011, approximately 98% of ceded case reserves and 99% of our ceded IBNR were recoverable from reinsurers who had an A.M. Best rating of A- or higher.

We determine what portion of the losses will be recoverable under our reinsurance policies by reference to the terms of the reinsurance 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.

The following table shows our reinsurance recoverables by operating segment as of December 31, 2011 and 2010:

	As of December 31,	
	2011	2010
	($ in millions)	
U.S. insurance	$ 438.3	$ 396.6
International insurance	564.3	531.0
Reinsurance	0.3	
Total reinsurance recoverable	$ 1,002.9	$ 927.6

Historically, our reinsurance recoverables related primarily to our property lines of business, which being short tail in nature, are not subject to the same variations as our casualty lines of business. However, during 2011 and 2010 we have increased the amount of reinsurance we utilize for our casualty lines of business in the U.S. insurance and international insurance segments; and as such, the reinsurance recoverables from our casualty lines of business have increased over the past several years. As the reinsurance recoverables are subject to the same uncertainties as the estimate of case reserves and IBNR reserves, if our final casualty insurance ceded loss ratios vary by eight percentage points from the expected loss ratios in aggregate, our required reinsurance recoverable would increase or decrease by approximately $134.6 million. This would result in either an increase or decrease to income before income taxes and shareholders equity of approximately $134.6 million. As of December 31, 2011, this amount represented approximately 4% of total shareholders equity.

Premiums and Acquisition Costs

Premiums are recognized as written on the inception date of a policy. For certain types of business written by us, notably reinsurance, premium income may not be known at the contract inception date. In the case of quota share reinsurance assumed by us, the underwriter makes an estimate of premium income at inception as the premium income is typically derived as a percentage of the underlying policies written by the cedents. The underwriter s estimate is based on statistical data provided by reinsureds and the underwriter s judgment and experience. Such estimations are refined over the reporting period of each treaty as actual written premium information is reported by ceding companies and intermediaries. Management reviews estimated premiums at least quarterly and any adjustments are recorded in the period in which they become known. As of December 31, 2011, our changes in premium estimates have been adjustments ranging from approximately negative 6% for the 2009 treaty year to approximately 22% for the 2005 treaty year. Applying this range to our 2011 quota share reinsurance treaties, our gross premiums written in the reinsurance segment could decrease by approximately $13.9 million or increase by approximately $47.7 million over the next three years. Given the recent trend of downward adjustments on premium estimates, we believe a reasonably likely change in our premium estimate would be the midpoint of the 6% and 22%, or 8%, for a change of $16.9 million. There would also be a related increase in loss and loss expenses and acquisition costs due to the increase in gross premiums written. It is reasonably likely as our historical experience develops that we may have fewer or smaller adjustments to our estimated premiums, and therefore could have changes in premium estimates lower than the range historically experienced. Total premiums estimated on quota share reinsurance contracts for the years ended December 31, 2011, 2010 and 2009 represented approximately 11%, 13% and 12%, respectively, of total gross premiums written.

Other insurance and reinsurance policies can require that the premium be adjusted at the expiry of a policy to reflect the risk assumed by us. Premiums resulting from such adjustments are estimated and accrued based on available information.

Fair Value of Financial Instruments

In accordance with U.S. GAAP, we are required to recognize certain assets at their fair value in our consolidated balance sheets. This includes our fixed maturity investments and other invested assets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon whether the inputs to the valuation of an asset or liability are observable or unobservable in the market at the measurement date, with quoted market prices being the highest level (Level 1) and unobservable inputs being the lowest level (Level 3). A fair value measurement will fall within the level of the hierarchy based on the input that is significant to determining such measurement. The three levels are defined as follows:

Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology which are unobservable for the asset or liability.

At each measurement date, we estimate the fair value of the financial instruments using various valuation techniques. We utilize, to the extent available, quoted market prices in active markets or observable market inputs in estimating the fair value of our financial instruments. When quoted market prices or observable market inputs are not available, we utilize valuation techniques that rely on unobservable inputs to estimate the fair value of financial instruments. The following describes the valuation techniques we used to determine the fair value of financial instruments held as of December 31, 2011 and what level within the U.S. GAAP fair value hierarchy the valuation technique resides.

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U.S. government and U.S. government agencies: Comprised primarily of bonds issued by the U.S. Treasury, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. The fair values of U.S. government securities are based on quoted market prices in active markets, and are included in the Level 1 fair value hierarchy. We believe the market for U.S. Treasury securities is an actively traded market given the high level of daily trading volume. The fair values of U.S. government agency securities are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are included in the Level 2 fair value hierarchy.

Non-U.S. government and government agencies: Comprised of fixed income obligations of non-U.S. governmental entities. The fair values of these securities are based on prices obtained from international indices and are included in the Level 2 fair value hierarchy.

States, municipalities and political subdivisions: Comprised of fixed income obligations of U.S. domiciled state and municipality entities. The fair values of these securities are based on prices obtained from the new issue market, and are included in the Level 2 fair value hierarchy.

Corporate debt: Comprised of bonds issued by corporations that are diversified across a wide range of issuers and industries. The fair values of corporate bonds that pay a floating rate coupon are priced using the spread above the London Interbank Offered Rate yield curve and the fair values of corporate bonds that are long term are priced using the spread above the risk-free yield curve. The spreads are sourced from broker-dealers, trade prices and the new issue market. As the significant inputs used to price corporate bonds are observable market inputs, the fair values of corporate bonds are included in the Level 2 fair value hierarchy.

Mortgage-backed: Principally comprised of residential and commercial mortgages originated by both U.S. government agencies (such as the Federal National Mortgage Association) and non-U.S. government agency originators. The fair values of mortgage-backed securities originated by U.S. government agencies and non-U.S. government agencies are based on a pricing model that incorporates prepayment speeds and spreads to determine the appropriate average life of mortgage-backed securities. The spreads are sourced from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the mortgage-backed securities are observable market inputs, the fair values of these securities are included in the Level 2 fair value hierarchy, unless the significant inputs used to price the mortgage-backed securities are broker-dealer quotes and we are not able to determine if those quotes are based on observable market inputs, in which case the fair value is included in the Level 3 fair value hierarchy.

Asset-backed: Principally comprised of bonds backed by pools of automobile loan receivables, home equity loans, credit card receivables and collateralized loan obligations originated by a variety of financial institutions. The fair values of asset-backed securities are priced using prepayment speed and spread inputs that are sourced from the new issue market or broker-dealer quotes. As the significant inputs used to price the asset-backed securities are observable market inputs, the fair values of these securities are included in the Level 2 fair value hierarchy, unless the significant inputs used to price the asset-backed securities are broker-dealer quotes and we are not able to determine if those quotes are based on observable market inputs, in which case the fair value is included in the Level 3 fair value hierarchy.

Equity securities: The fair value of the equity securities are priced from market exchanges and therefore included in the Level 1 fair value hierarchy.

Other invested assets: Comprised of funds invested in a range of diversified strategies. In accordance with U.S. GAAP, the fair values of the funds are based on the net asset value of the funds as reported by the fund manager, which we believe is an unobservable input, and as such, the fair values of the funds are included in the Level 3 fair value hierarchy.

Senior notes: The fair value of the senior notes is based on trades as reported in Bloomberg. As of December 31, 2011, the 7.50% Senior Notes and 5.50% Senior Notes (each as defined in Note 9 of the notes to consolidated financial statements) were traded at 114.3% and 100.4% of their principal amount, providing an effective yield of 4.0% and 5.4%, respectively. The fair value of the senior notes is included in the Level 2 fair value hierarchy.

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The following table shows the pricing sources of our fixed maturity investments held as of December 31, 2011:

Pricing Sources	Fair Value of Fixed Maturity Investments as of December 31, 2011 ($ in millions)	Percentage of Total Fixed Maturity Investments	Fair Value Hierarchy Level
Barclays indices	$ 4,044.1	62.2%	1 and 2
Interactive Data Pricing	996.5	15.3	2
Reuters pricing service	458.8	7.1	2
Broker-dealer quotes	343.9	5.3	3
Merrill Lynch indices	160.0	2.5	2
International indices	115.4	1.8	2
Other sources	380.0	5.8	2
	$ 6,498.7	100.0%	

The following table shows the pricing sources of our fixed maturity investments held as of December 31, 2010:

Pricing Sources	Fair Value of Fixed Maturity Investments as of December 31, 2010 ($ in millions)	Percentage of Total Fixed Maturity Investments	Fair Value Hierarchy Level
Barclays indices	$ 4,684.6	70.3%	1 and 2
Interactive Data Pricing	997.7	15.0	2
Reuters pricing service	252.8	3.8	2
Broker-dealer quotes	221.3	3.3	3
Merrill Lynch indices	166.9	2.5	2
International indices	68.6	1.0	2
Other sources	269.1	4.1	2
	$ 6,661.0	100.0%	

Barclays indices: We use Barclays indices to price our U.S. government, U.S. government agencies, corporate debt, agency and non-agency mortgage-backed and asset-backed securities. There are several observable inputs that the Barclays indices use in determining its prices which include among others, treasury yields, new issuance and secondary trades, information provided by broker-dealers, security cash flows and structures, sector and issuer level spreads, credit rating, underlying collateral and prepayment speeds. For U.S. government securities, traders that act as market makers are the primary source of pricing; as such, for U.S. government securities we believe the Barclays indices reflect quoted prices (unadjusted) for identical securities in active markets.

Interactive Data Pricing: We use Interactive Data Pricing to price our U.S. government agencies, municipalities, non-agency mortgage-backed and asset-backed securities. There are several observable inputs that Interactive Data Pricing uses in determining its prices which include among others, benchmark yields, reported trades and issuer spreads.

Reuters pricing service: We use the Reuters pricing service to price our U.S. government agencies, corporate debt, agency and non-agency mortgage-backed and asset-backed securities. There are several observable inputs that the Reuters pricing service uses in determining its prices which include among others, option-adjusted spreads, treasury yields, new issuance and secondary trades, sector and issuer level spreads, underlying collateral and prepayment speeds.

Broker-dealer quotes: We also utilize broker-dealers to price our agency and non-agency mortgage-backed and asset-backed securities. The pricing sources include JP Morgan Securities Inc., Bank of America

Securities LLC, Deutsche Bank Securities Inc. and other broker-dealers. When broker-dealer quotes are utilized it is primarily due to the fact that the particular broker-dealer was involved in the initial pricing of the security.

Merrill Lynch Index: We use the Merrill Lynch indices to price our non-U.S. government and government agencies securities, corporate debt, municipalities and asset-backed securities. There are several observable inputs that the Merrill Lynch indices use in determining its prices, which include reported trades and other sources.

Standard & Poor s Securities Evaluation: We use Standard & Poor s to price our U.S. government agencies, corporate debt, municipalities, mortgage-backed and asset-backed securities. There are several observable inputs that Standard & Poor s uses in determining its prices which include among others, benchmark yields, reported trades and issuer spreads.

International indices: We use international indices, which include the FTSE, Deutche Teleborse and the Scotia Index, to price our non-U.S. government and government agencies securities. The observable inputs used by international indices to determine its prices are based on new issuance and secondary trades and information provided by broker-dealers.

Other sources: We utilize other indices and pricing services to price various securities. These sources use observable inputs consistent with indices and pricing services discussed above.

We utilize independent pricing sources to obtain market quotations for securities that have quoted prices in active markets. In general, the independent pricing sources use observable market inputs, including, but not limited to, investment yields, credit risks and spreads, benchmarking of like securities, non-binding broker-dealer quotes, reported trades and sector groupings to determine the fair value. For a majority of the portfolio, we obtained two or more prices per security as of December 31, 2011. When multiple prices are obtained, a price source hierarchy is utilized to determine which price source is the best estimate of the fair value of the security. The price source hierarchy emphasizes more weighting to significant observable inputs such as index pricing and less weighting towards non-binding broker quotes. In addition, to validate all prices obtained from these pricing sources including non-binding broker quotes, we also obtain prices from our investment portfolio managers and other sources (e.g., another pricing vendor), and compare the prices obtained from the independent pricing sources to those obtained from our investment portfolio managers and other sources. We investigate any material differences between the multiple sources and determine which price best reflects the fair value of the individual security. There were no material differences between the prices from the independent pricing sources and the prices obtained from our investment portfolio managers and other sources as of December 31, 2011.

There have been no material changes to any of our valuation techniques from those used as of December 31, 2010. Based on all reasonably available information received, we believe the prices that were obtained from inactive markets were orderly transactions and therefore, reflected the current price a market participant would pay for the asset. Since fair valuing a financial instrument is an estimate of what a willing buyer would pay for our asset if we sold it, we will not know the ultimate value of our financial instruments until they are sold. We believe the valuation techniques utilized provide us with the best estimate of the price that would be received to sell our assets in an orderly transaction between participants at the measurement date.

Other-Than-Temporary Impairment of Investments

Effective April 1, 2009, we are required to recognize OTTI in the consolidated income statements if we intend to sell the debt security or if it is more likely than not we will be required to sell a debt security before the recovery of its amortized cost basis. In addition, we are required to recognize OTTI if the present value of the expected cash flows of a debt security is less than the amortized cost basis of the debt security (credit loss).

For our debt securities that are within the scope of the new guidance we have applied the following policy to determine if OTTI exists at each reporting period:

Our debt securities are managed by external investment portfolio managers. We require them to provide us with a list of debt securities they intend to sell at the end of the reporting period. Any impairment in these securities is recognized as OTTI, as the difference between the amortized cost and fair value and is recognized in the income statement.

At each reporting period we determine if it is more likely than not we will be required to sell a debt security before the recovery of its amortized cost basis. We analyze our current and future contractual and non-contractual obligations and our expectation of future cash flows to determine if we will need to sell debt securities to fund our obligations. We consider factors such as trends in underwriting profitability, cash flows from operations, return on our invested assets, property catastrophe losses, timing of payments and other specific contractual obligations that are coming due.

For debt securities that are in an unrealized loss position that we do not intend to sell, we assess whether a credit loss exists. The amount of the credit loss is recognized in the income statement. The assessment involves consideration of several factors including: (i) the significance of the decline in value and the resulting unrealized loss position, (ii) the time period for which there has been a significant decline in value and (iii) an analysis of the issuer of the investment, including its liquidity, business prospects and overall financial position.

Following the Company s review of the securities in the investment portfolio during the year ended December 31, 2011, no securities were considered to be other-than-temporarily impaired due to the present value of the expected cash flows being lower than the amortized cost. During the year ended December 31, 2010, we had one mortgage-backed security that was considered to be other-than-temporarily impaired due to the present value of the expected cash flows being lower than the amortized cost. The $0.2 million of OTTI was recognized through earnings due to credit related losses.

