

ALLIED WORLD ASSURANCE CO HOLDINGS LTD

Form 424B3

November 09, 2006

PROSPECTUS SUPPLEMENT NO. 4
(To Prospectus dated July 21, 2006)

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

\$500,000,000

Allied World Assurance Company Holdings, Ltd
7.50% Senior Notes due 2016

This Prospectus Supplement No. 4 supplements the Market-Making Prospectus, dated July 21, 2006, as supplemented, relating to the public offering of the issuer's 7.50% senior notes due 2016, which closed on July 26, 2006. Goldman, Sachs & Co. is continuing to make a market in the senior notes pursuant to the Market-Making Prospectus.

This Prospectus Supplement No. 4 includes a Current Report on Form 8-K filed with the SEC on November 9, 2006. The Form 8-K includes an earnings release announcing the issuer's financial results for the fiscal quarter ended September 30, 2006.

You should read this Prospectus Supplement No. 4 in conjunction with the Market-Making Prospectus, as supplemented. This Prospectus Supplement No. 4 updates information in the Market-Making Prospectus, as supplemented, and, accordingly, to the extent inconsistent, the information in this Prospectus Supplement No. 4 supersedes the information contained in the Market-Making Prospectus, as supplemented.

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

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

The date of this Prospectus Supplement No. 4 is November 9, 2006.

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

FORM 8-K

**Current Report
Pursuant To Section 13 or 15 (d) of the
Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): November 8, 2006**

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

Bermuda
(State or Other Jurisdiction
of Incorporation)

001-32938
(Commission File Number)

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

**43 Victoria Street
Hamilton HM 12, Bermuda**
(Address of Principal Executive Offices and Zip Code)
Registrant's telephone number, including area code: (441) 278-5400

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition

On November 8, 2006, Allied World Assurance Company Holdings, Ltd issued a press release reporting its third quarter 2006 results and the availability of its third quarter financial supplement. The press release and the financial supplement are furnished herewith as Exhibit 99.1 and Exhibit 99.2, respectively. The information hereunder is not deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), is not otherwise subject to the liabilities of that section and is not incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit

Number Description

99.1 Press release, dated November 8, 2006, reporting third quarter results.

99.2 Third Quarter 2006 Financial Supplement.

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SIGNATURES

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

**ALLIED WORLD ASSURANCE COMPANY
HOLDINGS, LTD**

Dated: November 8, 2006

By: /s/ Joan H. Dillard

Name: Joan H. Dillard

Title: Senior Vice President and Chief Financial
Officer

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EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|---|
| 99.1 | Press release, dated November 8, 2006, reporting third quarter results. |
| 99.2 | Third Quarter 2006 Financial Supplement. |

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD REPORTS THIRD
QUARTER 2006 OPERATING RESULTS; DECLARES QUARTERLY DIVIDEND
OF \$0.15 PER COMMON SHARE**

HAMILTON, BERMUDA, November 8, 2006 - Allied World Assurance Company Holdings, Ltd (NYSE: AWH) today reported net income of \$114.0 million, or \$1.89 per diluted share, for the third quarter 2006 compared to a net loss of \$283.4 million, or \$5.65 per diluted share, for the third quarter 2005. Net income for the nine months ended September 30, 2006 was \$314.5 million, or \$5.76 per diluted share, compared to a net loss of \$147.5 million, or \$2.94 per diluted share, for the first nine months of 2005. Results for the three and nine months ended September 30, 2005 were adversely impacted by Hurricanes Katrina and Rita.

The company reported record operating income of \$122.5 million, or \$2.03 per diluted share, for the third quarter 2006 compared to an operating loss of \$287.6 million, or \$5.73 per diluted share, for the third quarter 2005. Operating income for the nine months ended September 30, 2006 was \$338.5 million, or \$6.20 per diluted share, compared to a net loss of \$142.1 million, or \$2.83 per diluted share, for the first nine months of 2005.

President and Chief Executive Officer Scott Carmilani commented, "Allied World has had another very strong quarter with each of our operating segments continuing to perform very well. During the quarter, the company achieved record operating income of \$122.5 million and grew our book value per share by approximately 11%. In addition to benefiting from benign catastrophe activity during the quarter, the company recognized favorable prior year reserve development and our growing investment portfolio continues to generate a substantial level of investment income.

We are energized by the company's performance and our successful capital raising initiatives in July, including our initial public offering, which now allows us to support our business with almost \$2.6 billion in capital and an invested asset base in excess of \$5.8 billion. While market conditions are currently mixed depending on the line of business and geography, we believe that the diversity of our portfolio and our established operating platforms in Bermuda, Europe and the United States position us extremely well.

Underwriting Results

Gross premiums written were \$362.5 million in the third quarter 2006, a 9.9% increase compared to \$329.9 million in the third quarter 2005. For the nine months ended September 30, 2006, gross premiums written totaled \$1,378.9 million, an 8.0% increase compared to \$1,276.9 million in the first nine months of 2005. This increase was primarily the result of an increase in general property rates in catastrophe prone areas and increased market opportunities that developed following the 2005 hurricane season. In addition, premiums from the company's reinsurance segment increased due to upward premium adjustments on prior year business and from new business written.

Net premiums written were \$298.0 million in the third quarter 2006, a 19.3% increase compared to \$249.7 million in the third quarter 2005. For the nine months ended September 30, 2006, net premiums written totaled \$1,095.9 million, an 8.7% increase compared to \$1,008.4 million in the first nine months of 2005. This increase primarily reflects increased writings in the company's reinsurance segment and the increased general property rates in catastrophe prone areas.

Net premiums earned in the third quarter were \$317.8 million, a 1.4% increase compared to \$313.3 million for the third quarter 2005. For the nine months ended September 30, 2006, net premiums earned totaled \$932.2 million, a 3.8% decrease from net premiums earned of \$969.5 million in the first nine months of 2005. This decrease reflects the reduction in net premiums written during 2005.

The combined ratio was 76.9% in the third quarter 2006 compared to 207.5% in the third quarter 2005. The loss ratio was 56.9% in the third quarter 2006 compared to 189.4% in the third quarter 2005. During the third quarter 2006, the company recorded net favorable reserve development on prior accident years of \$38.7 million, a benefit of 12.2 percentage points to the company's loss ratio for this quarter. The combined ratio for the nine months ended September 30, 2006 was 80.0% compared to 127.1% for the first nine months of 2005. Results for the three and nine months ended September 30, 2005 were adversely impacted by Hurricanes Katrina and Rita.

Investment Results

Net investment income in the third quarter 2006 was \$61.4 million, an increase of 29.0% over the \$47.6 million of net investment income in the third quarter 2005. For the nine months ended September 30, 2006, net investment income was \$178.4 million, an increase of 39.6% over the first nine months of 2005. These increases primarily reflect the increase in the company's invested asset base driven by strong operating cash flows and the receipt of approximately \$316 million in net proceeds from the company's initial public offering. During the third quarter 2006, the company recorded net realized losses of \$9.1 million compared to net realized gains of \$4.2 million in the third quarter 2005. For the nine months ended September 30, 2006, the company recorded net realized losses of \$24.5 million compared to net realized losses of \$4.9 million over the first nine months of 2005.

Shareholders' Equity

At September 30, 2006, shareholders' equity was \$2.1 billion compared to \$1.4 billion reported at December 31, 2005. Diluted book value per share was \$33.54 at September 30, 2006 compared to \$28.20 at December 31, 2005. The company's annualized return on average equity for the three and nine months ended September 30, 2006 was 24.4% and 23.7%, respectively. The company's annualized operating return on average equity for the three and nine months ended September 30, 2006 was 26.2% and 25.5%, respectively.

Quarterly Dividend

The Board of Directors of Allied World Assurance Company Holdings, Ltd has declared a quarterly dividend of \$0.15 per common share payable on December 21, 2006 to the shareholders of record on December 5, 2006.