For the mortgage-backed security for which OTTI was recognized due to credit loss, the significant inputs utilized to determine a credit loss were the estimated frequency and severity of losses of the underlying mortgages that comprise the mortgage-backed security. The frequency of losses was measured as the credit default rate, which includes such factors as loan-to-value ratios and credit scores of borrowers. The severity of losses includes such factors as trends in overall housing prices and house prices that are obtained at foreclosure. The frequency and severity inputs were used in projecting the future cash flows of the mortgage backed security. For the security in which we recognized an OTTI due to credit loss, the credit default rate was 10.3% and the severity rate was 49.0%.

Prior to April 1, 2009, we reviewed the carrying value of our investments to determine if a decline in value was considered to be other than temporary. This review involved consideration of several factors including: (i) the significance of the decline in value and the resulting unrealized loss position; (ii) the time period for which there has been a significant decline in value; (iii) an analysis of the issuer of the investment, including its liquidity, business prospects and overall financial position; and (iv) our intent and ability to hold the investment for a sufficient period of time for the value to recover. For certain investments, our investment portfolio managers had the discretion to sell those investments at any time. As such, we recognized OTTI for those securities in an unrealized loss position each quarter as we could not assert that we had the intent to hold those investments until anticipated recovery. The identification of potentially impaired investments involves significant management judgment that included the determination of their fair value and the assessment of whether any decline in value was other than temporary. If the decline in value was determined to be other than temporary, then we recorded a realized loss in the statements of operations and comprehensive income in the period that it was determined, and the cost basis of that investment was reduced.

Based on our review of the debt securities, for the year ended December 31, 2009 we recognized a total of $68.2 million in OTTI, of which $18.6 million was recognized in accumulated other comprehensive income in the consolidated balance sheets and $49.6 million was recognized in the income statement. Of the $49.6 million of OTTI recognized in the income statement, $7.7 million was due to credit related losses where the anticipated discounted cash flows of various debt securities were lower than the amortized cost, and $41.9 million in the first quarter of 2009 related to net impairment charges for those securities in an unrealized loss position where our investment managers had the discretion to sell. The $7.7 million of credit related OTTI recognized consisted of $6.0 million related to mortgage-backed securities and $1.7 million related to a corporate bond. We did not have securities with an unrealized loss as of December 31, 2009 that we intended to sell or that we were required to sell.

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Goodwill and Other Intangible Asset Impairment Valuation

We classify intangible assets into three categories: (1) intangible assets with finite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization and (3) goodwill. Intangible assets, other than goodwill, consist of renewal rights, internally generated software, non-compete covenants and insurance licenses held by subsidiaries domiciled in the United States. The following is a summary of our goodwill and other intangible assets as of December 31, 2011 and 2010:

Source of Goodwill or Intangible Asset	Year Acquired	Finite or Indefinite	Estimated Useful Life	Carrying Value December 31, 2011	Carrying Value December 31, 2010
					(In millions)
Insurance licenses(1)	2002	Indefinite	N/A	$ 3.9	$ 3.9
Insurance licenses(2)	2008	Indefinite	N/A	12.0	12.0
Goodwill(2)	2008	Indefinite	N/A	3.9	3.9
Distribution Network(3)	2008	Finite	15 years	30.0	32.5
Internally developed computer software(3)	2008	Finite	3 years	0.0	0.4
Insurance licenses(3)	2008	Indefinite	N/A	8.0	8.0
Goodwill(3)	2008	Indefinite	N/A	264.5	264.5
Total goodwill and other intangible assets				$ 322.3	$ 325.2

(1) Related to the acquisition of Allied World National Assurance Company and Allied World Assurance Company (U.S.) Inc.

(2) Related to the acquisition of Finial Insurance Company

(3) Related to the acquisition of Darwin

For intangible assets with finite lives, the value is amortized over their useful lives. We also test intangible assets with finite lives for impairment if conditions exist that indicate the carrying value may not be recoverable. Such factors include, but are not limited to:

- A significant decrease in the market price of the intangible asset;

- A significant adverse change in the extent or manner in which the intangible asset is being used or in its physical condition;

- A significant adverse change in legal factors or in the business climate that could affect the value of the intangible asset, including an adverse action or assessment by a regulator;

- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the intangible asset;

- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of the intangible asset; and

- A current expectation that, more likely than not, the intangible asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

As a result of our evaluation, we determined that there was no impairment to the carrying value of our intangible assets with finite lives for the year ended December 31, 2011.

For indefinite lived intangible assets we do not amortize the intangible asset but test these intangible assets for impairment by comparing the fair value of the assets to their carrying values on an annual basis or more frequently if circumstances warrant. The factors we consider to determine if an impairment exists are similar to factors noted above. As a result of our evaluation, we determined that there was no impairment to the carrying value of our indefinite lived intangible assets for the year ended December 31, 2011.

Goodwill represents the excess of the cost of acquisitions over the fair value of net assets acquired and is not amortized. Goodwill is assigned at acquisition to the applicable reporting unit(s) based on the expected benefit to be received by the reporting unit(s) from the business combination. We determine the expected benefit based on several factors including the purpose of the business combination, the strategy of the company subsequent to the business combination and structure of the acquired company subsequent to the business combination. A reporting unit is a component of our business that has discrete financial information which is reviewed by management. In determining the reporting unit, we analyze the inputs, processes, outputs and overall operating performance of the reporting unit.

During our annual goodwill impairment assessment for the year ended December 31, 2009, we determined that for purposes of the goodwill recorded from the acquisition of Darwin that the Darwin reporting unit expected to receive the benefit of the business combination and as such we allocated all the goodwill to the Darwin reporting unit.

For the annual goodwill impairment assessment for the year ended December 31, 2010, we reassessed our reporting units and determined that the U.S. insurance segment is the reporting unit expected to receive the benefit of the business combination. The reason for the change in reporting units is due to the fact that since the acquisition of Darwin, we have integrated Darwin in several ways, which has made stand-alone Darwin company financial information no longer meaningful and not consistent with how we manage our business. Some of the integration efforts include, among others:

- The inclusion of Darwin senior management into the U.S. insurance segment senior management.

- The inclusion of Darwin head product line managers into the U.S. insurance segment product line managers.

- We have moved a significant number of employees into and out of the acquired Darwin legal entities. Former Darwin underwriters now underwrite for historical Allied World companies and vice versa.

- Any new business written, with a few limited exceptions, is recorded in one underwriting system, which is the legacy Darwin underwriting system.

Based on the above, the lines have blurred to what cash flow streams are related to the acquisition and what are related to our legacy business. We believe this constitutes a reorganization of the reporting structure under U.S. GAAP. In applying the requirements, we have concluded all the goodwill that was originally allocated to the Darwin reporting unit should be allocated to the U.S. insurance segment reporting unit as the assets employed and the liabilities relate to the U.S. insurance operations. All the insurance operations of Darwin are included into the U.S. insurance segment.

For goodwill, we perform a two-step impairment test on an annual basis or more frequently if circumstances warrant. The first step is to compare the fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value then the second step of the goodwill impairment test is performed. In determining the fair value of the reporting units discounted cash flow models and market multiple models are utilized. The discounted cash flow models apply a discount to projected cash flows including a terminal value calculation. The market multiple models apply earnings and book value multiples of similar publicly-traded companies to the reporting unit s projected earnings or book value. We select the weighting of the models utilized to determine the fair value of the reporting units based on judgment, considering such factors as the reliability of the cash flow projections and the entities included in the market multiples.

The second step of the goodwill impairment test compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill in order to determine the amount of impairment to be recognized. The implied fair value of goodwill is determined by deducting the fair value of a reporting unit s identifiable assets and liabilities from the fair value of the reporting unit as a whole. The excess of the carrying value of goodwill above the implied goodwill, if any, would be recognized as an impairment charge in amortization and impairment of intangible assets in the consolidated income statements.

During 2011, we performed the first step of the goodwill impairment testing on the goodwill. We use both market based and non-market based valuations. Our market based valuations are based on market multiples of

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book value and earnings. Our non-market based valuations are based on the present value of estimated future cash flows. Our overall point estimate is a weighted average of these valuations. Based on our analysis, the point estimate fair value of the U.S. insurance segment reporting unit was in excess of its carrying value by approximately 14%. As a result, we concluded there was no implied goodwill impairment, and therefore, no step two goodwill impairment testing was required.

Results of Operations

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

	Year Ended December 31,		
	2011	2010	2009
	($ in millions)		
Gross premiums written	$ 1,939.5	$ 1,758.4	$ 1,696.3
Net premiums written	$ 1,533.8	$ 1,392.4	$ 1,321.1
Net premiums earned	1,457.0	1,359.5	1,316.9
Net investment income	195.9	244.1	300.7
Net realized investment gains	10.1	285.6	126.4
Net impairment charges recognized in earnings		(0.2)	(49.6)
Other income	101.7	0.9	1.5
	$ 1,764.7	$ 1,889.9	$ 1,695.9
Net losses and loss expenses	959.2	707.9	604.1
Acquisition costs	167.3	159.5	148.9
General and administrative expenses	271.6	286.5	248.6
Amortization and impairment of intangibleassets	3.0	3.5	11.1
Interest expense	55.0	40.2	39.0
Foreign exchange loss	3.1	0.4	0.7
	$ 1,459.2	$ 1,198.0	$ 1,052.4
Income before income taxes	$ 305.5	$ 691.9	$ 643.5
Income tax expense	31.0	26.9	36.6
Net income	$ 274.5	$ 665.0	$ 606.9
Ratios			
Loss and loss expense ratio	65.8%	52.1%	45.9%
Acquisition cost ratio	11.5%	11.7%	11.3%
General and administrative expense ratio	18.6%	21.1%	18.9%
Expense ratio	30.1%	32.8%	30.2%
Combined ratio	95.9%	84.9%	76.1%

Comparison of Years Ended December 31, 2011 and 2010

Premiums

Gross premiums written increased by $181.1 million, or 10.3%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The overall increase in gross premiums written was primarily the result of the following:

Gross premiums written in our U.S. insurance segment increased by $109.3 million, or 15.0%. The increase in gross premiums written was primarily due to increased new business, including from new

products, for the year ended December 31, 2011 compared to the year ended December 31, 2010. This growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and increased competition.

Gross premiums written in our international insurance segment increased by $25.5 million, or 5.1%, due to increased premiums in our general property and healthcare lines and new business including new products. This growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and increased competition.

Gross premiums written in our reinsurance segment increased by $46.3 million, or 8.8%. The increase in gross premiums written was primarily due to increased new business, including gross premiums written by our new global marine and specialty division and the continued build-out of our international platform, particularly in Asia. This growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions).

The table below illustrates our gross premiums written by geographic location for the years ended December 31, 2011 and 2010.

	Year Ended December 31,		Dollar	Percentage
	2011	2010	Change	Change
	($ in millions)			
United States	$ 1,080.1	$ 993.5	$ 86.6	8.7%
Bermuda	565.8	545.6	20.2	3.7
Europe	210.4	193.0	17.4	9.0
Singapore	68.4	17.0	51.4	302.4
Hong Kong	14.8	9.3	5.5	59.1
	$ 1,939.5	$ 1,758.4	$ 181.1	10.3%

Net premiums written increased by $141.4 million, or 10.2%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase in net premiums written was primarily due to the increase in gross premiums written. During the twelve months ended December 31, 2011, premiums ceded were reduced by $12.4 million due to the commutation of certain variable-rated reinsurance contracts that have swing-rated provisions. A swing-rated reinsurance contract links the ultimate amount of ceded premium to the ultimate loss ratio on the reinsured business. It enables the cedent to retain a greater portion of premium if the ultimate loss ratio develops at a level below the initial loss threshold set by the reinsurers, but requires a higher amount of ceded premium if the ultimate loss ratio develops above the initial threshold. In commuting these swing-rated reinsurance contracts, we reduced certain premiums previously ceded and also reduced ceded IBNR by $11.5 million in accordance with the terms of the contracts. During the twelve months ended December 31, 2010, net premiums written included a $9.3 million reduction in premiums ceded for the commutation of certain variable-rated reinsurance contracts.

The difference between gross and net premiums written is the cost to us of purchasing reinsurance coverage, including the cost of property catastrophe reinsurance coverage. We ceded 20.9% of gross premiums written for the year ended December 31, 2011 compared to 20.8% for the year ended December 31, 2010.

Net premiums earned increased by $97.5 million, or 7.2%, for the year ended December 31, 2011 compared to the year ended December 31, 2010 as a result of higher net premiums earned for the U.S. insurance and reinsurance segments. This is driven by increased net premiums written in the current and prior periods, as well as the impact of the commutation of the swing-rated reinsurance contracts, which are fully earned.

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

	Gross Premiums Written		Net Premiums Earned	
	Year Ended December 31,			
	2011	2010	2011	2010
U.S. insurance	43.2%	41.5%	40.1%	38.1%
International insurance	27.4%	28.7%	21.8%	24.9%
Reinsurance	29.4%	29.8%	38.1%	37.0%
Total	100.0%	100.0%	100.0%	100.0%

Net Investment Income

Net investment income decreased by $48.2 million, or 19.7%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The decrease was due to lower yields on our fixed maturity investments as well as an increased allocation to equity securities and other invested assets which contribute to our total return but carry little or no current yield. We increased our equity and other invested assets by $385.3 million between December 31, 2011 and December 31, 2010. The annualized period book yield of the investment portfolio for the years ended December 31, 2011 and 2010 was 2.5% and 3.3%, respectively. Since we believe that there could be a rise in interest rates in 2012, there remains a risk of loss in the value of the company s fixed income portfolio. We have reduced our investment duration in 2011 to mitigate this risk. Investment management expenses of $14.2 million and $11.7 million were incurred during the years ended December 31, 2011 and 2010, respectively. The increase in investment management expenses was due to the increase in the size of our investment portfolio as well as expenses from higher expense asset classes (equities).

As of December 31, 2011, approximately 92.6% of our fixed income investments consisted of investment grade securities. The average credit rating of our fixed income portfolio was AA- as rated by Standard & Poor s and Aa3 as rated by Moody s, with an average duration of approximately 1.9 years as of December 31, 2011. The average duration of the investment portfolio was 2.7 years as of December 31, 2010.

Realized Investment Gains/Losses and Net Impairment Charges Recognized in Earnings

During the year ended December 31, 2011, we recognized $10.1 million in net realized investment gains compared to net realized investment gains of $285.6 million during the year ended December 31, 2010. During the year ended December 31, 2011, we did not recognize any net impairment charges compared to $0.2 million in net impairment charges recognized in earnings during the year ended December 31, 2010. Net realized investment gains of $10.1 million for the year ended December 31, 2011 were comprised of the following:

- Net realized investment gains of $32.7 million primarily from the sale of fixed maturity securities due to the rebalancing of our portfolio.

- Net realized investment losses of $22.6 million primarily related to the mark-to-market adjustments for our other invested assets, equity securities and fixed maturity investments that are accounted for as trading securities.

	Mark-to-Market Adjustments for the Year Ended December 31, 2011 ($ in millions)
Fixed maturity investments accounted for as trading securities	$ 8.1
Other invested assets and equity securities	4.5

Interest rate futures and foreign exchange forwards		5.9
Put options		4.1
Total	$	22.6

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Net realized investment gains of $285.6 million for the year ended December 31, 2010 were comprised of the following:

- Net realized investment gains of $217.7 million from the sale of securities.
- Net realized investment gains of $71.9 million related to the mark-to-market adjustments of our other invested assets and fixed maturity investments that are accounted for as trading securities.
- Net realized investment loss of $0.4 million related to a U.S. Treasury yield hedge transaction that terminated in June 2010.

Other Income

The other income of $101.7 million for the year ended December 31, 2011 represented a termination fee from our previously announced merger agreement with Transatlantic.

The other income of $0.9 million for the year ended December 31, 2010 represents fee income from our program administrator operations and wholesale brokerage operations. We sold these operations during the year ended December 31, 2010.

Net Losses and Loss Expenses

Net losses and loss expenses increased by $251.3 million, or 35.5%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase in net losses and loss expenses was due to lower prior year net favorable reserve development and higher catastrophe loss activity in the current period totaling $292.2 million, which included estimated net losses and loss expenses incurred of $96.5 million for the Tohoku earthquake and tsunami, $58.6 million for the New Zealand earthquake, $53.7 million for the Midwestern U.S. storms, $43.0 million related to the Thailand floods, $23.7 million for Hurricane Irene and $16.7 million for the Australian storms. During the year ended December 31, 2010, we incurred $98.4 million of catastrophe-related losses, of which $66.8 million was from the Chilean earthquake, $17.0 million from the New Zealand earthquake and $14.6 million from the Australian floods.

We recorded net favorable reserve development related to prior years of $253.5 million and $313.3 million during the years ended December 31, 2011 and 2010, respectively. The following table shows the net favorable reserve development of $253.5 million by loss year for each of our segments for the year ended December 31, 2011. In the table, a negative number represents net favorable reserve development and a positive number represents net unfavorable reserve development.

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2011 ($ in millions)									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
U.S. insurance	$ (0.4)	$ (2.9)	$ (4.6)	$ (20.5)	$ 19.1	$ (7.6)	$ (4.7)	$ (7.2)	$ 5.6	$ (23.2)
International insurance	0.8	4.1	(6.7)	(33.3)	(45.3)	(40.5)	(14.6)	(10.1)	27.1	(118.5)
Reinsurance	(0.4)	(2.5)	(10.9)	(35.6)	(16.0)	(20.7)	(2.3)	(10.8)	(12.6)	(111.8)
	$	$ (1.3)	$ (22.2)	$ (89.4)	$ (42.2)	$ (68.8)	$ (21.6)	$ (28.1)	$ 20.1	$ (253.5)

The net favorable reserve development is a result of actual loss emergence being lower than anticipated. The unfavorable reserve development in our U.S. insurance segment for the 2006 loss year was primarily due to directors and officers claims within our professional liability line of business related to a class action suit filed against a number of private equity firms alleging collusion. The unfavorable reserve development in our international insurance segment for the 2010 loss year was primarily due to a casualty claim emanating from an oil field service risk.

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The following table shows the favorable reserve development of $313.3 million by loss year for each of our segments for the year ended December 31, 2010. In the table, a negative number represents net favorable reserve development and a positive number represents net unfavorable reserve development.

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2010								
	2002	2003	2004	2005	2006	2007	2008	2009	Total
	($ in millions)								
U.S. insurance	$ (1.6)	$ (3.2)	$ (25.6)	$ (26.2)	$ (5.3)	$ (1.7)	$ (2.5)	$ (2.4)	$ (68.5)
International insurance	6.8	(6.7)	(21.6)	(87.5)	(36.7)	(19.3)	(23.1)	7.5	(180.6)
Reinsurance	(0.9)	(1.0)	(9.8)	(33.0)	(12.4)	(3.8)	3.0	(6.3)	(64.2)
	$ 4.3	$ (10.9)	$ (57.0)	$ (146.7)	$ (54.4)	$ (24.8)	$ (22.6)	$ (1.2)	$ (313.3)

The loss and loss expense ratio for the year ended December 31, 2011 was 65.8% compared to 52.1% for the year ended December 31, 2010. Net favorable reserve development recognized in the year ended December 31, 2011 and the impact of the commutation adjustment to ceded IBNR decreased the loss and loss expense ratio by 17.5 percentage points. Thus, the loss and loss expense ratio related to the current loss year was 83.3%. Net favorable reserve development recognized in the year ended December 31, 2010 and the impact of the commutation adjustment to ceded IBNR reduced the loss and loss expense ratio by 23.1 percentage points. Thus, the loss and loss expense ratio related to that loss year was 75.2%. The increase in the loss and loss expense ratio for the current loss year was primarily due to $292.2 million of losses from global catastrophes during the year ended December 31, 2011, which contributed 20.1 points to the current loss year s loss and loss expense ratio. In comparison, $164.6 million of large individual losses, including catastrophes, contributed 12.1 points to the loss and loss expense ratio for the twelve months ended December 31, 2010.

The following table shows the components of the increase in net losses and loss expenses for the year ended December 31, 2011 compared to the year ended December 31, 2010.

	Year Ended December 31,		Dollar
	2011	2010	Change
	($ in millions)		
Net losses paid	$ 684.8	$ 596.7	$ 88.1
Net change in reported case reserves	213.3	76.2	137.1
Net change in IBNR	61.1	35.0	26.1
Net losses and loss expenses	$ 959.2	$ 707.9	$ 251.3

The increase in net losses paid for the year ended December 31, 2011 was due to higher paid losses in our U.S. insurance and reinsurance segments as a result of continued growth in these segments, combined with higher current period property catastrophe paid losses. The increase in reported case reserves was primarily due to higher case reserves in each of our operating segments. The increase in IBNR was due to higher IBNR in our international insurance segment as a result of lower net favorable reserve development.

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

	Year Ended December 31,	
	2011	2010
Net reserves for losses and loss expenses, January 1	$ 3,951.6	$ 3,841.8
Incurred related to:		
Commutation of variable-rated reinsurance contracts	11.5	8.9
Current period non-catastrophe	909.0	913.9
Current period property catastrophe	292.2	98.4
Prior period non-catastrophe	(239.2)	(300.0)
Prior period property catastrophe	(14.3)	(13.3)
Total incurred	$ 959.2	$ 707.9
Paid related to:		
Current period non-catastrophe	72.1	61.0
Current period property catastrophe	70.1	37.6
Prior period non-catastrophe	516.2	475.3
Prior period property catastrophe	26.4	22.8
Total paid	$ 684.8	$ 596.7
Foreign exchange revaluation	(3.8)	(1.4)
Net reserve for losses and loss expenses, December 31	4,222.2	3,951.6
Losses and loss expenses recoverable	1,002.9	927.6
Reserve for losses and loss expenses, December 31	$ 5,225.1	$ 4,879.2

Acquisition Costs

Acquisition costs increased by $7.8 million, or 4.9%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase in acquisition costs was primarily due to the increase in net premiums earned in our U.S. insurance segment and reinsurance segment. Acquisition costs as a percentage of net premiums earned were 11.5% for the year ended December 31, 2011 compared to 11.7% for the same period in 2010.

General and Administrative Expenses

General and administrative expenses decreased by $14.9 million, or 5.2%, for the year ended December 31, 2011 compared to the same period in 2010. The decrease in general and administrative expenses was primarily due to the following:

- A decrease of $5.9 million in incentive-based compensation due to higher loss activity during the year ended December 31, 2011.

- A decrease of $7.0 million in stock related compensation due to a decrease in overall awards granted during the year ended December 31, 2011, in addition to a one-time increase of $4.3 million during the year ended December 31, 2010 to recognize expected performance above the target level for our performance-based awards granted in 2009.

- During the year ended December 31, 2010 we incurred a one-time 1% capital stamp duty of $1.6 million related to a capital contribution of $160.0 million from Allied World Bermuda to Allied World Switzerland.

Our general and administrative expense ratio was 18.6% for the year ended December 31, 2011, which was lower than the 21.1% for the year ended December 31, 2010. The decrease was primarily due to the factors discussed above in addition to the increase in net premiums earned.

Our expense ratio was 30.1% for the year ended December 31, 2011 compared to 32.8% for the year ended December 31, 2010 primarily due to a decrease in the general and administrative expense ratio.

Amortization and Impairment of Intangible Assets

The amortization and impairment of intangible assets decreased $0.5 million, or 14.3%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The decrease was due to the non-compete covenants related to the acquisition of Darwin being fully amortized during 2010. No impairments were recognized during the year ended December 31, 2011.

Interest Expense

Interest expense increased $14.8 million, or 36.8%, for the year ended December 31, 2011 compared to the year ended December 31, 2010 primarily as a result of additional interest expense on our 5.5% senior notes that were issued by Allied World Bermuda in November 2010.

Income Tax Expense

Tax expense increased $4.1 million, or 15.2%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase in tax expense is primarily due to higher taxable income for our Swiss holding company of approximately $90.6 million partially offset by lower taxable income for our U.S. operations of approximately $12.9 million. In addition, 2010 included a $5.0 million loss for tax purposes on the sale of our program administrator and wholesale brokerage operation which caused a reduction in tax expense in 2010 of $1.7 million. Our consolidated effective tax rates for the years ended December 31, 2011 and 2010 were 10.1% and 3.9%, respectively.

Net Income

Net income for the year ended December 31, 2011 was $274.5 million compared to $665.0 million for the year ended December 31, 2010. The decrease was primarily the result of lower net realized investment gains, higher net loss and loss expenses, and lower net investment income. Net income for the year ended December 31, 2011 included a net foreign exchange loss of $3.1 million compared to $0.4 million for the year ended December 31, 2010.

Comparison of Years Ended December 31, 2010 and 2009

Premiums

Gross premiums written increased by $62.1 million, or 3.7%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The overall increase in gross premiums written was primarily the result of the following:

- Gross premiums written in our U.S. insurance segment increased by $54.5 million, or 8.1%. The increase in gross premiums written was primarily due to increased new business, including from new products, for the year ended December 31, 2010 compared to the year ended December 31, 2009. This increase was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and increased competition.

- Gross premiums written in our international insurance segment decreased by $51.1 million, or 9.2%, due to the continued trend of the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and increased competition.

- Gross premiums written in our reinsurance segment increased by $58.6 million, or 12.6%. The increase in gross premiums written was primarily due to increased participation on one property reinsurance treaty for $23.6 million in 2010 from $9.0 million in 2009, one new treaty in our general casualty reinsurance line of business for $31.4 million and other new business from the build-out of our international platform. These increases were partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions), increased competition and increased cedent retention.

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The table below illustrates our gross premiums written by geographic location for the years ended December 31, 2010 and 2009.

	Year Ended December 31, 2010	2009	Dollar Change	Percentage Change
	($ in millions)			
United States	$ 993.5	$ 929.9	$ 63.6	6.8%
Bermuda	545.6	574.4	(28.8)	(5.0)
Europe	193.0	186.5	6.5	3.5
Hong Kong	9.3	5.5	3.8	69.1
Singapore	17.0		17.0	n/a*
	$ 1,758.4	$ 1,696.3	$ 62.1	3.7%

* n/a: not applicable

Net premiums written increased by $71.3 million, or 5.4%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in net premiums written was primarily due to a reduction in premiums ceded. The difference between gross and net premiums written is the cost to us of purchasing reinsurance coverage, including the cost of property catastrophe reinsurance coverage. We ceded 20.8% of gross premiums written for the year ended December 31, 2010 compared to 22.1% for the year ended December 31, 2009. The reduction in premiums ceded was due to lower premiums ceded under our property catastrophe reinsurance coverage, as well as the commutation and adjustment of $9.3 million of certain variable-rated reinsurance contracts that have swing-rated provisions. In commuting these swing-rated reinsurance contracts, we reduced certain premiums previously ceded and also reduced ceded losses by $8.9 million in accordance with the terms of the contracts.

Net premiums earned increased by $42.6 million, or 3.2%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 as a result of higher net premiums earned for the U.S. insurance and reinsurance segments. This is driven by increased net premiums written in the current and prior periods, as well as the impact of the commutation of the swing-rated reinsurance contracts which are fully earned.

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

	Gross Premiums Written		Net Premiums Earned	
	Year Ended December 31,			
	2010	2009	2010	2009
U.S. insurance	41.5%	39.8%	38.1%	34.0%
International insurance	28.7%	32.8%	24.9%	31.4%
Reinsurance	29.8%	27.4%	37.0%	34.6%
Total	100.0%	100.0%	100.0%	100.0%

Net Investment Income

Net investment income decreased by $56.6 million, or 18.8%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The decrease was due to a combination of lower accretion of book value to par value for our fixed maturity investments, lower yields on our fixed maturity investments and an increased allocation to other invested assets, which contribute to our total return but carry no current yield. We increased our other invested assets by $162.9 million between December 31, 2010 and December 31, 2009. In response to new OTTI

guidance issued by the FASB in April 2009, we increased the book value of our fixed maturity investments for any non-credit OTTI previously recognized, which resulted in higher book values and

lower future accretions. Please see Note 2(e) of the notes to the consolidated financial statements regarding the change in OTTI policy. The annualized period book yield of the investment portfolio for the year ended December 31, 2010 and 2009 was 3.3% and 4.2%, respectively. The decrease in book yield was due to the overall market interest rate environment being at historically low levels during most of 2010. The decrease in the book yield was also due to increased investment turnover as a result of more active management of the investment portfolio given interest rate and spread volatility. The higher sales and purchases of investment securities resulted in us recognizing $217.7 million of net realized investment gains for the year ended December 31, 2010 and the proceeds being re-invested at lower yield levels. Investment management expenses of $11.7 million and $9.0 million were incurred during the year ended December 31, 2010 and 2009, respectively. The increase in investment management expenses was due to the increase in the size of our investment portfolio, the addition of a new portfolio manager and additional fees paid to investment advisors for higher cost investment strategies.

As of December 31, 2010, approximately 96% of our fixed income investments consisted of investment grade securities. The average credit rating of our fixed income portfolio was AA as rated by Standard & Poor s and Aa2 as rated by Moody s, with an average duration of approximately 2.7 years as of December 31, 2010. The average duration of the investment portfolio was 3.0 years as of December 31, 2009.