Conference Call

Allied World Assurance Company Holdings, Ltd will host a conference call on Thursday, November 9, 2006 at 10:00 a.m. (Eastern Time) to discuss its third quarter financial results. The public may access a live webcast of the conference call at the Investor Relations section of the company's website at www.awac.com. In addition, the conference call can be accessed by dialing (866) 761-0748 (U.S. and Canada callers) or (617) 614-2706 (international callers) and entering the passcode 79639647 approximately ten minutes prior to the call.

Following the conclusion of the presentation, a replay of the call will be available through Thursday, November 30, 2006 by dialing (888) 286-8010 (U.S. and Canada callers) or (617) 801-6888 (international callers) and entering the passcode 99687854. In addition, the webcast will remain available online through Thursday, November 30, 2006 at www.awac.com.

Financial Supplement

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

Non-GAAP Financial Measures

In presenting the company's results, management has included and discussed in this press release certain non-GAAP financial measures within the meaning of Regulation G as promulgated by the U.S. Securities and Exchange Commission. Management believes that these non-GAAP measures, which may be defined differently by other companies, better explain the company's results of operations in a manner that allows for a more complete understanding of the underlying trends in the company's business. However, these measures should not be viewed as a substitute for those determined in accordance with GAAP.

Operating income is an internal performance measure used by the company in the management of its operations and represents after-tax operational results excluding, as applicable, net realized investment gains or losses and foreign exchange gains or losses. The company excludes net realized investment gains or losses and net foreign exchange gains or losses from its calculation of operating income because the amount of these gains or losses is heavily influenced by, and fluctuates in part, according to the availability of market opportunities. The company believes these amounts are largely independent of its business and underwriting process and including them may distort the analysis of trends in its insurance and reinsurance operations. In addition to presenting net income determined in

accordance with GAAP, the company believes that showing operating income enables investors, analysts, rating agencies and other users of its financial information to more easily analyze the company's results of operations in a manner similar to how management analyzes the company's underlying business performance. Operating income should not be viewed as a substitute for GAAP net income.

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

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

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

About Allied World Assurance Company

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

Forward-Looking Statements

This press release may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 that involve inherent risks and uncertainties. Statements that are not historical facts, including statements that use terms such as believes, anticipates, intends or expects and that relate to our plans and objectives for future operations, are forward-looking statements. In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion of such statements in this press release should not be considered as a representation by us or any other person that our objectives or plans will be achieved. These statements are based on current plans, estimates

and expectations. Actual results may differ materially from those projected in such forward-looking statements and therefore you should not place undue reliance on them. A non-exclusive list of the important factors that could cause actual results to differ materially from those in such forward-looking statements includes the following: (a) the effects of competitors' pricing policies, and of changes in laws and regulations on competition, including industry consolidation and development of competing financial products; (b) the effects of investigations into market practices, in particular insurance brokerage practices, together with any legal or regulatory proceedings, related settlements and industry reform or other changes arising therefrom; (c) the impact of acts of terrorism and acts of war; (d) greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices have anticipated; (e) increased competition due to an increase in capacity of property and casualty insurers or reinsurers; (f) the inability to obtain or maintain financial strength ratings by one or more of the company's subsidiaries; (g) the adequacy of our loss reserves and the need to adjust such reserves as claims develop over time; (h) the company or one of its subsidiaries becoming subject to significant income taxes in the United States or elsewhere; (i) changes in regulations or tax laws applicable to the company, its subsidiaries, brokers or customers; (j) changes in the availability, cost or quality of reinsurance or retrocessional coverage; (k) loss of key personnel; (l) changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors that could affect the company's investment portfolio; and (m) such other risk factors as may be discussed in our most recent documents on file with the U.S. Securities and Exchange Commission. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

| | Three Months Ended September | | Nine Months Ended September | |
|---|------------------------------|---------------------|-----------------------------|---------------------|
| | 30, | | 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | |
| Gross premiums written | \$ 362,478 | \$ 329,930 | \$ 1,378,914 | \$ 1,276,933 |
| Premiums ceded | (64,462) | (80,210) | (283,057) | (268,553) |
| Net premiums written | 298,016 | 249,720 | 1,095,857 | 1,008,380 |
| Change in unearned premiums | 19,743 | 63,556 | (163,638) | (38,901) |
| Net premiums earned | 317,759 | 313,276 | 932,219 | 969,479 |
| Net investment income | 61,407 | 47,592 | 178,351 | 127,737 |
| Net realized investment (losses) gains | (9,080) | 4,152 | (24,488) | (4,937) |
| Total Revenue | 370,086 | 365,020 | 1,086,082 | 1,092,279 |
| Expenses: | | | | |
| Net losses and loss expenses | 180,934 | 593,276 | 566,738 | 1,055,931 |
| Acquisition costs | 37,785 | 35,871 | 106,920 | 109,823 |
| General and administrative expenses | 25,640 | 20,795 | 72,218 | 66,676 |
| Interest expense | 9,529 | 5,146 | 23,056 | 9,783 |
| Foreign exchange (gain) loss | (561) | (46) | (491) | 486 |
| Total Expenses | 253,327 | 655,042 | 768,441 | 1,242,699 |
| Income (loss) before income taxes | 116,759 | (290,022) | 317,641 | (150,420) |
| Income tax expense (recovery) | 2,774 | (6,617) | 3,164 | (2,922) |
| NET INCOME (LOSS) | \$ 113,985 | \$ (283,405) | \$ 314,477 | \$ (147,498) |
| PER SHARE DATA: | | | | |
| Basic earnings (loss) per share | \$ 1.95 | \$ (5.65) | \$ 5.94 | \$ (2.94) |
| Diluted earnings (loss) per share | \$ 1.89 | \$ (5.65) | \$ 5.76 | \$ (2.94) |
| Weighted average common shares outstanding | 58,376,307 | 50,162,842 | 52,900,664 | 50,162,842 |
| Weighted average common shares and common share equivalents outstanding | 60,451,643 | 50,162,842 | 54,577,445 | 50,162,842 |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

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

| | As of September 30, 2006 | As of December 31, 2005 (Audited) |
|--|---|--|
| ASSETS: | | |
| Fixed maturity investments available for sale at fair value (amortized cost: 2006: \$5,289,411; 2005:\$4,442,040) | \$5,283,799 | \$4,390,457 |
| Other invested assets available for sale, at fair value (cost: 2006: \$246,854; 2005: \$270,138) | 256,997 | 296,990 |
| Cash and cash equivalents | 270,848 | 172,379 |
| Restricted cash | 50,871 | 41,788 |
| Securities lending collateral | 700,804 | 456,792 |
| Insurance balances receivable | 306,084 | 218,044 |
| Prepaid reinsurance | 176,355 | 140,599 |
| Reinsurance recoverable | 688,066 | 716,333 |
| Accrued investment income | 43,498 | 48,983 |
| Deferred acquisition costs | 119,845 | 94,557 |
| Intangible assets | 3,920 | 3,920 |
| Balances receivable on sale of investments | 70,174 | 3,633 |
| Income tax assets | 5,540 | 8,516 |
| Other assets | 36,092 | 17,501 |
| Total assets | \$8,012,893 | \$6,610,492 |
| LIABILITIES: | | |
| Reserve for losses and loss expenses | \$3,586,964 | \$3,405,353 |
| Unearned premiums | 939,485 | 740,091 |
| Unearned ceding commissions | 25,537 | 27,465 |
| Reinsurance balances payable | 68,446 | 28,567 |
| Securities lending payable | 700,804 | 456,792 |
| Balances due on purchase of investments | 66,874 | |
| Senior notes | 498,543 | |
| Long term debt | | 500,000 |
| Accounts payable and accrued liabilities | 31,368 | 31,958 |
| Total liabilities | \$5,918,021 | \$5,190,226 |
| SHAREHOLDERS EQUITY: | | |
| Common stock, par value \$0.03 per share, issued and outstanding 2006: 60,283,040 shares; 2005: 50,162,842 shares | 1,809 | 1,505 |
| Additional paid-in capital | 1,819,730 | 1,488,860 |
| Retained earnings (accumulated deficit) | 269,886 | (44,591) |

| | | |
|--|-------------|-------------|
| Accumulated other comprehensive income (loss): net unrealized gains (losses) on investments, net of tax | 3,447 | (25,508) |
| Total shareholders equity | 2,094,872 | 1,420,266 |
| Total liabilities and shareholders equity | \$8,012,893 | \$6,610,492 |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED CONSOLIDATED SEGMENT DATA