Realized Investment Gains/Losses and Net Impairment Charges Recognized in Earnings

During the year ended December 31, 2010, we recognized $285.6 million in net realized investment gains compared to net realized investment gains of $126.4 million during the year ended December 31, 2009. During the year ended December 31, 2010, we recognized $0.2 million in net impairment charges recognized in earnings compared to $49.6 million during the year ended December 31, 2009. Net realized investment gains of $285.6 million for the year ended December 31, 2010 were comprised of the following:

Net realized investment gains of $217.7 million primarily from the sale of fixed maturity securities due to the rebalancing of our portfolio from U.S. Treasury and agency securities into other asset classes and shortening the overall duration of our investment portfolio as discussed above. The realization of gains is not an explicit strategy of the company but a by-product of actively managing the portfolio. During 2010 active management consisted of managing the duration (increasing the duration to 3.5 years as of March 31, 2010 and decreasing the duration for the remainder of the year) and sector exposures of the portfolio in anticipation of potential interest rate movements and sector spread levels. During 2010, we hired an additional fixed income manager. The transition from the existing manager to our newest manager also contributed to the higher turnover and level of realized investment gains. While we expect to continue to actively manage the portfolio during 2011, we would expect somewhat lower turnover.

Net realized investment gains of $71.9 million primarily related to the mark-to-market adjustments for our other invested assets, equity securities and fixed maturity investments that are accounted for as trading securities. We expect the mark-to-market adjustments on our fixed maturity investments that are accounted for as trading securities to increase as we continue to increase the balance of these securities. From December 31, 2009 to December 31, 2010, we have increased the balance of fixed maturity investments accounted for as trading by $3.3 billion, or 126.7%, from $2.5 billion as of December 31, 2009 to $5.8 billion as of December 31, 2010. Contributing to the increase was the reclassification of all of our mortgage-backed and asset-backed securities from available for sale to trading on July 1, 2010 as part of the adoption of ASU 2010-11.

	Mark-to-Market Adjustments for the Year Ended December 31, 2010 ($ in millions)	
Fixed maturity investments accounted for as trading securities	$	42.2
Other invested assets and equity securities		29.7
Total	$	71.9

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- Net realized investment loss of $4.0 million related to a U.S. Treasury yield hedge transaction we purchased in May 2010 and terminated in June 2010.

Net realized investment gains of $126.4 million for the year ended December 31, 2009 were comprised of the following:

- Net realized investment gains of $94.5 million from the sale of securities, primarily due to the sale of fixed maturity bonds partially offset by a realized loss of $21.9 million due to the sale of our global high-yield bond fund.

- Net realized investment gains of $31.9 million related to the mark-to-market adjustments of our other invested assets and fixed maturity investments that are accounted for as trading securities.

During the year ended December 31, 2009, we had $49.6 million of net impairment charges recognized in earnings, $7.7 million was due to credit related losses where the anticipated discounted cash flows of various debt securities were lower than the amortized cost, and $41.9 million was due to net impairment charges for those securities in an unrealized loss position where our investment managers had the discretion to sell.

Other Income

The other income of $0.9 million and $1.5 million for the years ended December 31, 2010 and 2009, respectively, represents fee income from the program administrator and wholesale brokerage operation. We sold these operations during the year ended December 31, 2010 for a gain of $1.9 million.

Net Losses and Loss Expenses

Net losses and loss expenses increased by $103.8 million, or 17.2%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in net losses and loss expenses was due to a number of individual losses totaling $164.6 million in the current year, with no comparable events having occurred during the year ended December 31, 2009. We incurred $98.4 million of catastrophe related losses, of which $66.8 million was from the Chilean earthquake, $17.0 million from the New Zealand Earthquake and $14.6 million from the Australian floods. The increase due to higher loss activity was partially offset by higher net favorable prior year reserve development.

We recorded net favorable reserve development related to prior years of $313.3 million and $248.0 million during the years ended December 31, 2010 and 2009, respectively. The following table shows the net favorable reserve development of $313.3 million by loss year for each of our segments for the year ended December 31, 2010. In the table, a negative number represents net favorable reserve development and a positive number represents net unfavorable reserve development.

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2010								
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**Total**
	($ in millions)								
U.S. insurance	$ (1.6)	$ (3.2)	$ (25.6)	$ (26.2)	$ (5.3)	$ (1.7)	$ (2.5)	$ (2.4)	$ (68.5)
International insurance	6.8	(6.7)	(21.6)	(87.5)	(36.7)	(19.3)	(23.1)	7.5	(180.6)
Reinsurance	(0.9)	(1.0)	(9.8)	(33.0)	(12.4)	(3.8)	3.0	(6.3)	(64.2)
	$ 4.3	$ (10.9)	$ (57.0)	$ (146.7)	$ (54.4)	$ (24.8)	$ (22.6)	$ (1.2)	$ (313.3)

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The following table shows the favorable reserve development of $248.0 million by loss year for each of our segments for the year ended December 31, 2009. In the table, a negative number represents net favorable reserve development and a positive number represents net unfavorable reserve development.

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2009							
	2002	2003	2004	2005	2006	2007	2008	Total
	($ in millions)							
U.S. insurance	$ (6.7)	$ (22.3)	$ (36.3)	$ (19.6)	$ 1.4	$ 5.8	$ 7.3	$ (70.4)
International insurance	(5.8)	(18.7)	(61.1)	(78.7)	11.3	(8.5)	22.0	(139.5)
Reinsurance	(4.0)	(16.2)	(20.7)	(4.2)	(1.1)	5.2	2.9	(38.1)
Total	$ (16.5)	$ (57.2)	$ (118.1)	$ (102.5)	$ 11.6	$ 2.5	$ 32.2	$ (248.0)

The loss and loss expense ratio for the year ended December 31, 2010 was 52.1% compared to 45.9% for the year ended December 31, 2009. Net favorable reserve development recognized in the year ended December 31, 2010 reduced the loss and loss expense ratio by 23.1 percentage points. Thus, the loss and loss expense ratio related to the current loss year was 75.2%. Net favorable reserve development recognized in the year ended December 31, 2009 reduced the loss and loss expense ratio by 18.8 percentage points. Thus, the loss and loss expense ratio related to that loss year was 64.7%. The increase in the loss and loss expense ratio for the current loss year was primarily due to a net increase in loss reserves of $164.6 million from a number of earthquakes, explosions and other weather related events during the year ended December 31, 2010, which contributed 12.1 points to the current loss year s loss and loss expense ratio.

The following table shows the components of the increase in net losses and loss expenses of $103.8 million for the year ended December 31, 2010 compared to the year ended December 31, 2009.

	Year Ended December 31,		Dollar
	2010	2009	Change
	($ in millions)		
Net losses paid	$ 596.7	$ 458.2	$ 138.5
Net change in reported case reserves	76.2	76.0	0.2
Net change in IBNR	35.0	69.9	(34.9)
Net losses and loss expenses	$ 707.9	$ 604.1	$ 103.8

The increase in net losses paid for the year ended December 31, 2010 was due to higher paid losses in each of our operating segments. The decrease in reported case reserves was primarily due to lower case reserves in our international insurance segment due to the payment of claims partially offset by increased case reserves in our U.S. insurance and reinsurance segments. The decrease in IBNR was due to lower IBNR in our international insurance and reinsurance segments primarily due to net favorable reserve development partially offset by higher IBNR in our U.S. insurance segment due to the growth of U.S. operations.

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

	Year Ended December 31,	
	2010	2009
	($ in millions)	
Net reserves for losses and loss expenses, January 1	$ 3,841.8	$ 3,688.5
Incurred related to:		
Commutation of variable-rated reinsurance contracts	8.9	
Current period non-catastrophe	913.9	852.1
Current period property catastrophe	98.4	
Prior period non-catastrophe	(300.0)	(251.7)
Prior period property catastrophe	(13.3)	3.7
Total incurred	$ 707.9	$ 604.1
Paid related to:		
Current period non-catastrophe	61.0	42.3
Current period property catastrophe	37.6	
Prior period non-catastrophe	475.3	343.4
Prior period property catastrophe	22.8	72.5
Total paid	$ 596.7	$ 458.2
Foreign exchange revaluation	(1.4)	7.4
Net reserve for losses and loss expenses, December 31	3,951.6	3,841.8
Losses and loss expenses recoverable	927.6	920.0
Reserve for losses and loss expenses, December 31	$ 4,879.2	$ 4,761.8

Acquisition Costs

Acquisition costs increased by $10.6 million, or 7.2%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in acquisition costs was primarily due to the increase in net premiums earned in our U.S. insurance segment and reinsurance segment, which typically have higher acquisition costs than our international insurance segment and represent a higher proportion of net premiums earned during the year ended December 31, 2010 compared to the same period in 2009. Acquisition costs as a percentage of net premiums earned were 11.7% for the year ended December 31, 2010 compared to 11.3% for the same period in 2009.

General and Administrative Expenses

General and administrative expenses increased by $37.9 million, or 15.2%, for the year ended December 31, 2010 compared to the same period in 2009. The increase in general and administrative expenses was primarily due to the following:

An overall increase in global headcount from 652 at December 31, 2009 to 689 at December 31, 2010 resulting in an overall increase in salary and related costs of $18.0 million, excluding stock-related compensation.

Increased stock-related compensation of $8.5 million, which included a one-time increase of $4.3 million for performance-based awards granted under the Company s equity plans in 2009 to recognize expected performance above the target level. For all performance-based awards, we initially recognize the stock compensation expense at 100% of the fair market value of our common shares on the date of grant and reassess, at least annually, the projected growth in book value to determine whether an adjustment to the initial estimate of the

expense should be made. During the year ended December 31, 2010, we have

accrued 150% of the fair market value of Allied World Switzerland s common shares awarded, as we believe it is probable that we will achieve the maximum performance criteria when these performance-based awards vest at the end of 2011. For additional information on our performance-based awards, see Note 13 Employee Benefit Plans in our notes to the consolidated financial statements.

A one-time increase of $12.5 million in professional fees during the year ended December 31, 2010 primarily related to the establishment and operation of Syndicate 2232 and our efforts to effect our redomestication to Switzerland.

Also related to our redomestication to Switzerland, we incurred a 1% capital stamp duty of $1.6 million related to a capital contribution of $160.0 million from Allied World Bermuda to Allied World Switzerland, which was a one-time expense.

Decrease of $5.0 million related to the Darwin Long-Term Incentive Plan (Darwin LTIP). We recognized an increase in the Darwin LTIP of $0.9 million during the year ended December 31, 2010 compared to an increase of $5.9 million during the year ended December 31, 2009. The amount incurred for the Darwin LTIP is a result of pre-acquisition underwriting profitability, including any subsequent loss reserve development. The reduction in the Darwin LTIP during the year ended December 31, 2010 was due to lower favorable reserve development experienced during the year.

Our general and administrative expense ratio was 21.1% for the year ended December 31, 2010, which was higher than the 18.9% for the year ended December 31, 2009. The increase was primarily due to the factors discussed above.

Our expense ratio was 32.8% for the year ended December 31, 2010 compared to 30.2% for the year ended December 31, 2009 due to an increase in both acquisition cost ratio and general and administrative expense ratio.

Amortization and Impairment of Intangible Assets

The amortization and impairment of intangible assets decreased $7.6 million, or 68.5%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The decrease is primarily the result of no longer amortizing the trademark intangible asset that was fully impaired for $6.9 million during the year ended December 31, 2009. No impairments were recognized during the year ended December 31, 2010.

Interest Expense

Interest expense increased $1.2 million, or 3.0%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily as a result of additional interest expense on our 5.5% senior notes that were issued in November 2010.

Income Tax Expense

Tax expense decreased $9.7 million, or 26.5%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. Overall our tax expense is driven by our U.S. operations, which represents the largest taxable operation of the company. The decrease in tax expense is primarily due to lower taxable income for our U.S. operations of approximately $19.5 million, which resulted in approximately $6.9 million lower tax expense during the year ended December 31, 2010 compared to the year ended December 31, 2009. The lower tax expense was also caused by a $5.0 million loss for tax purposes on the sale of our program administrator and wholesale brokerage operation during 2010 which caused a reduction of tax expense in 2010 of $1.7 million. Our consolidated effective tax rates for the years ended December 31, 2010 and 2009 were 3.9% and 5.7%, respectively. The decrease in the effective tax rate was due to the factors discussed above.

Net Income

Net income for the year ended December 31, 2010 was $665.0 million compared to $606.9 million for the year ended December 31, 2009. The increase was primarily the result of higher net realized investment gains, higher net premiums earned and lower OTTI, partially offset by increased general and administrative expenses and higher current year catastrophe losses. Net income for the year ended December 31, 2010 included a net foreign exchange loss of $0.4 million compared to a net foreign exchange loss of $0.7 million for the year ended December 31, 2009.

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Underwriting Results by Operating Segments

Our company is organized into three operating segments:

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

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

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

U.S. Insurance Segment

The following table summarizes the underwriting results and associated ratios for the U.S. insurance segment for the years ended December 31, 2011, 2010 and 2009.

	Year Ended December 31,		
	2011	2010	2009
		($ in millions)	
Revenues			
Gross premiums written	$ 838.6	$ 729.3	$ 674.8
Net premiums written	639.2	551.1	493.1
Net premiums earned	584.3	518.4	447.5
Other income		0.9	1.5
Expenses			
Net losses and loss expenses	387.1	297.5	211.4
Acquisition costs	75.0	67.8	58.1
General and administrative expenses	124.4	128.5	115.8
Underwriting (loss) income	(2.2)	25.5	63.7
Ratios			
Loss and loss expense ratio	66.2%	57.4%	47.2%
Acquisition cost ratio	12.8%	13.1%	13.0%
General and administrative expense ratio	21.3%	24.8%	25.9%
Expense ratio	34.1%	37.9%	38.9%
Combined ratio	100.3%	95.3%	86.1%

Comparison of Years Ended December 31, 2011 and 2010

Premiums. Gross premiums written increased by $109.3 million, or 15.0%, for the year ended December 31, 2011 compared to the same period in 2010. The increase in gross premiums written was primarily due to new business from existing products, $55.1 million in premiums from new products, specifically in our general casualty, environmental and inland marine lines of business and rate increases in our general property and general casualty lines of business. This growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions), rate reductions in our other lines of business and increased competition.

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

	Year Ended December 31, 2011	2010	Dollar Change	Percentage Change
	($ in millions)			
Professional liability	$ 235.4	$ 211.1	$ 24.3	11.5%
General casualty	205.3	145.7	59.6	40.9
Healthcare	201.7	179.8	21.9	12.2
Programs	87.1	105.6	(18.5)	(17.5)
General property	78.5	73.7	4.8	6.5
Other*	30.6	13.4	17.2	128.4
	$ 838.6	$ 729.3	$ 109.3	15.0%

* Includes our inland marine and environmental lines of business

Net premiums written increased by $88.1 million, or 16.0%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase in net premiums written was primarily due to higher gross premiums written and the commutation of certain variable-rated reinsurance contracts that have swing-rated provisions, which reduced premiums ceded by $12.4 million. In commuting these swing-rated reinsurance contracts, we reduced certain premiums previously ceded and also reduced ceded losses by $11.5 million in accordance with the terms of the contracts. The net impact of the commutation was a net gain of $0.9 million. For the year ended December 31, 2010, the commutation of certain variable-rated reinsurance contracts reduced premiums ceded by $9.3 million. Overall, we ceded 23.8% of gross premiums written for the year ended December 31, 2011 compared to 24.4% for the year ended December 31, 2010. The decrease in the cession percentage was primarily due to the reduction of premiums ceded related to the commutation of the swing-rated reinsurance contracts. Excluding the impact of the commutation, we ceded 25.3% and 25.7% of gross premiums written during the years ended December 31, 2011 and 2010, respectively.

Net premiums earned increased $65.9 million, or 12.7%, resulting from the growth of our U.S. insurance operations during 2010 and 2011. Additionally, the commutation of swing-rated reinsurance contracts during the year ended December 31, 2011 added $12.4 million to net premiums earned compared to $9.3 million during the year ended December 31, 2010.

Net losses and loss expenses. Net losses and loss expenses increased by $89.6 million, or 30.1%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase in net losses and loss expenses was primarily due to the growth of the U.S. insurance operations, lower prior year net favorable reserve development and unfavorable prior year reserve development in the 2006 loss year related to directors and officers claims within our professional liability line of business concerning a class action suit filed against a number of private equity firms alleging collusion. We recognized estimated losses from catastrophes of $8.3 million, which included $3.8 million developing from the Midwestern U.S. storms earlier in the year and $4.5 million from Hurricane Irene during the year ended December 31, 2011.

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Overall, our U.S. insurance segment recorded net favorable reserve development of $23.2 million during the year ended December 31, 2011 compared to net favorable reserve development of $68.5 million for the year ended December 31, 2010 as shown in the tables below. The $23.2 million of net favorable reserve development excludes the impact of the commutation of the swing-rated reinsurance contracts of $11.5 million discussed above and the $68.5 million of net favorable reserve development for the year ended December 31, 2010 excludes the impact of the commutation of the swing-rated reinsurance contracts of $8.9 million. In the tables, a negative number represents net favorable reserve development and a positive number represents net unfavorable reserve development.

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2011									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
	($ in millions)									
General casualty	$	$ (0.9)	$ (1.5)	$ (17.4)	$ (2.9)	$ 2.5	$ (1.9)	$ (0.9)	$ 0.5	$ (22.5)
Healthcare	(0.4)	(1.8)	(2.7)		(1.4)	0.1	(0.9)	0.3	(2.6)	(9.4)
General property			(0.1)	(0.4)	0.1	(1.1)	(0.3)	(1.0)	(1.2)	(4.0)
Programs				(0.2)	(0.1)	(2.1)	(0.8)	0.8	1.8	(0.6)
Professional liability		(0.2)	(0.3)	(2.5)	23.4	(7.0)	(0.8)	(6.4)	7.1	13.3
	$ (0.4)	$ (2.9)	$ (4.6)	$ (20.5)	$ 19.1	$ (7.6)	$ (4.7)	$ (7.2)	$ 5.6	$ (23.2)

	Loss Reserve Development by Loss Year for the Year Ended December 31, 2010								
	2002	2003	2004	2005	2006	2007	2008	2009	Total
	($ in millions)								
General casualty	$ (1.4)	$ (1.4)	$ (2.6)	$ (6.6)	$ (1.4)	$ (1.7)	$ (1.5)	$ (3.2)	$ (19.8)
Healthcare	(0.2)	(1.6)	(21.9)	(7.3)		(0.6)	3.2		(28.4)
General property			(0.8)	(10.5)	(3.6)	(1.8)	(1.9)	5.6	(13.0)
Programs				(0.1)	(0.1)	1.6		(1.1)	0.3
Professional liability		(0.2)	(0.3)	(1.8)	(0.2)	0.9	(2.3)	(3.7)	(7.6)
	$ (1.6)	$ (3.2)	$ (25.6)	$ (26.3)	$ (5.3)	$ (1.6)	$ (2.5)	$ (2.4)	$ (68.5)

The loss and loss expense ratio for the year ended December 31, 2011 was 66.2% compared to 57.4% for the year ended December 31, 2010. Net favorable reserve development recognized and the impact of the commutation adjustment to ceded IBNR in the year ended December 31, 2011 decreased the loss and loss expense ratio by 3.8 percentage points. Thus, the loss and loss expense ratio for the current loss year was 70.0%, which includes $8.3 million in losses from catastrophes. In comparison, net favorable reserve development recognized and the impact of the commutation adjustment to ceded IBNR in the year ended December 31, 2010 decreased the loss and loss expense ratio by 13.2 percentage points. Thus, the loss and loss expense ratio for that loss year was 70.6% which included a $12.0 million net loss on a Connecticut power plant explosion.

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

	Year Ended December 31,	
	2011	2010
Net reserves for losses and loss expenses, January 1	$ 1,035.1	$ 901.9
Incurred related to:		
Commutation of variable-rated reinsurance contracts	11.5	8.9
Current period non-catastrophe	390.5	357.1
Current period catastrophe	8.3	
Prior period non-catastrophe	(22.0)	(68.8)
Prior period catastrophe	(1.2)	0.3
Total incurred	$ 387.1	$ 297.5
Paid related to:		
Current period non-catastrophe	37.3	22.2
Current period catastrophe	2.9	
Prior period non-catastrophe	157.5	137.0
Prior period catastrophe	0.4	5.1
Total paid	$ 198.1	$ 164.3
Net reserve for losses and loss expenses, December 31	1,224.1	1,035.1
Losses and loss expenses recoverable	438.3	396.6
Reserve for losses and loss expenses, December 31	$ 1,662.4	$ 1,431.7

Acquisition costs. Acquisition costs increased by $7.2 million or 10.6% for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase was primarily caused by increased net premiums earned. The acquisition cost ratio decreased slightly to 12.8% for the year ended December 31, 2011 from 13.1% for the same period in 2010.

General and administrative expenses. General and administrative expenses decreased by $4.1 million, or 3.2%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The decrease in general and administrative expenses was primarily due to a decrease in performance based incentive compensation expenses. The decrease in the general and administrative expense ratio from 24.8% for the year ended December 31, 2010 to 21.3% for the same period in 2011 was primarily caused by increased net premiums earned and the decrease in expenses as discussed above.

Comparison of Years Ended December 31, 2010 and 2009

Premiums. Gross premiums written increased by $54.5 million, or 8.1%, for the year ended December 31, 2010 compared to the same period in 2009. The increase in gross premiums written was primarily due to increases to our underwriting staff and a higher volume of gross premiums written from new products in our general casualty and other lines of business where we believe attractive underwriting opportunities exist. In addition, we experienced rate increases within our general casualty and general property lines of business. These increases were partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and increased competition, particularly for public directors and officers liability products in our professional liability line of business.

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

	Year Ended December 31, 2010	2009	Dollar Change	Percentage Change
	($ in millions)			
Professional liability	$ 211.1	$ 202.0	$ 9.1	4.5%
Healthcare	179.8	177.7	2.1	1.2
General casualty	145.7	122.0	23.7	19.4
Programs	105.6	101.5	4.1	4.0
General property	73.7	71.5	2.2	3.1
Other	13.4	0.1	13.3	n/m*
	$ 729.3	$ 674.8	$ 54.5	8.1%

* n/m: not meaningful

Net premiums written increased by $58.0 million, or 11.8%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in net premiums written was primarily due to higher gross premiums written, as well as a reduction of premiums ceded. The reduction in premiums ceded was primarily due to lower cessions in our general casualty and general property lines of business, as well as the commutation and adjustment of certain variable-rated reinsurance contracts that have swing-rated provisions of $9.3 million. Overall, we ceded 24.4% of gross premiums written for the year ended December 31, 2010 compared to 26.9% for the year ended December 31, 2009. The decrease in the cession percentage was primarily due to the reduction of premiums ceded related to the commutation of the swing-rated reinsurance contracts. Excluding the impact of the commutation, we ceded 25.7% of gross premiums written during the year ended December 31, 2010.

Net premiums earned increased $70.9 million, or 15.8%, primarily due to the growth of our U.S. insurance operations during 2009 and 2010 and $9.3 million from the commutation, which was fully earned.

Net losses and loss expenses. Net losses and loss expenses increased by $86.1 million, or 40.7%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in net losses and loss expenses was primarily due to the continued growth of our U.S. operations, current year losses of $25.8 million primarily in our general property and programs lines of business, as well as the reduction of ceded IBNR for the commutation of the swing-rated reinsurance contracts of $8.9 million and lower net favorable reserve development recognized.

Overall, our U.S. insurance segment recorded net favorable reserve development of $68.5 million during the year ended December 31, 2010 compared to net favorable reserve development of $70.4 million for the year ended December 31, 2009 as shown in the tables below. The $68.5 million of net favorable reserve development excludes the impact of the commutation of the swing-rated reinsurance contracts of $8.9 million discussed above. In the tables, a negative number represents net favorable reserve development and a positive number represents net unfavorable reserve development.

	Loss Reserve Development by Loss Year for the Year Ended December 31, 2010								
	2002	2003	2004	2005	2006	2007	2008	2009	Total
	($ in millions)								
General casualty	$ (1.4)	$ (1.4)	$ (2.6)	$ (6.6)	$ (1.4)	$ (1.7)	$ (1.5)	$ (3.2)	$ (19.8)
Healthcare	(0.2)	(1.6)	(21.9)	(7.3)		(0.6)	3.2		(28.4)
General property			(0.8)	(10.5)	(3.6)	(1.8)	(1.9)	5.6	(13.0)
Programs				(0.1)	(0.1)	1.6		(1.1)	0.3

Professional liability		(0.2)	(0.3)	(1.8)	(0.2)	0.9	(2.3)	(3.7)	(7.6)
	$ (1.6)	$ (3.2)	$ (25.6)	$ (26.3)	$ (5.3)	$ (1.6)	$ (2.5)	$ (2.4)	$ (68.5)

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	Loss Reserve Development by Loss Year for the Year Ended December 31, 2009							
	2002	2003	2004	2005	2006	2007	2008	Total
	($ in millions)							
General casualty	$ (3.7)	$ (19.7)	$ (17.8)	$ 1.2	$ 3.7	$ 1.2	$ 13.4	$ (21.7)
Healthcare	(1.4)	(0.5)	(10.5)	(11.5)	(6.0)	(2.6)	(8.1)	(40.6)
General property	(1.6)	(2.0)	(3.6)	(4.5)	(1.5)	(0.4)	7.0	(6.6)
Programs				(0.7)	(2.5)	(0.9)	(6.5)	(10.6)
Professional liability		(0.1)	(4.4)	(4.1)	7.8	8.4	1.5	9.1
	$ (6.7)	$ (22.3)	$ (36.3)	$ (19.6)	$ 1.5	$ 5.7	$ 7.3	$ (70.4)

The loss and loss expense ratio for the year ended December 31, 2010 was 57.4% compared to 47.2% for the year ended December 31, 2009. Net favorable reserve development recognized and the impact of the commutation adjustment to ceded IBNR in the year ended December 31, 2010 decreased the loss and loss expense ratio by 13.2 percentage points. Thus, the loss and loss expense ratio for the current loss year was 70.6%. In comparison, net favorable reserve development recognized in the year ended December 31, 2009 decreased the loss and loss expense ratio by 15.7 percentage points. In addition, the $3.0 million decrease in premiums ceded for variable-rated reinsurance contracts of Darwin that have swing-rated provisions increased the loss and loss expense ratio by 0.4 percentage points. Thus, the loss and loss expense ratio for that loss year was 63.3%. The increase in the loss and loss expense ratio for the current loss year was primarily due to losses of $25.8 million noted above. These losses contributed 5.0 percentage points to the current loss year s loss and loss expense ratio, after adjusting for the $9.3 million impact to ceded earned premium of the commuted swing-rated reinsurance contracts previously discussed.

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

	Year Ended December 31,	
	2010	2009
Net reserves for losses and loss expenses, January 1	$ 901.9	$ 819.4
Incurred related to:		
Commutation of variable-rated reinsurance contracts	8.9	
Current period non-catastrophe	357.1	281.8
Current period catastrophe		
Prior period non-catastrophe	(68.8)	(74.9)
Prior period catastrophe	0.3	4.5
Total incurred	$ 297.5	$ 211.4
Paid related to:		
Current period non-catastrophe	22.2	12.1
Current period catastrophe		
Prior period non-catastrophe	137.0	99.2
Prior period catastrophe	5.1	17.6
Total paid	$ 164.3	$ 128.9
Net reserve for losses and loss expenses, December 31	1,035.1	901.9
Losses and loss expenses recoverable	396.6	351.8
Reserve for losses and loss expenses, December 31	$ 1,431.7	$ 1,253.7

Acquisition costs. Acquisition costs increased by $9.7 million for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase was primarily caused by increased net premiums earned. The acquisition cost ratio increased slightly to 13.1% for the year ended December 31, 2010 from 13.0% for the same period in 2009.

General and administrative expenses. General and administrative expenses increased by $12.7 million, or 11.0%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in general and administrative expenses was primarily due to higher salary and related costs from increased headcount offset by the reduction in the Darwin LTIP of $5.0 million. The decrease in the general and administrative expense ratio from 25.9% for the year ended December 31, 2009 to 24.8% for the same period in 2010 was the result of the increase in net premiums earned.

International Insurance Segment

The following table summarizes the underwriting results and associated ratios for the international insurance segment for the years ended December 31, 2011, 2010 and 2009.

	Year Ended December 31,		
	2011	2010	2009
	($ in millions)		
Revenues			
Gross premiums written	$ 530.4	$ 504.9	$ 555.9
Net premiums written	325.1	319.1	362.9
Net premiums earned	317.0	338.8	413.2
Expenses			
Net losses and loss expenses	206.6	160.2	158.1
Acquisition costs	(2.8)	(0.5)	2.7
General and administrative expenses	84.3	94.2	84.4
Underwriting income	28.9	84.9	168.0
Ratios			
Loss and loss expense ratio	65.2%	47.3%	38.3%
Acquisition cost ratio	(0.9)%	(0.1)%	0.7%
General and administrative expense ratio	26.6%	27.8%	20.4%
Expense ratio	25.7%	27.7%	21.1%
Combined ratio	90.9%	75.0%	59.4%

Comparison of Years Ended December 31, 2011 and 2010

Premiums. Gross premiums written increased by $25.5 million, or 5.1%, for the year ended December 31, 2011 compared to the same period in 2010. The increase in gross premiums written was primarily a result of new business, including $12.5 million from new products, specifically related to our trade credit line of business and small to mid-sized enterprise (SME) insurance products. In addition, we increased premiums in our healthcare line of business and experienced rate increases within our general property line of business. This growth was partially offset by the continued trend of the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) including the non-renewal of one general property policy that was previously written during the year ended December 31, 2010 for $5.1 million and the non-renewal of several policies totaling $15.7 million in our general casualty line of business.