(Expressed in thousands of United States dollars)

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

GAAP Ratios:

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

| Three Months Ended September 30, 2005 | Property | Casualty | Reinsurance | Total |
|--|-----------------|-----------------|--------------------|--------------|
| Gross premiums written | \$ 85,048 | \$ 153,267 | \$ 91,615 | \$ 329,930 |
| Net premiums written | 25,304 | 138,589 | 85,827 | 249,720 |
| Net premiums earned | 40,047 | 146,556 | 126,673 | 313,276 |
| Net losses and loss expenses | (252,679) | (101,928) | (238,669) | (593,276) |
| Acquisition costs | 1,771 | (7,950) | (29,692) | (35,871) |
| General and administrative expenses | (4,871) | (10,314) | (5,610) | (20,795) |
| Underwriting (loss) income | (215,732) | 26,364 | (147,298) | (336,666) |
| Net investment income | | | | 47,592 |
| Net realized investment gains | | | | 4,152 |
| Interest expense | | | | (5,146) |
| Foreign exchange gain | | | | 46 |
| Loss before income taxes | | | | \$ (290,022) |

GAAP Ratios:

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| | | | | |
|--|--------|-------|--------|--------|
| Loss and loss expense ratio | 630.9% | 69.6% | 188.4% | 189.4% |
| Acquisition cost ratio | (4.4%) | 5.4% | 23.5% | 11.5% |
| General and administrative expense ratio | 12.2% | 7.0% | 4.4% | 6.6% |
| Combined ratio | 638.7% | 82.0% | 216.3% | 207.5% |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED CONSOLIDATED SEGMENT DATA

(Expressed in thousands of United States dollars)

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

GAAP Ratios:

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

| Nine Months Ended September 30, 2005 | Property | Casualty | Reinsurance | Total |
|---|-----------------|-----------------|--------------------|--------------|
| Gross premiums written | \$ 316,459 | \$ 478,511 | \$ 481,963 | \$ 1,276,933 |
| Net premiums written | 123,276 | 423,852 | 461,252 | 1,008,380 |
| Net premiums earned | 178,552 | 447,849 | 343,078 | 969,479 |
| Net losses and loss expenses | (345,339) | (322,608) | (387,984) | (1,055,931) |
| Acquisition costs | (7,720) | (24,876) | (77,227) | (109,823) |
| General and administrative expenses | (14,194) | (30,675) | (21,807) | (66,676) |
| Underwriting (loss) income | (188,701) | 69,690 | (143,940) | (262,951) |
| Net investment income | | | | 127,737 |
| Net realized investment losses | | | | (4,937) |
| Interest expense | | | | (9,783) |
| Foreign exchange loss | | | | (486) |
| Loss before income taxes | | | | \$ (150,420) |

GAAP Ratios:

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| | | | | |
|--|--------|-------|--------|--------|
| Loss and loss expense ratio | 193.4% | 72.0% | 113.1% | 108.9% |
| Acquisition cost ratio | 4.3% | 5.6% | 22.5% | 11.3% |
| General and administrative expense ratio | 8.0% | 6.8% | 6.4% | 6.9% |
| Combined ratio | 205.7% | 84.4% | 142.0% | 127.1% |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED OPERATING INCOME RECONCILIATION

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

| | Three Months Ended Sept 30, | | Nine Months Ended Sept 30, | |
|--|------------------------------------|--------------|-----------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net income (loss) | \$ 113,985 | \$ (283,405) | \$ 314,477 | \$ (147,498) |
| Net realized investment losses (gains) | 9,080 | (4,152) | 24,488 | 4,937 |
| Foreign exchange (gain) loss | (561) | (46) | (491) | 486 |
| Operating income (loss) | \$ 122,504 | \$ (287,603) | \$ 338,474 | \$ (142,075) |

**Weighted average common shares
outstanding:**

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 58,376,307 | 50,162,842 | 52,900,664 | 50,162,842 |
| Diluted | 60,451,643 | 50,162,842 | 54,577,445 | 50,162,842 |

Basic per share data:

| | | | | |
|--|---------|-----------|---------|-----------|
| Net income (loss) | \$ 1.95 | \$ (5.65) | \$ 5.94 | \$ (2.94) |
| Net realized investment losses (gains) | 0.16 | (0.08) | 0.47 | 0.10 |
| Foreign exchange (gain) loss | (0.01) | | (0.01) | 0.01 |
| Operating income (loss) | \$ 2.10 | \$ (5.73) | \$ 6.40 | \$ (2.83) |

Diluted per share data

| | | | | |
|--|---------|-----------|---------|-----------|
| Net income (loss) | \$ 1.89 | \$ (5.65) | \$ 5.76 | \$ (2.94) |
| Net realized investment losses (gains) | 0.15 | (0.08) | 0.45 | 0.10 |
| Foreign exchange (gain) loss | (0.01) | | (0.01) | 0.01 |
| Operating income (loss) | \$ 2.03 | \$ (5.73) | \$ 6.20 | \$ (2.83) |

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

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

| | As of September 30, 2006 | As of December 31, 2005 |
|--|---|--|
| Price per share at period end | \$ 40.40 | N/A |
| Total shareholders equity | 2,094,872 | 1,420,266 |
| Basic common shares outstanding | 60,283,040 | 50,162,842 |
| Add: unvested restricted share units | 711,038 | 127,163 |
| Add: long term incentive plan share units | 228,334 | |
| Add: dilutive options/warrants outstanding | 6,704,402 | 662,833 |
| Weighted average exercise price per share | \$ 33.00 | \$ 24.88 |
| Less: treasury stock method adjustment | (5,476,585) | (582,486) |
| | | |
| Common shares and common share equivalents outstanding | 62,450,229 | 50,370,352 |
| Basic book value per common share | \$ 34.75 | \$ 28.31 |
| Diluted book value per common share | \$ 33.54 | \$ 28.20 |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED ANNUALIZED RETURN ON SHAREHOLDERS EQUITY

(Expressed in thousands of United States dollars)

| | Three Months Ended Sept 30, | | Nine Months Ended Sept 30, | |
|--|------------------------------------|--------------|-----------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Opening shareholders equity | \$1,565,062 | \$ 1,756,810 | \$1,420,266 | \$2,138,521 |
| Add/(deduct): net unrealized losses (gains) on investments, net of tax | 83,144 | (15,353) | 25,508 | (33,171) |
| Adjusted opening shareholders equity | 1,648,206 | 1,741,457 | 1,445,774 | 2,105,350 |
| Closing shareholders equity | 2,094,872 | 1,441,956 | 2,094,872 | 1,441,956 |
| (Deduct)/add: net unrealized (gains) losses on investments, net of tax | (3,447) | 16,095 | (3,447) | 16,095 |
| Adjusted closing shareholders equity | 2,091,425 | 1,458,051 | 2,091,425 | 1,458,051 |
| Average shareholders equity | \$1,869,816 | \$ 1,599,754 | \$1,768,600 | \$1,781,701 |
| Net income (loss) available to shareholders | \$ 113,985 | \$ (283,405) | \$ 314,477 | \$ (147,498) |
| Annualized net income (loss) available to shareholders | 455,940 | (1,133,620) | 419,303 | (196,664) |
| Annualized return on average shareholders equity net income (loss) available to shareholders | 24.4% | (70.9%) | 23.7% | (11.0%) |
| Operating income (loss) available to shareholders | \$ 122,504 | \$ (287,603) | \$ 338,474 | \$ (142,075) |
| Annualized operating income (loss) available to shareholders | 490,016 | (1,150,412) | 451,299 | (189,433) |
| Annualized return on average shareholders equity operating income (loss) available to shareholders | 26.2% | (71.9%) | 25.5% | (10.6%) |

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
FINANCIAL SUPPLEMENT
September 30, 2006

Investor Contact:

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

NOTE ON FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 that involve inherent risks and uncertainties. Statements that are not historical facts, including statements that use terms such as believes , anticipates , intends or expects and that relate to our plans and objectives for future operations, are forward-looking statements. In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion of such statements in this report should not be considered as a representation by us or any other person that our objectives or plans will be achieved. These statements are based on current plans, estimates and expectations. Actual results may differ materially from those projected in such forward-looking statements and therefore you should not place undue reliance on them. A non-exclusive list of the important factors that could cause actual results to differ materially from those in such forward-looking statements includes the following: (a) the effects of competitors pricing policies, and of changes in laws and regulations on competition, including industry consolidation and development of competing financial products; (b) the effects of investigations into market practices, in particular insurance brokerage practices, together with any legal or regulatory proceedings, related settlements and industry reform or other changes arising therefrom; (c) the impact of acts of terrorism and acts of war; (d) greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices have anticipated; (e) increased competition due to an increase in capacity of property and casualty insurers or reinsurers; (f) the inability to obtain or maintain financial strength ratings by one or more of the company s subsidiaries; (g) the adequacy of our loss reserves and the need to adjust such reserves as claims develop over time; (h) the company or one of its subsidiaries becoming subject to significant income taxes in the United States or elsewhere; (i) changes in regulations or tax laws applicable to the company, its subsidiaries, brokers or customers; if (j) changes in the availability, cost or quality of reinsurance or retrocessional coverage; (k) loss of key personnel; (l) changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors that could affect the company s investment portfolio; and (m) such other risk factors as may be discussed in our most recent documents on file with the U.S. Securities and Exchange Commission (SEC). We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

DEFINITIONS AND PRESENTATION

- All financial information contained herein is unaudited, except the balance sheet and income statement data for the years ended December 31, 2005 and December 31, 2004, which was derived from the company's audited financial statements.
- Unless otherwise noted, all data is in thousands of U.S. dollars, except for share, per share, percentage and ratio information.
- Allied World Assurance Company Holdings, Ltd, along with others in the industry, uses underwriting ratios as measures of performance. The loss ratio is calculated by dividing net losses and loss expenses by net premiums earned. The acquisition cost ratio is calculated by dividing acquisition costs by net premiums earned. The general and administrative expense ratio is calculated by dividing general and administrative expenses by net premiums earned. The expense ratio is calculated by combining the acquisition cost ratio and the general and administrative expense ratio. The combined ratio is calculated by combining the loss ratio, the acquisition cost ratio and the general and administrative expense ratio. These ratios are relative measurements that describe for every \$100 of net premiums earned or written, the cost of losses and expenses, respectively. The combined ratio presents the total cost per \$100 of earned or written premium. A combined ratio below 100% demonstrates underwriting profit; a combined ratio above 100% demonstrates underwriting loss.
- In presenting the Company's results, management has included and discussed certain non-GAAP financial measures, as such term is defined in Regulation G promulgated by the SEC. Management believes that these non-GAAP measures, which may be defined differently by other companies, better explain the Company's results of operations in a manner that allows for a more complete understanding of the underlying trends in the Company's business. However, these measures should not be viewed as a substitute for those determined in accordance with GAAP. The reconciliation of such non-GAAP financial measures to their respective most directly comparable GAAP financial measures in accordance with Regulation G is included in this financial supplement. See page 22 for further details.

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

| HIGHLIGHTS | THREE MONTHS ENDED | | NINE MONTHS ENDED | | Previous Quarter Change | Previous Year to Date Change |
|--------------------------------------|-------------------------------|-------------|--------------------------|--------------|--|---|
| | SEPTEMBER 30, | | SEPTEMBER 30, | | | |
| | 2006 | 2005 | 2006 | 2005 | | |
| Gross premiums written | \$ 362,478 | \$ 329,930 | \$ 1,378,914 | \$ 1,276,933 | 9.9% | 8.0% |
| Net premiums written | 298,016 | 249,720 | 1,095,857 | 1,008,380 | 19.3% | 8.7% |
| Net premiums earned | 317,759 | 313,276 | 932,219 | 969,479 | 1.4% | (3.8%) |
| Net investment income | 61,407 | 47,592 | 178,351 | 127,737 | 29.0% | 39.6% |
| Net income (loss) | 113,985 | (283,405) | 314,477 | (147,498) | (140.2%) | (313.2%) |
| Operating income (loss) | 122,504 | (287,603) | 338,474 | (142,075) | (142.6%) | (338.2%) |
| Total assets | 8,012,893 | 7,182,918 | 8,012,893 | 7,182,918 | 11.6% | 11.6% |
| Total shareholders equity | 2,094,872 | 1,441,956 | 2,094,872 | 1,441,956 | 45.3% | 45.3% |
| Cash flows from operating activities | 239,740 | 211,649 | 651,005 | 589,905 | 13.3% | 10.4% |
| PER SHARE AND SHARES DATA | | | | | | |
| Basic earnings per share | | | | | | |
| Net income (loss) | \$ 1.95 | \$ (5.65) | \$ 5.94 | \$ (2.94) | (134.5%) | (302.0%) |
| Operating income (loss) | \$ 2.10 | \$ (5.73) | \$ 6.40 | \$ (2.83) | (136.6%) | (326.1%) |
| Diluted earnings per share | | | | | | |
| Net income (loss) | \$ 1.89 | \$ (5.65) | \$ 5.76 | \$ (2.94) | (133.5%) | (295.9%) |
| Operating income (loss) | \$ 2.03 | \$ (5.73) | \$ 6.20 | \$ (2.83) | (135.4%) | (319.1%) |
| Weighted average common shares | | | | | | |

| | | | | | | | |
|--|------------|------------|------------|------------|-------|-------|--|
| outstanding | | | | | | | |
| Basic | 58,376,307 | 50,162,842 | 52,900,664 | 50,162,842 | | | |
| Diluted | 60,451,643 | 50,162,842 | 54,577,445 | 50,162,842 | | | |
| Book value | \$ 34.75 | \$ 28.75 | \$ 34.75 | \$ 28.75 | 20.9% | 20.9% | |
| Diluted book value (treasury stock method) | \$ 33.54 | \$ 28.62 | \$ 33.54 | \$ 28.62 | 17.2% | 17.2% | |

FINANCIAL RATIOS

| | | | | | | |
|--|-------|---------|-------|---------|------------|-----------|
| Return on average equity (ROAE), net income (loss) | 24.4% | (70.9%) | 23.7% | (11.0%) | 95.3pts | 34.7pts |
| ROAE, operating income (loss) | 26.2% | (71.9%) | 25.5% | (10.6%) | 98.1pts | 36.1pts |
| Annualized investment book yield | 4.4% | 3.7% | 4.3% | 3.7% | 0.7pts | 0.6pts |
| Loss and loss expense ratio | 56.9% | 189.4% | 60.8% | 108.9% | (132.5)pts | (48.1)pts |
| Acquisition cost ratio | 11.9% | 11.5% | 11.5% | 11.3% | 0.4pts | 0.2pts |
| General and administrative expense ratio | 8.1% | 6.6% | 7.7% | 6.9% | 1.5pts | 0.8pts |
| Expense ratio | 20.0% | 18.1% | 19.2% | 18.2% | 1.9pts | 1.0pts |
| Combined ratio | 76.9% | 207.5% | 80.0% | 127.1% | (130.6)pts | (47.1)pts |