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

	Year Ended December 31,		Dollar	Percentage
	2011	2010	Change	Change
	($ in millions)			
Professional liability*	$ 164.4	$ 160.7	$ 3.7	2.3%
General property	159.4	150.7	8.7	5.8
General casualty	127.2	132.3	(5.1)	(3.9)
Healthcare	68.1	59.3	8.8	14.8
Other**	11.3	1.9	9.4	n/m
	$ 530.4	$ 504.9	$ 25.5	5.1%

* Includes our SME line of business

** Includes our trade credit line of business

Net premiums written increased $6.0 million, or 1.9%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. Net premiums written increased at a lower percentage than gross premiums written due to an increase in ceded premiums written on our professional lines treaty as well as the establishment of a trade credit treaty. We ceded to reinsurers 38.7% of gross premiums written for the year ended December 31, 2011 compared to 36.8% for the year ended December 31, 2010. The increase is primarily due to increased cessions on our general casualty and professional liability lines of business.

Net premiums earned decreased $21.8 million, or 6.4%, primarily due to lower net premiums written during 2010.

Net losses and loss expenses. Net losses and loss expenses increased by $46.4 million, or 29.0%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase in net losses and loss expenses was primarily due to higher loss activity in the current period and lower net favorable reserve development recognized. Catastrophe loss activity recognized during the year ended December 31, 2011 included net losses and loss expenses of $45.0 million related to the Tohoku earthquake and tsunami, $17.7 million related to the storms in the Midwestern United States, $12.7 million related to the New Zealand earthquake, $22.8 million related to the Thailand floods, $8.0 million related to Hurricane Irene and $1.4 million related to the Australian storms.

Overall, our international insurance segment recorded net favorable reserve development of $118.5 million during the year ended December 31, 2011 compared to net favorable reserve development of $180.6 million for the year ended December 31, 2010, as shown in the tables below. In the tables, a negative number represents net favorable reserve development and a positive number represents net unfavorable reserve development.

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2011									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
	($ in millions)									
General property	$	$ (0.1)	$ (1.6)	$ (2.7)	$ (0.7)	$ (1.1)	$ (28.9)	$ (17.5)	$ 4.6	$ (48.0)
General casualty	(1.0)	(4.2)	2.8	(16.0)	(16.0)	(14.1)	(7.3)	7.2	22.5	(26.1)
Healthcare	(0.2)	(0.1)	(1.8)	(2.0)	(9.7)	(10.5)		0.2		(24.1)
Professional liability	2.0	8.5	(6.1)	(12.6)	(18.9)	(14.8)	21.6			(20.3)

	$ 0.8	$ 4.1	$ (6.7)	$ (33.3)	$ (45.3)	$ (40.5)	$ (14.6)	$ (10.1)	$ 27.1	$ (118.5)

The unfavorable reserve development in our professional liability segment for the 2008 loss year related primarily to a greater reliance on the Bornhuetter-Ferguson reported loss method than on the expected loss ratio

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method. The unfavorable reserve development in our international insurance segment for the 2010 loss year was primarily due to a casualty claim emanating from an oil field service risk.

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2010								
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**Total**
					($ in millions)				
General property	$	$ (0.1)	$	$ (6.0)	$ (6.4)	$ (12.8)	$ (34.4)	$ (0.3)	$ (60.0)
General casualty	5.1	(2.3)	(15.3)	(29.8)	(7.6)	(6.5)	11.3	7.8	(37.3)
Healthcare	(0.3)	(1.5)	(2.2)	(9.9)	(22.5)				(36.4)
Professional liability	2.0	(2.8)	(4.1)	(41.8)	(0.2)				(46.9)
	$ 6.8	$ (6.7)	$ (21.6)	$ (87.5)	$ (36.7)	$ (19.3)	$ (23.1)	$ 7.5	$ (180.6)

The loss and loss expense ratio for the year ended December 31, 2011 was 65.2%, compared to 47.3% for the year ended December 31, 2010. The net favorable reserve development recognized during the year ended December 31, 2011 decreased the loss and loss expense ratio by 37.4 percentage points. Thus, the loss and loss expense ratio related to the current loss year was 102.6%. Comparatively, the net favorable reserve development recognized during the year ended December 31, 2010 decreased the loss and loss expense ratio by 53.3 percentage points. Thus, the loss and loss expense ratio related to that loss year was 100.6%. The increase in the loss and loss expense ratio for the current loss year was primarily due to net incurred catastrophe losses of $107.6 million which occurred during the year ended December 31, 2011 and contributed 33.9 percentage points to the current year s loss and loss expense ratio compared to $112.3 million of large individual losses during the year ended December 31, 2010 which contributed 33.1 percentage points to the prior year s loss and loss expense ratio.

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

	Year Ended December 31,	
	2011	**2010**
Net reserves for losses and loss expenses, January 1	$ 1,695.7	$ 1,790.1
Incurred related to:		
Current period non-catastrophe	217.5	276.7
Current period catastrophe	107.6	64.1
Prior period non-catastrophe	(110.0)	(168.5)
Prior period catastrophe	(8.5)	(12.1)
Total incurred	$ 206.6	$ 160.2
Paid related to:		
Current period non-catastrophe	8.1	22.0
Current period catastrophe	18.0	36.5
Prior period non-catastrophe	173.4	181.7
Prior period catastrophe	14.3	13.0
Total paid	$ 213.8	$ 253.2
Foreign exchange revaluation	(3.8)	(1.4)
Net reserve for losses and loss expenses, December 31	1,684.7	1,695.7
Losses and loss expenses recoverable	564.3	531.0
Reserve for losses and loss expenses, December 31	$ 2,249.0	$ 2,226.7

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Acquisition costs. Acquisition costs decreased $2.3 million for the year ended December 31, 2011 compared to the year ended December 31, 2010. The negative cost represents ceding commissions received on ceded premiums in excess of the brokerage fees and commissions paid on gross premiums written. The acquisition cost ratio decreased from negative 0.1% for the year ended December 31, 2010 to negative 0.9% for the year ended December 31, 2011.

General and administrative expenses. General and administrative expenses decreased $9.9 million, or 10.5%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The decrease in general and administrative expenses was primarily due to a decrease in incentive-based compensation due to higher loss activity as well as a decrease in staffing and related salaries and benefits. The year ended December 31, 2010 included one-time expenses in professional fees related to the establishment of Syndicate 2232 and our efforts to effect our redomestication to Switzerland. These decreases were offset by an increase in fees for a full year of operating our Lloyd s Syndicate 2232 of $4.4 million in 2011 versus six months of operation in 2010. The general and administrative expense ratios for the years ended December 31, 2011 and 2010 were 26.6% and 27.8%, respectively, due to lower general and administrative expenses.

Comparison of Years Ended December 31, 2010 and 2009

Premiums. Gross premiums written decreased by $51.0 million, or 9.2%, for the year ended December 31, 2010 compared to the same period in 2009. The decrease in gross premiums written was due to the continued trend of the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and increased competition in our international insurance segment.

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

	Year Ended December 31,		Dollar	Percentage
	2010	2009	Change	Change
	($ in millions)			
Professional liability	$ 160.7	$ 180.6	$ (19.9)	(11.0)%
General property	150.7	171.7	(21.0)	(12.2)
General casualty	134.2	147.1	(12.9)	(8.8)
Healthcare	59.3	56.5	2.8	5.0
	$ 504.9	$ 555.9	$ (51.0)	(9.2)%

Net premiums written decreased $43.8 million, or 12.1%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The decrease in net premiums written was primarily due to the decrease in gross premiums written partially offset by lower premiums ceded on our property catastrophe reinsurance coverage. We ceded to reinsurers 36.8% of gross premiums written for the year ended December 31, 2010 compared to 34.7% for the year ended December 31, 2009. The increase is primarily due to increased cessions on our general casualty and professional liability lines of business. Net premiums earned decreased $74.4 million, or 18.0%, primarily due to lower net premiums written during 2009 and 2010.

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Net losses and loss expenses. Net losses and loss expenses increased by $2.1 million, or 1.3%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in net losses and loss expenses was primarily due to higher loss activity in the current period partially offset by higher net favorable reserve development recognized. During the year ended December 31, 2010, we experienced net losses and loss expenses of $112.3 million from a number of earthquakes, explosions and weather related events. Overall, our international insurance segment recorded net favorable reserve development of $180.6 million during the year ended December 31, 2010 compared to net favorable reserve development of $139.5 million for the year ended December 31, 2009, as shown in the tables below. In the tables, a negative number represents net favorable reserve development and a positive number represents net unfavorable reserve development.

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2010								
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**Total**
	($ in millions)								
General property	$	$ (0.1)	$	$ (6.0)	$ (6.4)	$ (12.8)	$ (34.4)	$ (0.3)	$ (60.0)
General casualty	5.1	(2.3)	(15.3)	(29.8)	(7.6)	(6.5)	11.3	7.8	(37.3)
Healthcare	(0.3)	(1.5)	(2.2)	(9.9)	(22.5)				(36.4)
Professional liability	2.0	(2.8)	(4.1)	(41.8)	(0.2)				(46.9)
	$ 6.8	$ (6.7)	$ (21.6)	$ (87.5)	$ (36.7)	$ (19.3)	$ (23.1)	$ 7.5	$ (180.6)

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2009							
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
	($ in millions)							
General property	$ (0.3)	$ (1.4)	$ (3.9)	$ (3.5)	$ (7.4)	$ (8.6)	$ 14.2	$ (10.9)
General casualty	(5.0)	(18.0)	(30.1)	(3.0)	18.7	0.1	7.6	(29.7)
Healthcare	(0.5)	(1.0)	(6.3)	(21.7)				(29.5)
Professional liability		1.7	(20.8)	(50.5)			0.2	(69.4)
	$ (5.8)	$ (18.7)	$ (61.1)	$ (78.7)	$ 11.3	$ (8.5)	$ 22.0	$ (139.5)

The loss and loss expense ratio for the year ended December 31, 2010 was 47.3%, compared to 38.3% for the year ended December 31, 2009. The net favorable reserve development recognized during the year ended December 31, 2010 decreased the loss and loss expense ratio by 53.3 percentage points. Thus, the loss and loss expense ratio related to the current loss year was 100.6%. Comparatively, the net favorable reserve development recognized during the year ended December 31, 2009 decreased the loss and loss expense ratio by 33.8 percentage points. Thus, the loss and loss expense ratio related to that loss year was 72.1%. The increase in the loss and loss expense ratio for the current loss year was primarily due to net incurred losses of $112.3 million in the preceding paragraph, which occurred during the year ended December 31, 2010 and contributed 33.1 percentage points to the current year s loss and loss expense ratio.

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

	Year Ended December 31,	
	2010	2009
Net reserves for losses and loss expenses, January 1	$ 1,790.1	$ 1,797.0
Incurred related to:		
Current period non-catastrophe	276.7	297.5
Current period catastrophe	64.1	
Prior period non-catastrophe	(168.5)	(136.5)
Prior period catastrophe	(12.1)	(2.9)
Total incurred	$ 160.2	$ 158.1
Paid related to:		
Current period non-catastrophe	22.0	16.1
Current period catastrophe	36.5	
Prior period non-catastrophe	181.7	119.0
Prior period catastrophe	13.0	37.3
Total paid	$ 253.2	$ 172.4
Foreign exchange revaluation	(1.4)	7.4
Net reserve for losses and loss expenses, December 31	1,695.7	1,790.1
Losses and loss expenses recoverable	531.0	566.3
Reserve for losses and loss expenses, December 31	$ 2,226.7	$ 2,356.4

Acquisition costs. Acquisition costs decreased $3.2 million for the year ended December 31, 2010 compared to the year ended December 31, 2009. The decrease in acquisition costs was due to lower net premiums earned. The acquisition cost ratio decreased from 0.7% for the year ended December 31, 2009 to a negative 0.1% for the year ended December 31, 2010.

General and administrative expenses. General and administrative expenses increased $9.8 million, or 11.6%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in general and administrative expenses was primarily due to an increase in salary and related costs, including stock-based compensation. The general and administrative expense ratios for the years ended December 31, 2010 and 2009 were 27.8% and 20.4%, respectively, due to higher general and administrative expenses and lower net premiums earned.

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Reinsurance Segment

The following table summarizes the underwriting results and associated ratios for the reinsurance segment for the years ended December 31, 2011, 2010 and 2009.

	Year Ended December 31,		
	2011	2010	2009
		($ in millions)	
Revenues			
Gross premiums written	$ 570.5	$ 524.2	$ 465.6
Net premiums written	569.5	522.3	465.2
Net premiums earned	555.7	502.3	456.2
Expenses			
Net losses and loss expenses	365.5	250.2	234.6
Acquisition costs	95.1	92.1	88.0
General and administrative expenses	62.9	63.8	48.4
Underwriting income	32.2	96.2	85.2
Ratios			
Loss and loss expense ratio	65.8%	49.8%	51.4%
Acquisition cost ratio	17.1%	18.3%	19.3%
General and administrative expense ratio	11.3%	12.7%	10.6%
Expense ratio	28.4%	31.0%	29.9%
Combined ratio	94.2%	80.8%	81.3%

Comparison of Years Ended December 31, 2011 and 2010

Premiums. Gross premiums written increased by $46.3 million, or 8.8%, for the year ended December 31, 2011 compared to the same period in 2010. The increase in gross premiums written was primarily due to increased writings in our international reinsurance lines of business with the continuing build out of our London and Singapore offices, including business written through Syndicate 2232, as well as $25.4 million of new business from our new global marine and specialty division. This growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions). In addition, the increase in gross premiums written was partially offset by a two year treaty we wrote in our general casualty reinsurance line of business for $31.4 million in the year ended December 31, 2010.

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

	Year Ended December 31,		Dollar	Percentage
	2011	2010	Change	Change
		($ in millions)		
Bermuda	$ 204.7	$ 210.1	$ (5.4)	(2.6)%
United States	241.6	264.2	(22.6)	(8.6)
Singapore	66.6	16.6	50.0	301.2
Europe	57.6	33.3	24.3	73.0
	$ 570.5	$ 524.2	$ 46.3	8.8%

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

	Year Ended December 31,		Dollar	Percentage
	2011	2010	Change	Change
	($ in millions)			
International reinsurance	$ 153.2	$ 109.0	$ 44.2	40.6%
Property reinsurance	153.1	133.8	19.3	14.4
General casualty reinsurance*	142.8	174.6	(31.8)	(18.2)
Specialty reinsurance**	64.2	28.8	35.4	122.9
Professional liability reinsurance	57.2	78.0	(20.8)	(26.7)
	$ 570.5	$ 524.2	$ 46.3	8.8%

* Includes our facultative reinsurance line of business

** Includes our workers compensation catastrophe reinsurance and accident and health reinsurance

Net premiums written increased by $47.2 million, or 9.0%, consistent with the increase in gross premiums written. Net premiums earned increased $53.4 million, or 10.6%. Premiums related to our reinsurance business generally earn at a slower rate than those related to our direct insurance business. Direct insurance premiums typically earn ratably over the term of a policy. Reinsurance premiums under a quota share reinsurance contract are typically earned over the same period as the underlying policies, or risks, covered by the contract. As a result, the earning pattern of a quota share reinsurance contract may extend up to 24 months, reflecting the inception dates of the underlying policies. Property catastrophe premiums and premiums for other treaties written on a losses occurring basis earn ratably over the term of the reinsurance contract.