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

| | THREE MONTHS ENDED SEPTEMBER 30, 2006 | THREE MONTHS ENDED JUNE 30, 2006 | THREE MONTHS ENDED MARCH 31, 2006 | THREE MONTHS ENDED DECEMBER 31, 2005 | THREE MONTHS ENDED SEPTEMBER 30, 2005 | THREE MONTHS ENDED JUNE 30, 2005 |
|--|--|---|--|---|--|---|
| Revenues | | | | | | |
| Gross premiums written | \$ 362,478 | \$ 518,316 | \$ 498,120 | \$ 283,393 | \$ 329,930 | \$ 441,675 |
| Net premiums written | \$ 298,016 | \$ 370,338 | \$ 427,503 | \$ 213,571 | \$ 249,720 | \$ 320,006 |
| Net premiums earned | \$ 317,759 | \$ 305,517 | \$ 308,943 | \$ 302,032 | \$ 313,276 | \$ 332,097 |
| Net investment income | 61,407 | 54,943 | 62,001 | 50,823 | 47,592 | 39,820 |
| Net realized investment (losses) gains | (9,080) | (10,172) | (5,236) | (5,286) | 4,152 | (6,632) |
| Total revenues | \$ 370,086 | \$ 350,288 | \$ 365,708 | \$ 347,569 | \$ 365,020 | \$ 365,285 |
| Expenses | | | | | | |
| Net losses and loss expenses | \$ 180,934 | \$ 179,844 | \$ 205,960 | \$ 288,669 | \$ 593,276 | \$ 224,253 |
| Acquisition costs | 37,785 | 32,663 | 36,472 | 33,604 | 35,871 | 37,502 |
| General and administrative expenses | 25,640 | 26,257 | 20,322 | 27,594 | 20,795 | 24,972 |
| Foreign exchange (gain) loss | (561) | (475) | 545 | 1,670 | (46) | 397 |
| Interest expense | 9,529 | 7,076 | 6,451 | 5,832 | 5,146 | 4,587 |
| Total expenses | \$ 253,327 | \$ 245,365 | \$ 269,750 | \$ 357,369 | \$ 655,042 | \$ 291,711 |
| Income (loss) before income taxes | \$ 116,759 | \$ 104,923 | \$ 95,958 | \$ (9,800) | \$ (290,022) | \$ 73,574 |

| | | | | | | |
|-------------------------------|-------|-------|---------|-------|---------|-------|
| Income tax expense (recovery) | 2,774 | 2,553 | (2,163) | 2,478 | (6,617) | 2,027 |
|-------------------------------|-------|-------|---------|-------|---------|-------|

| | | | | | | |
|--------------------------|------------|------------|-----------|-------------|--------------|-----------|
| Net income (loss) | \$ 113,985 | \$ 102,370 | \$ 98,121 | \$ (12,278) | \$ (283,405) | \$ 71,547 |
|--------------------------|------------|------------|-----------|-------------|--------------|-----------|

GAAP Ratios

| | | | | | | |
|--|-------|-------|-------|--------|--------|-------|
| Loss and loss expense ratio | 56.9% | 58.9% | 66.7% | 95.6% | 189.4% | 67.5% |
| Acquisition cost ratio | 11.9% | 10.7% | 11.8% | 11.1% | 11.5% | 11.3% |
| General and administrative expense ratio | 8.1% | 8.6% | 6.6% | 9.1% | 6.6% | 7.5% |
| Expense ratio | 20.0% | 19.3% | 18.4% | 20.2% | 18.1% | 18.8% |
| Combined ratio | 76.9% | 78.2% | 85.1% | 115.8% | 207.5% | 86.3% |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED STATEMENTS OF OPERATIONS

| | NINE MONTHS ENDED SEPTEMBER 30, 2006 | NINE MONTHS ENDED SEPTEMBER 30, 2005 |
|--|---|---|
| Revenues | | |
| Gross premiums written | \$ 1,378,914 | \$ 1,276,933 |
| Net premiums written | 1,095,857 | 1,008,380 |
| Net premiums earned | \$ 932,219 | \$ 969,479 |
| Net investment income | 178,351 | 127,737 |
| Net realized investment losses | (24,488) | (4,937) |
| Total revenues | \$ 1,086,082 | \$ 1,092,279 |
| Expenses | | |
| Net losses and loss expenses | \$ 566,738 | \$ 1,055,931 |
| Acquisition costs | 106,920 | 109,823 |
| General and administrative expenses | 72,218 | 66,676 |
| Foreign exchange (gain) loss | (491) | 486 |
| Interest expense | 23,056 | 9,783 |
| Total expenses | \$ 768,441 | \$ 1,242,699 |
| Income (loss) before income taxes | \$ 317,641 | \$ (150,420) |
| Income tax expense (recovery) | 3,164 | (2,922) |
| Net income (loss) | \$ 314,477 | \$ (147,498) |
| GAAP Ratios | | |
| Loss and loss expense ratio | 60.8% | 108.9% |
| Acquisition cost ratio | 11.5% | 11.3% |
| General and administrative expense ratio | 7.7% | 6.9% |
| Expense ratio | 19.2% | 18.2% |
| Combined ratio | 80.0% | 127.1% |

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
PREMIUM DISTRIBUTION
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006
Gross Premiums Written = \$362,478**

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
PREMIUM DISTRIBUTION
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006
Gross Premiums Written = \$1,378,914

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

| | PROPERTY | CASUALTY | REINSURANCE | CONSOLIDATED TOTALS |
|--|------------------|-------------------|--------------------|--------------------------------|
| Revenues | | | | |
| Gross premiums written | \$ 88,150 | \$ 144,576 | \$ 129,752 | \$ 362,478 |
| Net premiums written | \$ 40,855 | \$ 127,893 | \$ 129,268 | \$ 298,016 |
| Net premiums earned | \$ 46,576 | \$ 135,186 | \$ 135,997 | \$ 317,759 |
| Total revenues | \$ 46,576 | \$ 135,186 | \$ 135,997 | \$ 317,759 |
| Expenses | | | | |
| Net losses and loss expenses | \$ 28,917 | \$ 78,979 | \$ 73,038 | \$ 180,934 |
| Acquisition costs | (373) | 7,301 | 30,857 | 37,785 |
| General and administrative expenses | 6,273 | 12,894 | 6,473 | 25,640 |
| Total expenses | \$ 34,817 | \$ 99,174 | \$ 110,368 | \$ 244,359 |
| Underwriting Income | \$ 11,759 | \$ 36,012 | \$ 25,629 | \$ 73,400 |
| GAAP Ratios | | | | |
| Loss and loss expense ratio | 62.1% | 58.4% | 53.7% | 56.9% |
| Acquisition cost ratio | (0.8%) | 5.4% | 22.7% | 11.9% |
| General and administrative expense ratio | 13.5% | 9.6% | 4.8% | 8.1% |
| Expense ratio | 12.7% | 15.0% | 27.5% | 20.0% |
| Combined ratio | 74.8% | 73.4% | 81.2% | 76.9% |