Net losses and loss expenses. Net losses and loss expenses increased by $115.3 million, or 46.1%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase in net losses and loss expenses was due to loss activity incurred from the Tohoku earthquake and tsunami of $51.5 million, $45.9 million from the New Zealand earthquake, $32.2 million related to the Midwestern U.S. storms, $20.2 million related to the Thailand floods, $11.2 million related to Hurricane Irene and $15.3 million related to the Australian storms compared to $26.6 million from a number of earthquakes and other weather related events during the year ended December 31, 2010. The increase in losses and loss expenses from catastrophe losses was partially offset by greater net favorable reserve development during the year ended December 31, 2011.

Overall, our reinsurance segment recorded net favorable reserve development of $111.8 million and $64.2 million during the years ended December 31, 2011 and 2010, respectively, as shown in the tables below. In the tables, a negative number represents net favorable reserve development and a positive number represents net unfavorable reserve development.

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2011									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
	($ in millions)									
Professional liability reinsurance	$ (0.1)	$ (0.8)	$ (3.6)	$ (9.7)	$ (12.9)	$ (7.1)	$ (1.2)	$ (0.2)	$	$ (35.6)
International reinsurance		(0.2)	(4.2)	(10.9)	(0.2)	(2.8)	(0.3)	(3.5)	(10.8)	(32.9)
General casualty reinsurance	(0.1)	(0.9)	(1.8)	(12.4)	(1.5)	(7.9)	(0.6)		2.9	(22.3)
Specialty reinsurance			(0.2)			(0.8)	(0.2)	(5.7)	(4.1)	(11.0)
Property reinsurance	(0.2)	(0.6)	(1.1)	(2.6)	(1.4)	(2.1)		(1.4)	(0.6)	(10.0)
	$ (0.4)	$ (2.5)	$ (10.9)	$ (35.6)	$ (16.0)	$ (20.7)	$ (2.3)	$ (10.8)	$ (12.6)	$ (111.8)

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	Loss Reserve Development by Loss Year For the Year Ended December 31, 2010								
	2002	2003	2004	2005	2006	2007	2008	2009	Total
	($ in millions)								
Professional liability reinsurance	$ (0.3)	$ (0.5)	$ (5.4)	$ (10.3)	$ (9.0)	$ (1.3)	$ (0.7)	$	$ (27.5)
International reinsurance	(0.1)	(0.3)	(0.7)	(1.5)	(0.4)	0.2	5.7	1.2	4.1
General casualty reinsurance	(0.1)	0.4	(2.3)	(17.7)	(2.6)	(1.5)	(0.3)		(24.1)
Specialty reinsurance			(0.6)	(0.1)		(1.2)	(2.7)		(4.6)
Property reinsurance	(0.3)	(0.7)	(0.9)	(3.4)	(0.4)		1.1	(7.5)	(12.1)
	$ (0.8)	$ (1.1)	$ (9.9)	$ (33.0)	$ (12.4)	$ (3.8)	$ 3.1	$ (6.3)	$ (64.2)

The loss and loss expense ratio for the year ended December 31, 2011 was 65.8%, compared to 49.8% for the year ended December 31, 2010. Net favorable reserve development recognized during the year ended December 31, 2010 reduced the loss and loss expense ratio by 20.1 percentage points. Thus, the loss and loss expense ratio related to the current loss year was 85.9%. In comparison, net favorable reserve development recognized in the year ended December 31, 2010 reduced the loss and loss expense ratio by 12.8 percentage points. Thus, the loss and loss expense ratio related to that loss year was 62.6%. The increase in the loss and loss expense ratio for the current loss year was primarily due to the $176.3 million of global catastrophe losses discussed above, which contributed 31.7 percentage points to the loss and loss expense ratio for the year ended December 31, 2011. Earthquakes and other weather related events discussed above during the year ended December 31, 2010 contributed $26.6 million or 5.3 percentage points to the prior year s loss and loss expense ratio.

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

	Year Ended December 31,	
	2011	2010
Net reserves for losses and loss expenses, January 1	$ 1,220.8	$ 1,149.8
Incurred related to:		
Current period non-catastrophe	301.0	280.1
Current period property catastrophe	176.3	34.3
Prior period non-catastrophe	(107.2)	(62.7)
Prior period property catastrophe	(4.6)	(1.5)
Total incurred	$ 365.5	$ 250.2
Paid related to:		
Current period non-catastrophe	26.7	16.8
Current period property catastrophe	49.2	1.0
Prior period non-catastrophe	185.3	156.7
Prior period property catastrophe	11.7	4.7
Total paid	$ 272.9	$ 179.2
Net reserve for losses and loss expenses, December 31	1,313.4	1,220.8
Losses and loss expenses recoverable	0.3	
Reserve for losses and loss expenses, December 31	$ 1,313.7	$ 1,220.8

Acquisition costs. Acquisition costs increased by $3.0 million, or 3.3%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase was primarily a result of higher net premiums earned partially offset by a decrease in profit commissions due to loss activity. The acquisition cost

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ratio was 17.1% for the year ended December 31, 2011, slightly lower than the 18.3% for the year ended December 31, 2010. The decrease in the acquisition cost ratio is due to more business written on an excess-of-loss basis, which typically carries a lower acquisition cost ratio than quota share business.

General and administrative expenses. General and administrative expenses decreased $0.9 million, or 1.4%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The decrease in general and administrative expenses was primarily due to a decrease in performance based incentive compensation expenses partially offset by additional professional fees related to the operation of the Lloyd s Syndicate which was operational for only six months in the prior year. The general and administrative expense ratios for the years ended December 31, 2011 and 2010 were 11.3% and 12.7%, respectively, due to lower general and administrative expenses and higher net premiums earned.

Comparison of Years Ended December 31, 2010 and 2009

Premiums. Gross premiums written increased by $58.6 million, or 12.6%, for the year ended December 31, 2010 compared to the same period in 2009. The increase in gross premiums written was primarily due to increased writings in our property and international reinsurance lines of business with the build out of our London and Singapore offices, including business written through Syndicate 2232. We increased our participation on one property reinsurance treaty for $23.6 million in 2010 from $9.0 million in 2009, and we wrote one new treaty in our general casualty reinsurance line of business for $31.4 million. These increases were partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions), increased competition and increased cedent retention.

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

	Year Ended December 31,		Dollar	Percentage
	2010	2009	Change	Change
	($ in millions)			
Bermuda	$ 210.1	$ 192.3	$ 17.8	9.3%
United States	264.2	255.1	9.1	3.6
Europe	33.3	18.2	15.1	83.0%
Singapore	16.6		16.6	n/a
	$ 524.2	$ 465.6	$ 58.6	12.6%

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

	Year Ended December 31,		Dollar	Percentage
	2010	2009	Change	Change
	($ in millions)			
General casualty reinsurance	$ 160.2	$ 138.5	$ 21.7	15.7%
Property reinsurance	133.8	100.5	33.3	33.1
International reinsurance	109.0	84.2	24.8	29.5
Professional liability reinsurance	78.0	102.8	(24.8)	(24.1)
Specialty reinsurance	28.8	23.5	5.3	22.6
Facultative reinsurance	14.4	16.1	(1.7)	(10.6)
	524.2	465.6	58.6	12.6%

The specialty reinsurance line of business includes the workers compensation catastrophe reinsurance and accident and health reinsurance.

Net premiums written increased by $57.1 million, or 12.3%, which is consistent with the increase in gross premiums written. Net premiums earned increased $46.1 million, or 10.1% due to earnings on prior writings.

Net losses and loss expenses. Net losses and loss expenses increased by $15.6 million, or 6.6%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in net losses and loss expenses was primarily due to the growth of the reinsurance operations and higher loss activity of $26.6 million from a number of earthquakes and other weather related events, partially offset by higher net favorable prior year reserve development. Overall, our reinsurance segment recorded net favorable reserve development of $64.2 million and $38.1 million during the years ended December 31, 2010 and 2009, respectively, as shown in the tables below. In the tables, a negative number represents net favorable reserve development and a positive number represents net unfavorable reserve development.

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2010								
	2002	2003	2004	2005	2006	2007	2008	2009	Total
	($ in millions)								
Professional liability reinsurance	$ (0.3)	$ (0.5)	$ (5.4)	$ (10.3)	$ (9.0)	$ (1.3)	$ (0.7)	$	$ (27.5)
International reinsurance	(0.1)	(0.3)	(0.7)	(1.5)	(0.4)	0.2	5.7	1.2	4.1
General casualty reinsurance	(0.1)	0.4	(2.3)	(17.7)	(2.6)	(1.5)	(0.3)		(24.1)
Specialty reinsurance			(0.6)	(0.1)		(1.2)	(2.7)		4.6)
Property reinsurance	(0.3)	(0.7)	(0.9)	(3.4)	(0.4)		1.1	(7.5)	(12.1)
	$ (0.8)	$ (1.1)	$ (9.9)	$ (33.0)	$ (12.4)	$ (3.8)	$ 3.1	$ (6.3)	$ (64.2)

	Loss Reserve Development by Loss Year For the Year Ended December 31, 2009							
	2002	2003	2004	2005	2006	2007	2008	Total
	($ in millions)							
Professional liability reinsurance	$ (3.1)	$ (6.8)	$ (13.2)	$ (1.5)	$ (0.1)	$ 8.1	$ 3.5	$ (13.1)
International reinsurance	(0.2)	(0.6)	1.1	(0.1)		4.6	3.2	8.0
General casualty reinsurance	(0.6)	(9.1)	(7.7)	(7.1)	(0.9)			(25.4)
Specialty reinsurance			(0.9)	1.2				0.3
Property reinsurance	(0.1)	0.2		3.3		(7.6)	(3.7)	(7.9)
	$ (4.0)	$ (16.3)	$ (20.7)	$ (4.2)	$ (1.0)	$ 5.1	$ 3.0	$ (38.1)

The loss and loss expense ratio for the year ended December 31, 2010 was 49.8%, compared to 51.4% for the year ended December 31, 2009. Net favorable reserve development recognized during the year ended December 31, 2010 reduced the loss and loss expense ratio by 12.8 percentage points. Thus, the loss and loss expense ratio related to the current loss year was 62.6%. In comparison, net favorable reserve development recognized in the year ended December 31, 2009 reduced the loss and loss expense ratio by 8.4 percentage points. Thus, the loss and loss expense ratio related to that loss year was 59.8%. The increase in the loss and loss expense ratio for the current loss year was primarily due to net incurred losses of $26.6 million noted above, which contributed 5.3 percentage points to the current loss year s loss and loss expense ratio.

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

	Year Ended December 31,	
	2010	2009
Net reserves for losses and loss expenses, January 1	$ 1,149.8	$ 1,072.1
Incurred related to:		
Current period non-catastrophe	280.1	272.7
Current period property catastrophe	34.3	
Prior period non-catastrophe	(62.7)	(40.2)
Prior period property catastrophe	(1.5)	2.1
Total incurred	$ 250.2	$ 234.6
Paid related to:		
Current period non-catastrophe	16.8	14.1
Current period property catastrophe	1.0	
Prior period non-catastrophe	156.7	125.2
Prior period property catastrophe	4.7	17.6
Total paid	$ 179.2	$ 156.9
Net reserve for losses and loss expenses, December 31	1,220.8	1,149.8
Losses and loss expenses recoverable		1.9
Reserve for losses and loss expenses, December 31	$ 1,220.8	$ 1,151.7

Acquisition costs. Acquisition costs increased by $4.1 million, or 4.7%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily as a result of higher net premiums earned. The acquisition cost ratio was 18.3% for the year ended December 31, 2010, slightly lower than the 19.3% for the year ended December 31, 2009. The decrease in the acquisition cost ratio is due to more business written on an excess-of-loss basis, which typically carries a lower acquisition cost ratio than quota share business.

General and administrative expenses. General and administrative expenses increased $15.4 million, or 31.8%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in general and administrative expenses was primarily due to an increase in salary and related costs included stock-based compensation. The 2.1 percentage point increase in the general and administrative expense ratio from 10.6% for the year ended December 31, 2009 to 12.7% for the year ended December 31, 2010 was due to higher general and administrative expense partially offset by higher net premiums earned.

Liquidity and Capital Resources

General

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

Historically, our operating subsidiaries have generated sufficient cash flows to meet all of their obligations. Because of the inherent volatility of our business, the seasonality in the timing of payments by insureds and cedents, the irregular timing of loss payments, the impact of a change in interest rates and credit spreads on the investment income as well as seasonality in coupon payment dates for fixed income securities, cash flows from operating activities may vary between periods. We expect that annual positive cash flows from operating activities will be sufficient to cover claims payments. In the unlikely event that paid losses exceed operating cash flows in any given period, we would use our cash balances available, or liquidate a portion of our high quality

and liquid investment portfolio in order to meet our short term liquidity needs. As discussed in Item 1 Business, our total investments and cash totaled $8.1 billion at December 31, 2011, the main components of which were investment grade fixed income securities and cash and cash equivalents.

As of December 31, 2011 and December 31, 2010, our shareholders equity was $3.1 billion.

On November 26, 2010, we received approval from the Supreme Court of Bermuda to change the place of incorporation of our ultimate parent company from Bermuda to Switzerland, and on December 1, 2010 we completed our redomestication to Switzerland. Our ultimate parent company is now Holdings and Allied World Bermuda is a wholly owned subsidiary of Holdings.

Holdings is a holding company and transacts no business of its own. Cash flows to Holdings may comprise dividends, advances and loans from its subsidiary companies. Holdings is therefore reliant on receiving dividends and other permitted distributions from its subsidiaries to make dividend payments on its common shares. Under Swiss law, distributions to shareholders may be paid out only if the company has sufficient distributable profits from previous fiscal years, or if the company has freely distributable reserves, each as presented on the audited annual stand-alone statutory balance sheet. Distributions to shareholders out of the share and participation capital may be made by way of a capital reduction in the form of a reduction in the par value of the common shares to achieve a similar result as the payment of a dividend.

Allied World Bermuda is a holding company and transacts no business of its own. Cash flows to Allied World Bermuda may comprise dividends, advances and loans from its subsidiary companies. Allied World Bermuda is therefore reliant on receiving dividends and other permitted distributions from its subsidiaries to make principal and interest payments on its senior notes.

Capital Activities

In May 2010, the company established a share repurchase program in order to repurchase Holdings common shares. Repurchases under the authorization may be effected from time to time through open market purchases, privately negotiated transactions, and tender offers or otherwise. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the company s capital position, legal requirements and other factors. During the year ended December 31, 2011, we repurchased through open market purchases 1,419,163 shares at a total cost of $86.7 million, for an average price of $61.09 per share. We have classified the repurchased shares as treasury shares, at cost on the consolidated balance sheets.