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

| | PROPERTY | CASUALTY | REINSURANCE | CONSOLIDATED TOTALS |
|--|-------------------|-------------------|--------------------|--------------------------------|
| Revenues | | | | |
| Gross premiums written | \$ 374,830 | \$ 475,074 | \$ 529,010 | \$ 1,378,914 |
| Net premiums written | \$ 152,808 | \$ 414,812 | \$ 528,237 | \$ 1,095,857 |
| Net premiums earned | \$ 141,633 | \$ 400,488 | \$ 390,098 | \$ 932,219 |
| Total revenues | \$ 141,633 | \$ 400,488 | \$ 390,098 | \$ 932,219 |
| Expenses | | | | |
| Net losses and loss expenses | \$ 86,965 | \$ 258,993 | \$ 220,780 | \$ 566,738 |
| Acquisition costs | (2,631) | 23,575 | 85,976 | 106,920 |
| General and administrative expenses | 18,233 | 35,873 | 18,112 | 72,218 |
| Total expenses | \$ 102,567 | \$ 318,441 | \$ 324,868 | \$ 745,876 |
| Underwriting Income | \$ 39,066 | \$ 82,047 | \$ 65,230 | \$ 186,343 |
| GAAP Ratios | | | | |
| Loss and loss expense ratio | 61.4% | 64.7% | 56.6% | 60.8% |
| Acquisition cost ratio | (1.9%) | 5.9% | 22.0% | 11.5% |
| General and administrative expense ratio | 12.9% | 8.9% | 4.7% | 7.7% |
| Expense ratio | 11.0% | 14.8% | 26.7% | 19.2% |
| Combined ratio | 72.4% | 79.5% | 83.3% | 80.0% |

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

| | SEPTEMBER 30, 2006 | DECEMBER 31, 2005 |
|--|-------------------------------|------------------------------|
| ASSETS | | |
| Fixed maturity investments available for sale, at fair value | \$ 5,283,799 | \$ 4,390,457 |
| Other invested assets available for sale, at fair value | 256,997 | 296,990 |
| Cash and cash equivalents | 270,848 | 172,379 |
| Restricted cash | 50,871 | 41,788 |
| Securities lending collateral | 700,804 | 456,792 |
| Insurance balances receivable | 306,084 | 218,044 |
| Prepaid reinsurance | 176,355 | 140,599 |
| Reinsurance recoverable | 688,066 | 716,333 |
| Accrued investment income | 43,498 | 48,983 |
| Deferred acquisition costs | 119,845 | 94,557 |
| Intangible assets | 3,920 | 3,920 |
| Balances receivable on sale of investments | 70,174 | 3,633 |
| Income tax assets | 5,540 | 8,516 |
| Other assets | 36,092 | 17,501 |
| TOTAL ASSETS | \$ 8,012,893 | \$ 6,610,492 |
| LIABILITIES | | |
| Reserve for losses and loss expenses | \$ 3,586,964 | \$ 3,405,353 |
| Unearned premiums | 939,485 | 740,091 |
| Unearned ceding commissions | 25,537 | 27,465 |
| Reinsurance balances payable | 68,446 | 28,567 |
| Securities lending payable | 700,804 | 456,792 |
| Balances due on purchase of investments | 66,874 | |
| Senior notes | 498,543 | |
| Long term debt | | 500,000 |
| Accounts payable and accrued liabilities | 31,368 | 31,958 |
| TOTAL LIABILITIES | \$ 5,918,021 | \$ 5,190,226 |
| SHAREHOLDERS EQUITY | | |
| Common shares, par value \$0.03 per share: | | |
| 60,283,040 issued and outstanding (2005 - 50,162,842) | \$ 1,809 | \$ 1,505 |
| Additional paid-in capital | 1,819,730 | 1,488,860 |
| Retained earnings (accumulated deficit) | 269,886 | (44,591) |
| Accumulated other comprehensive income (loss): | | |
| net unrealized losses on investments, net of tax | 3,447 | (25,508) |
| TOTAL SHAREHOLDERS EQUITY | \$ 2,094,872 | \$ 1,420,266 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 8,012,893 | \$ 6,610,492 |

| | | | | |
|--|----|-------|----|-------|
| Book value per share | \$ | 34.75 | \$ | 28.31 |
| Diluted book value per share (treasury stock method) | | 33.54 | | 28.20 |

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
INVESTMENT PORTFOLIO**

| | SEPTEMBER 30, 2006 | | JUNE 30, 2006 | | MARCH 31, 2006 | | DECEMBER 31, 2005 | |
|--|-------------------------------|---------------|--------------------------|---------------|--------------------------|---------------|--------------------------|---------------|
| MARKET VALUE | FAIR MARKET VALUE | | FAIR MARKET VALUE | | FAIR MARKET VALUE | | FAIR MARKET VALUE | |
| Fixed maturities available for sale | \$5,283,799 | 95.4% | \$4,808,403 | 94.8% | \$4,530,702 | 94.5% | \$4,390,457 | 93.7% |
| Other invested assets available for sale | 256,997 | 4.6% | 264,700 | 5.2% | 265,412 | 5.5% | 296,990 | 6.3% |
| Total | \$5,540,796 | 100.0% | \$5,073,103 | 100.0% | \$4,796,114 | 100.0% | \$4,687,447 | 100.0% |

ASSET ALLOCATION BY MARKET VALUE

| | | | | | | | | |
|--------------------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| U.S. government and agencies | \$2,412,080 | 41.1% | \$2,375,542 | 44.7% | \$2,093,638 | 41.5% | \$2,308,402 | 47.0% |
| Non-U.S. government securities | 99,504 | 1.7% | 91,384 | 1.7% | 86,227 | 1.7% | 83,987 | 1.7% |
| Corporate securities | 1,057,457 | 18.0% | 839,861 | 15.8% | 901,198 | 17.9% | 935,765 | 19.1% |
| Asset-backed securities | 257,969 | 4.4% | 253,476 | 4.8% | 196,713 | 3.9% | 216,196 | 4.4% |
| Mortgage-backed securities | 1,456,789 | 24.9% | 1,248,140 | 23.5% | 1,252,926 | 24.9% | 846,107 | 17.3% |
| Fixed Income Sub-Total | 5,283,799 | 90.1% | 4,808,403 | 90.5% | 4,530,702 | 89.9% | 4,390,457 | 89.5% |
| Global high-yield bond fund | 31,724 | 0.5% | 30,519 | 0.6% | 30,662 | 0.6% | 81,926 | 1.7% |
| Hedge funds | 225,273 | 3.9% | 234,181 | 4.4% | 234,750 | 4.7% | 215,064 | 4.4% |
| Cash & cash equivalents | 321,719 | 5.5% | 237,222 | 4.5% | 243,760 | 4.8% | 214,167 | 4.4% |
| Total | \$5,862,515 | 100.0% | \$5,310,325 | 100.0% | \$5,039,874 | 100.0% | \$4,901,614 | 100.0% |

CREDIT QUALITY BY MARKET VALUE

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| | | | | | | | | |
|---------------------------------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|
| U.S. government and agencies | \$2,412,080 | 45.7% | \$2,374,326 | 49.5% | \$2,093,639 | 46.2% | \$2,308,402 | 52.6% |
| AAA/Aaa | 2,005,127 | 37.9% | 1,752,653 | 36.4% | 1,696,107 | 37.4% | 1,230,608 | 28.0% |
| AA/Aa | 274,377 | 5.2% | 246,483 | 5.1% | 125,120 | 2.8% | 154,534 | 3.5% |
| A/A | 546,204 | 10.3% | 418,172 | 8.7% | 594,014 | 13.1% | 670,148 | 15.3% |
| BBB/Baa | 46,011 | 0.9% | 16,769 | 0.3% | 21,822 | 0.5% | 26,765 | 0.6% |
| Total | \$5,283,799 | 100.0% | \$4,808,403 | 100.0% | \$4,530,702 | 100.0% | \$4,390,457 | 100.0% |

STATISTICS

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Annualized book yield, year to date | 4.3% | 4.3% | 4.3% | 3.9% |
| Duration | 3.0 years | 3.2 years | 2.9 years | 2.3 years |
| Average credit quality (S&P) | AA | AA | AA | AA |

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

AT SEPTEMBER 30, 2006

| | PROPERTY | CASUALTY | REINSURANCE | CONSOLIDATED TOTAL |
|---|-------------------|---------------------|--------------------|-------------------------------|
| Case reserves (net of reinsurance recoverable) | \$ 315,592 | \$ 69,071 | \$ 213,165 | \$ 597,828 |
| IBNR (net of reinsurance recoverable) | 143,731 | 1,563,739 | 593,600 | 2,301,070 |
| Total | \$ 459,323 | \$ 1,632,810 | \$ 806,765 | \$ 2,898,898 |
| IBNR/Total reserves (net of reinsurance recoverable) | 31.3% | 95.8% | 73.6% | 79.4% |

AT DECEMBER 31, 2005

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

| | QUARTER ENDED SEPTEMBER 30, 2006 | YEAR ENDED SEPTEMBER 30, 2006 | QUARTER ENDED SEPTEMBER 30, 2005 | YEAR ENDED SEPTEMBER 30, 2005 |
|---------------------------------|---|--|---|--|
| Net losses incurred related to: | | | | |
| Current year | 219,616 | 634,394 | 631,233 | 1,088,238 |
| Prior years | (38,682) | (67,656) | (37,957) | (32,307) |
| Total incurred | 180,934 | 566,738 | 593,276 | 1,055,931 |

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CAPITAL STRUCTURE**

| | SEPTEMBER 30, 2006 | JUNE 30, 2006 | MARCH 31, 2006 | DECEMBER 31, 2005 | SEPTEMBER 30, 2005 |
|--|-----------------------------------|--------------------------|-------------------------------|----------------------------------|-----------------------------------|
| Senior notes/long-term debt | \$ 498,543 | \$ 500,000 | \$ 500,000 | \$ 500,000 | \$ 500,000 |
| Shareholders equity | 2,094,872 | 1,565,062 | 1,478,907 | 1,420,266 | 1,441,956 |
| Total capitalization | \$ 2,593,415 | \$ 2,065,062 | \$ 1,978,907 | \$ 1,920,266 | \$ 1,941,956 |
| Leverage ratios | | | | | |
| <i>Debt to total capitalization</i> | <i>19.2%</i> | <i>24.2%</i> | <i>25.3%</i> | <i>26.0%</i> | <i>25.7%</i> |
| Annual net premiums written (trailing 12 months) | \$ 1,309,428 | \$ 1,261,132 | \$ 1,210,800 | \$ 1,221,951 | \$ 1,266,726 |
| Closing shareholders equity | \$ 2,094,872 | \$ 1,565,062 | \$ 1,478,907 | \$ 1,420,266 | \$ 1,441,956 |
| Deduct/(add): accumulated other comprehensive income (loss) | 3,447 | (83,144) | (64,988) | (25,508) | (16,095) |
| Adjusted shareholders equity | \$ 2,091,425 | \$ 1,648,206 | \$ 1,543,895 | \$ 1,445,774 | \$ 1,458,051 |
| <i>Net premiums written (trailing 12 months) to adjusted shareholders equity</i> | <i>0.63</i> | <i>0.77</i> | <i>0.78</i> | <i>0.85</i> | <i>0.87</i> |

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

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|---|---------------------------|--------------|--------------------------|--------------|
| | SEPTEMBER 30, | | SEPTEMBER 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Net income (loss) | \$ 113,985 | \$ (283,405) | \$ 314,477 | \$ (147,498) |
| Add (less): | | | | |
| Net realized investment losses (gains) | 9,080 | (4,152) | 24,488 | 4,937 |
| Foreign exchange (gain) loss | (561) | (46) | (491) | 486 |
| Operating income (loss) | \$ 122,504 | \$ (287,603) | \$ 338,474 | \$ (142,075) |
| | | | | |
| Weighted average common shares outstanding | | | | |
| Basic | 58,376,307 | 50,162,842 | 52,900,664 | 50,162,842 |
| Diluted | 60,451,643 | 50,162,842 | 54,577,445 | 50,162,842 |
| | | | | |
| Basic per share data | | | | |
| Net income (loss) | \$ 1.95 | \$ (5.65) | \$ 5.94 | \$ (2.94) |
| Add (less): | | | | |
| Net realized investment losses (gains) | 0.16 | (0.08) | 0.47 | 0.10 |
| Foreign exchange (gain) loss | (0.01) | | (0.01) | 0.01 |
| Operating income (loss) | \$ 2.10 | \$ (5.73) | \$ 6.40 | \$ (2.83) |
| | | | | |
| Diluted per share data | | | | |
| Net income (loss) | \$ 1.89 | \$ (5.65) | \$ 5.76 | \$ (2.94) |
| Add (less): | | | | |
| Net realized investment losses (gains) | 0.15 | (0.08) | 0.45 | 0.10 |
| Foreign exchange (gain) loss | (0.01) | | (0.01) | 0.01 |
| Operating income (loss) | \$ 2.03 | \$ (5.73) | \$ 6.20 | \$ (2.83) |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
RETURN ON AVERAGE SHAREHOLDERS EQUITY

| | THREE MONTHS ENDED SEPTEMBER 30, 2006 | THREE MONTHS ENDED JUNE 30, 2006 | THREE MONTHS ENDED MARCH 31, 2006 | THREE MONTHS ENDED DECEMBER 31, 2005 | THREE MONTHS ENDED SEPTEMBER 30, 2005 |
|--|--|---|--|---|--|
| Opening shareholders equity | \$ 1,565,062 | \$ 1,478,907 | \$ 1,420,266 | \$ 1,441,956 | \$ 1,756,810 |
| Add/(deduct): net unrealized losses (gains) on investments, net of tax | 83,144 | 64,988 | 25,508 | 16,095 | (15,353) |
| Adjusted opening shareholders equity | \$ 1,648,206 | \$ 1,543,895 | \$ 1,445,774 | \$ 1,458,051 | \$ 1,741,457 |
| Closing shareholders equity | \$ 2,094,872 | \$ 1,565,062 | \$ 1,478,907 | \$ 1,420,266 | \$ 1,441,956 |
| (Deduct)/add: net unrealized (gains) losses on investments, net of tax | (3,447) | 83,144 | 64,988 | 25,508 | 16,095 |
| Adjusted closing shareholders equity | \$ 2,091,425 | \$ 1,648,206 | \$ 1,543,895 | \$ 1,445,774 | \$ 1,458,051 |
| Average shareholders equity | \$ 1,869,816 | \$ 1,596,051 | \$ 1,494,835 | \$ 1,451,913 | \$ 1,599,754 |
| Net income (loss) available to shareholders | \$ 113,985 | \$ 102,370 | \$ 98,121 | \$ (12,278) | \$ (283,405) |
| Annualized net income (loss) available to shareholders | 455,940 | 409,480 | 392,484 | (49,112) | (1,133,620) |
| Operating income (loss) available to shareholders | \$ 122,504 | \$ 112,067 | \$ 103,902 | \$ (5,322) | \$ (287,603) |
| Annualized operating income (loss) available to shareholders | 490,016 | 448,268 | 415,608 | (21,288) | (1,150,412) |

| | | | | | |
|--|-------|-------|-------|--------|---------|
| Annualized return on average shareholders equity net income (loss) available to shareholders | 24.4% | 25.7% | 26.3% | (3.4%) | (70.9%) |
|--|-------|-------|-------|--------|---------|

| | | | | | |
|--|-------|-------|-------|--------|---------|
| Annualized return on average shareholders equity operating income (loss) available to shareholders | 26.2% | 28.1% | 27.8% | (1.5%) | (71.9%) |
|--|-------|-------|-------|--------|---------|