In November 2010, Allied World Bermuda issued $300 million senior notes due in 2020. The senior notes bear interest at an annual rate of 5.50% per year and were priced to yield 5.56%. Interest on the senior notes is payable semi-annually on May 15 and November 15 of each year commencing on May 15, 2011. The net proceeds from the offering of the senior notes were and will be used for general corporate purposes, including the repurchase of the company s outstanding common shares. The senior notes are the company s unsecured and unsubordinated obligations and rank equally in right of payment with all existing and future unsecured and unsubordinated indebtedness. We may redeem the senior notes at any time or from time to time in whole or in part at a redemption price equal to the greater of the principal amount of the senior notes to be redeemed or a make-whole price, plus accrued and unpaid interest. The senior notes include covenants and events of default that are usual and customary, but do not contain any financial covenants. In addition, these senior notes as well as the 7.50% senior notes issued in 2006 have been unconditionally and irrevocably guaranteed for the payment of the principal and interest by Holdings.

In February 2011, we repurchased a warrant owned by American International Group, Inc. (AIG) in a privately negotiated transaction. The warrant entitled AIG to purchase 2,000,000 of our common shares for $34.20 per share. We repurchased the warrant for an aggregate purchase price of $53.6 million. The repurchase of the warrant was recognized as a reduction in additional paid-in capital in the consolidated balance sheets. The repurchase was executed separately from the company s share repurchase program.

We believe our company s capital position continues to remain well within the range needed for our business requirements and we have sufficient liquidity to fund our ongoing operations.

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Restrictions and Specific Requirements

The jurisdictions in which our operating subsidiaries are licensed to write business impose regulations requiring companies to maintain or meet various defined statutory ratios, including solvency and liquidity requirements. Some jurisdictions also place restrictions on the declaration and payment of dividends and other distributions.

The payment of dividends from Holdings Bermuda domiciled operating subsidiary is, under certain circumstances, limited under Bermuda law, which requires our Bermuda operating subsidiary to maintain certain measures of solvency and liquidity. Holdings U.S. domiciled operating subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. In particular, payments of dividends by Allied World Assurance Company (U.S.) Inc., Allied World National Assurance Company, Allied World Reinsurance Company, Darwin National Assurance Company, Darwin Select Insurance Company and Vantapro Specialty Insurance Company are subject to restrictions on statutory surplus pursuant to the respective states in which these insurance companies are domiciled. Each state requires prior regulatory approval of any payment of extraordinary dividends. In addition, Allied World Assurance Company, AG is subject to Swiss financial and regulatory restrictions limiting its ability to declare and pay dividends and Allied World Assurance Company (Europe) Limited and Allied World Assurance Company (Reinsurance) Limited are subject to regulatory restrictions limiting their ability to declare and pay any dividends without the consent of the Central Bank of Ireland. We also have branch operations in Canada, Hong Kong and Singapore, which have regulatory restrictions limiting the ability to declare and pay dividends. We also have insurance subsidiaries that are the parent company for other insurance subsidiaries, which means that dividends and other distributions will be subject to multiple layers of regulations in order to dividend funds to Holdings. The inability of the subsidiaries of Holdings to pay dividends and other permitted distributions could have a material adverse effect on Holdings cash requirements and our ability to make principal, interest and dividend payments on the senior notes and common shares.

Holdings operating subsidiary in Bermuda, Allied World Assurance Company, Ltd, is neither licensed nor admitted as an insurer, nor is it accredited as a reinsurer, in any jurisdiction in the United States. As a result, it is generally required to post collateral security with respect to any reinsurance liabilities it assumes from ceding insurers domiciled in the United States in order for U.S. ceding companies to obtain credit on their U.S. statutory financial statements with respect to insurance liabilities ceded to them. Under applicable statutory provisions, the security arrangements may be in the form of letters of credit, reinsurance trusts maintained by trustees or funds-withheld arrangements where assets are held by the ceding company.

Allied World Assurance Company, Ltd uses trust accounts primarily to meet security requirements for inter-company and certain reinsurance transactions. We also have cash and cash equivalents and investments on deposit with various state or government insurance departments or pledged in favor of ceding companies in order to comply with relevant insurance regulations. In addition, Allied World Assurance Company, Ltd currently has access to up to $1.7 billion in letters of credit under two letter of credit facilities, $900 million with Citibank Europe plc and $800 million with a syndication of lenders described below. These facilities are used to provide security to reinsureds and are collateralized by us, at least to the extent of letters of credit outstanding at any given time. The letters of credit issued under the credit facility with Citibank Europe plc are deemed to be automatically extended without amendment for twelve months from the expiry date, or any future expiration date unless at least 30 days prior to any expiration date Citibank Europe plc notifies us that they elect not to consider the letters of credit renewed for any such additional period. If Citibank Europe plc no longer provides capacity under the credit facility it may limit our ability to meet our security requirements and would require us to obtain other sources of security at terms that may not be favorable to us.

We entered into an $800 million five-year senior credit facility (the Credit Facility) with a syndication of lenders that will terminate on November 27, 2012. The Credit Facility consists of a $400 million secured letter of credit facility for the issuance of standby letters of credit (the Secured Facility) and a $400 million unsecured facility for the making of revolving loans and for the issuance of standby letters of credit (the Unsecured Facility). Both the Secured Facility and the Unsecured Facility have options to increase the aggregate commitments by up to $200 million, subject to approval of the lenders. The Credit Facility will be used for

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general corporate purposes and to issue standby letters of credit. The Credit Facility contains representations, warranties and covenants customary for similar bank loan facilities, including a covenant to maintain a ratio of consolidated indebtedness to total capitalization as of the last day of each fiscal quarter or fiscal year of not greater than 0.35 to 1.0 and a covenant under the Unsecured Facility to maintain a certain consolidated net worth. In addition, each material insurance subsidiary must maintain a financial strength rating from A.M. Best Company of at least A- under the Unsecured Facility and of at least B++ under the Secured Facility. As of December 31, 2011 we had a consolidated indebtedness to total capitalization of 0.21 to 1.0 and all of our subsidiaries had a financial strength rating from A.M. Best of A. The Unsecured Facility required a minimum net worth as of December 31, 2011 of $1.4 billion and our net worth as calculated according to the Unsecured Facility was $3.1 billion as of December 31, 2011. Based on the results of these financial calculations, we were in compliance with all covenants under the Credit Facility as of December 31, 2011.

In May 2010, Allied World Capital (Europe) Limited established an irrevocable standby letter of credit in order to satisfy funding requirements of our Lloyd s Syndicate 2232. As of December 31, 2011, the amount of the letter of credit was £59.0 million ($90.9 million).

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

The following shows our trust accounts on deposit, as well as outstanding and remaining letter of credit facilities and the collateral committed to support the letter of credit facilities:

	As of December 31, 2011	As of December 31, 2010
	($ in millions)	
Total trust accounts on deposit	$ 2,029.1	$ 1,657.4
Total letter of credit facilities:		
Citibank Europe plc	900.0	900.0
Credit Facility	800.0	800.0
Total letters of credit facilities	1,700.0	1,700.0
Total letter of credit facilities outstanding:		
Citibank Europe plc	675.6	689.8
Credit Facility	141.4	159.0
Total letter of credit facilities outstanding	817.0	848.8
Total letter of credit facilities remaining:		
Citibank Europe plc	224.4	210.2
Credit Facility(1)	658.6	641.0
Total letter of credit facilities remaining	883.0	851.2
Collateral committed to support the letter of credit facilities	$ 1,044.2	$ 1,121.3

(1) Net of any borrowing or repayments under the Unsecured Facility.

As of December 31, 2011, we had a combined unused letters of credit capacity of $883.0 million from the Credit Facility and Citibank Europe plc. We believe that this remaining capacity is sufficient to meet our future letter of credit needs.

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

Sources and Uses of Funds

Our sources of funds primarily consist of premium receipts net of commissions, investment income, net proceeds from capital raising activities that may include the issuance of common shares, senior notes and other debt or equity issuances, and proceeds from sales and redemption of investments. Cash is used primarily to pay losses and loss expenses, purchase reinsurance, pay general and administrative expenses and taxes, and pay dividends and interest, with the remainder made available to our investment portfolio managers for investment in accordance with our investment policy.

Cash flows from operations for the year ended December 31, 2011 were $548.1 million compared to $451.3 million for the year ended December 31, 2010 and $668.2 million for the year ended December 31, 2009. The increase in cash flows from operations was impacted by increased premium writings in the year ended December 31, 2011 compared to the year ended December 31, 2010. The decrease in cash flows from operations for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily due to an increase in net paid losses of $138.5 million and an increase in insurance balances receivable primarily related to a funds held balance of $73.9 million for a property catastrophe reinsurance treaty entered into in 2010. The funds held balance can be used by the cedent to pay claims, if any. Any balance remaining after the expiry of the reinsurance treaty is returned to us.

Cash flows from investing activities consist primarily of proceeds on the sale of investments and payments for investments acquired. We had cash flows used in investing activities of $509.1 million for the year ended December 31, 2011, $500.1 million of cash flows provided by investing activities for the year ended December 31, 2010 and $582.6 million of cash flows used in investing activities of for the year ended December 31, 2009. The increase in cash flows used in investing activities for the year ended December 31, 2011 reflects additional investment of our operating cash flow. The cash flows provided by investing activities for the year ended December 31, 2010 compared to net cash used in investment activities for the year ended December 31, 2009 was primarily due to the turnover of the investment portfolio during 2010 in order to manage the overall market interest rate exposure and moving securities to our new portfolio manager.

Cash flows from financing activities consist primarily of capital raising activities, which include the issuance or repurchase of common shares or debt and the payment of dividends or the repayment of debt. Cash flows used in financing activities were $162.1 million for the year ended December 31, 2011 compared to net cash used in financing activities of $486.1 million and $450.0 million for the year ended December 31, 2010 and 2009, respectively. During the year ended December 31, 2011 we paid dividends of $28.6 million, repurchased $86.7 million of our common shares and repurchased $53.6 million in warrants. During the year ended December 31, 2010, we paid dividends of $47.7 million, repurchased $674.7 million of our common shares, which included the repurchase of all the common shares owned by Goldman Sachs, and repurchased $70.0 million in warrants to purchase our common shares from Chubb and Goldman Sachs. The reduction in share repurchases was impacted by the previously pending merger agreement with Transatlantic. During 2010, we issued 5.50% Senior Notes for net proceeds of $298.6 million, which we used for share repurchases and other general corporate purposes.

In addition to our quarterly dividends declared and paid during 2010, the Board of Directors declared a special dividend of $0.25 per common share related to the redomestication. Under Swiss law, we were not able to pay a dividend until two months after our annual meeting. This special dividend provided a dividend to shareholders for the interim period. This special dividend was paid on November 26, 2010 to shareholders of record on November 15, 2010.

Our funds are primarily invested in liquid, high-grade fixed income securities. As of December 31, 2011 and 2010, 92.6% and 96.2%, respectively, of our fixed income portfolio consisted of investment grade securities. As of December 31, 2011 and December 31, 2010, net accumulated unrealized gains on our available for sale fixed

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maturity investments were $14.5 million and $57.1 million, respectively. The decrease in net unrealized gains resulted from the sale of certain available for sale securities during the year ended December 31, 2011 and reinvesting the proceeds in fixed maturity investments where mark-to-market changes are reflected in the consolidated income statement. The maturity distribution of our fixed income portfolio (on a fair value basis) as of December 31, 2011 and December 31, 2010 was as follows:

	As of December 31, 2011	As of December 31, 2010
	($ in millions)	
Due in one year or less	$ 661.6	$ 249.3
Due after one year through five years	2,686.1	3,119.9
Due after five years through ten years	725.5	867.9
Due after ten years	94.2	122.9
Mortgage-backed	1,818.1	1,751.9
Asset-backed	513.2	549.0
Total	$ 6,498.7	$ 6,660.9

We have investments in various other invested assets, the market value of which was $540.4 million as of December 31, 2011. Each of these funds has redemption notice requirements. For each of our funds, liquidity is allowed after certain defined periods based on the terms of each fund. See Note 4(d) Investments Other Invested Assets to our consolidated financial statements for additional details on our other invested assets.

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

Financial Strength Ratings

Financial strength ratings and senior unsecured debt ratings represent the opinions of rating agencies on our capacity to meet our obligations. The rating agencies consider a number of quantitative and qualitative factors in determining an insurance company s financial strength and credit ratings. Quantitative considerations of an insurance company include the evaluation of financial statements, historical operating results and, through the use of proprietary capital models, the measure of investment and insurance risks relative to capital. Among the qualitative considerations are management strength, business profile, market conditions and established risk management practices used, among other things, to manage risk exposures and limit capital volatility. Some of our reinsurance treaties contain special funding and termination clauses that are triggered in the event that we or one of our subsidiaries is downgraded by one of the major rating agencies to levels specified in the treaties, or our capital is significantly reduced. If such an event were to happen, we would be required, in certain instances, to post collateral in the form of letters of credit and/or trust accounts against existing outstanding losses, if any, related to the treaty. In a limited number of instances, the subject treaties could be cancelled retroactively or commuted by the cedent and might affect our ability to write business.

For additional information on our financial strength ratings refer to *Our Financial Strength Ratings* in Item 1 Business .

In 2010, we established Syndicate 2232 and commenced underwriting activities through the Lloyd s market. All Lloyd s syndicates benefit from Lloyd s central resources, including Lloyd s brand, its network of global licenses and the central fund. As all of Lloyd s policies are ultimately backed by this common security, a single market rating can be applied. A. M. Best has assigned Lloyd s a financial strength rating of A (Excellent) and Standard & Poor s and Fitch Ratings have assigned Lloyd s a financial strength rating of A+ (Strong).

We believe that the quantitative and qualitative factors that influence our ratings are supportive of our ratings.

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Long-Term Debt

In July 2006, Allied World Bermuda issued $500.0 million aggregate principal amount of 7.50% senior notes due August 1, 2016, with interest payable August 1 and February 1 each year, commencing February 1, 2007. Allied World Bermuda can redeem the senior notes prior to maturity, subject to payment of a make-whole premium; however, Allied World Bermuda currently has no intention of redeeming the notes.

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

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

Aggregate Contractual Obligations

The following table shows our aggregate contractual obligations by time period remaining until due date as of December 31, 2011:

		Payment Due by Period			
	Total	Less Than 1 Year	1-3 Years ($ in millions)	3-5 Years	More Than 5 Years
Contractual Obligations					
Senior notes (including interest)	$ 1,136.0	$ 54.0	$ 108.0	$ 608.0	$ 366.0
Operating lease obligations	94.0	12.9	24.2	19.2	37.7
Investment commitments outstanding	245.9		27.0	42.5	