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
RETURN ON AVERAGE SHAREHOLDERS EQUITY

| | NINE MONTHS ENDED SEPTEMBER 30, 2006 | NINE MONTHS ENDED SEPTEMBER 30, 2005 |
|--|---|---|
| Opening shareholders equity | \$ 1,420,266 | \$ 2,138,521 |
| Add/(deduct): net unrealized losses (gains) on investments, net of tax | 25,508 | (33,171) |
| Adjusted opening shareholders equity | \$ 1,445,774 | \$ 2,105,350 |
| Closing shareholders equity | \$ 2,094,872 | \$ 1,441,956 |
| (Deduct)/add: net unrealized (gains) losses on investments, net of tax | (3,447) | 16,095 |
| Adjusted closing shareholders equity | \$ 2,091,425 | \$ 1,458,051 |
| Average shareholders equity | \$ 1,768,600 | \$ 1,781,701 |
| Net income (loss) available to shareholders | \$ 314,477 | \$ (147,498) |
| Annualized net income (loss) available to shareholders | 419,303 | (196,664) |
| Operating income (loss) available to shareholders | \$ 338,474 | \$ (142,075) |
| Annualized operating income (loss) available to shareholders | 451,299 | (189,433) |
| Annualized return on average shareholders equity net income (loss) available to ordinary shareholders | 23.7% | (11.0%) |
| Annualized return on average shareholders equity operating income (loss) available to shareholders | 25.5% | (10.6%) |

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

| | | SEPTEMBER 30, | | DECEMBER |
|----------------------------|--|----------------------|-------------|-----------------|
| | | 2006 | 2005 | 31, |
| | | | | 2005 |
| | Price per share at period end | \$ 40.40 | N/A | N/A |
| | Total shareholders equity | 2,094,872 | 1,441,956 | 1,420,266 |
| DILUTIVE COMMON | Basic common shares | | | |
| SHARES OUTSTANDING: | outstanding | 60,283,040 | 50,162,842 | 50,162,842 |
| | Add: unvested restricted share units | 711,038 | 127,163 | 127,163 |
| | Add: Long-Term Incentive Plan share units | 228,334 | | |
| TREASURY STOCK | Add: dilutive options/warrants outstanding | 6,704,402 | 575,167 | 662,833 |
| METHOD | Weighted average exercise price per share | \$ 33.00 | \$ 24.35 | \$ 24.88 |
| | Deduct: treasury stock method adjustment | (5,476,585) | (487,191) | (582,486) |
| | Common shares and common share equivalents outstanding | 62,450,229 | 50,377,981 | 50,370,352 |
| | Basic book value per common share | \$ 34.75 | \$ 28.75 | \$ 28.31 |
| | Diluted book value per common share | \$ 33.54 | \$ 28.62 | \$ 28.20 |
| | | | | Page 19 |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
ANNUALIZED INVESTMENT BOOK YIELD

| | THREE MONTHS ENDED SEPTEMBER 30, 2006 | THREE MONTHS ENDED SEPTEMBER 30, 2005 | NINE MONTHS ENDED SEPTEMBER 30, 2006 | NINE MONTHS ENDED SEPTEMBER 30, 2005 |
|---|--|--|---|---|
| Net investment income | 61,407 | 47,592 | 178,351 | 127,737 |
| Deduct: annual/non-recurring items | (119) | 5,136 | 11,689 | 11,217 |
| Net investment income, recurring | 61,526 | 42,456 | 166,662 | 116,520 |
| Annualized net investment income, recurring | 246,104 | 169,824 | 222,216 | 155,360 |
| Add: annual/non-recurring items | (119) | 5,136 | 11,689 | 11,217 |
| Normalized net investment income | 245,985 | 174,960 | 233,905 | 166,577 |
| Fixed maturity investments available for sale, amortized cost | 4,907,653 | 4,045,314 | 4,442,040 | 3,890,759 |
| Other invested assets, available for sale, cost | 247,975 | 273,740 | 270,138 | 162,587 |
| Cash and cash equivalents | 223,602 | 372,518 | 172,379 | 200,812 |
| Restricted cash | 13,620 | | 41,788 | |
| Balances receivable on sale of investments | 2,433 | | 3,633 | |
| Balances due on purchase of investments | (76,779) | (78,816) | | |
| Opening aggregate invested assets | 5,318,504 | 4,612,756 | 4,929,978 | 4,254,158 |
| Fixed maturity investments available for sale, amortized cost | 5,289,411 | 4,389,361 | 5,289,411 | 4,389,361 |
| Other invested assets, available for sale, cost | 246,854 | 272,484 | 246,854 | 272,484 |
| Cash and cash equivalents | 270,848 | 175,933 | 270,848 | 175,933 |
| Restricted cash | 50,871 | 57,586 | 50,871 | 57,586 |
| Balances receivable on sale of investments | 70,174 | 300 | 70,174 | 300 |
| Balances due on purchase of investments | (66,874) | (86,926) | (66,874) | (86,926) |
| Closing aggregate invested assets | 5,861,284 | 4,808,738 | 5,861,284 | 4,808,738 |
| Average aggregate invested assets | 5,589,894 | 4,710,747 | 5,395,631 | 4,531,448 |
| Annualized investment book yield | 4.4% | 3.7% | 4.3% | 3.7% |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
ANNUALIZED INVESTMENT BOOK YIELD

| | SIX MONTHS ENDED | THREE MONTHS ENDED | YEAR ENDED DECEMBER |
|--|-----------------------------|-----------------------------------|--------------------------------|
| | JUNE 30, 2006 | MARCH 31, 2006 | 31, 2005 |
| Net investment income | 116,944 | 62,001 | 178,560 |
| Deduct: annual/non-recurring items | 11,808 | 11,582 | N/A |
| Net investment income, recurring | 105,136 | 50,419 | 178,560 |
| Annualized net investment income, recurring | 210,272 | 201,676 | 178,560 |
| Add: annual/non-recurring items | 11,808 | 11,582 | N/A |
| Normalized net investment income | 222,080 | 213,258 | 178,560 |
| Fixed maturity investments available for sale, amortized cost | 4,442,040 | 4,442,040 | 3,890,759 |
| Other invested assets, available for sale, cost | 270,138 | 270,138 | 162,587 |
| Cash and cash equivalents | 172,379 | 172,379 | 190,738 |
| Restricted cash | 41,788 | 41,788 | 10,074 |
| Balances receivable on sale of investments | 3,633 | 3,633 | |
| Balances due on purchase of investments | | | |
| Opening aggregate invested assets | 4,929,978 | 4,929,978 | 4,254,158 |
| Fixed maturity investments available for sale, amortized cost | 4,907,653 | 4,613,208 | 4,442,040 |
| Other invested assets, available for sale, cost | 247,975 | 247,486 | 270,138 |
| Cash and cash equivalents | 223,602 | 188,599 | 172,379 |
| Restricted cash | 13,620 | 55,161 | 41,788 |
| Balances receivable on sale of investments | 2,433 | 1,224 | 3,633 |
| Balances due on purchase of investments | (76,779) | | |
| Closing aggregate invested assets | 5,318,504 | 5,105,678 | 4,929,978 |
| Average aggregate invested assets | 5,124,241 | 5,017,828 | 4,592,068 |
| Annualized investment book yield | 4.3% | 4.3% | 3.9% |

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
REGULATION G**

In presenting the Company's results, management has included and discussed certain non-GAAP financial measures. Management believes that these non-GAAP measures, which may be defined differently by other companies, better explain the Company's results of operations in a manner that allows for a more complete understanding of the underlying trends in the Company's business. However, these measures should not be viewed as a substitute for those determined in accordance with GAAP.

OPERATING INCOME

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

ANNUALIZED RETURN ON AVERAGE EQUITY (ROAE)

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

ANNUALIZED OPERATING RETURN ON AVERAGE EQUITY

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

ANNUALIZED INVESTMENT BOOK YIELD

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

DILUTED BOOK VALUE PER SHARE

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