

REPORT ON EXAMINATION
OF THE
ALLIED WORLD ASSURANCE COMPANY (U.S.) INC.
AS OF
DECEMBER 31, 2009



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ALLIED WORLD ASSURANCE COMPANY
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The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 16th day of June, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

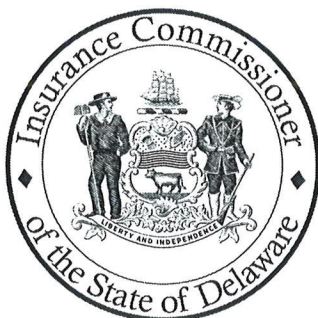
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

ALLIED WORLD ASSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 16 June 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 16th day of June, 2011.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

April 11, 2011

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee,
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Insurance and Banking
Division of Insurance
Department of Business Regulation
State of Rhode Island
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Montana State Auditors Office
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Honorable Karen Weldin Stewart
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 10.005, dated December 24, 2008, an Association examination has been made of the affairs, financial condition and management of the

ALLIED WORLD ASSURANCE COMPANY (U.S.) INC.

hereinafter referred to as, (Company or AWUS) and incorporated under the laws of the state of Delaware as a stock company with its statutory home office located at 2711 Centerville Rd, Suite

Allied World Assurance Company (U.S.) Inc.

400, Wilmington, DE 19808. The examination was conducted at administrative offices of the Company, located at 199 Water Street, New York, NY 10038.

The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

This examination was a multistate coordinated examination of Allied World Reinsurance Company (NH) - (AWRE), Allied World Assurance Company (U.S.) Inc. (DE) - (AWUS), Allied World National Assurance Company (NH) - (AWNAC), Darwin National Assurance Company (DE) - (DNA), Darwin Select Insurance Company (AR) - (DSI), and Vantapro Specialty Insurance Company (AR) - (Vantapro); which collectively make up the Allied World Holdings US insurance entities (Allied US Entities). AWRE, AWUS and AWNAC are wholly owned subsidiaries of Allied World Assurance Holdings (U.S.) Inc. (AWUSH), a Delaware holding company. DNA is owned by Darwin Professional Underwriters Inc. (DPUI), which is a wholly owned subsidiary of AWRE. DSI and Vantapro are subsidiaries of DNA. The ultimate parent of all the Allied US Entities is Allied World Assurance Company Holdings, Ltd, (AWAH) a Bermuda holding company. These concurrent examinations were conducted in accordance with the Association Plan of Examination guidelines established by the National Association of Insurance Commissioners (NAIC). Examiners representing the states of Delaware, Arkansas and New Hampshire participated in these concurrent examinations, and Reports of Examination for each of the six U.S. domestic companies were filed separately.

The last examination of AWUS was conducted as of December 31, 2006. This examination covers the intervening three (3) year period from January 1, 2007, through December 31, 2009, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate

matters, with a determination of the financial condition of the Company at December 31, 2009. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (NAIC Handbook). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating key activity processes, system controls and procedures used to mitigate those risks. The examination also included assessing the accounting principles used and significant financial estimates made by management, as well as evaluating overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by both the Company's Internal Audit Department (IAD) as regards their oversight of compliance with Sarbanes-Oxley (SOX), including risk analysis, documentation, test work, and remediation efforts over weaknesses identified, as well as the Company's external accounting firm, Deloitte & Touche, LLP (D&T). Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

The examination was conducted concurrently with that of the Company's five (5) Allied World U.S. affiliates. Separate reports of examination were filed for each company.

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

- Corporate Records
- Employee and Agents Welfare
- Fidelity Bonds and Other Insurance
- NAIC Ratios
- Legal Actions
- Regulatory Agency Correspondence
- All Other Asset and Liability Items Not Mentioned

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, adjustments to the financial statements, or specific recommendations as a result of this examination.

SUBSEQUENT EVENTS

Allied World US Consolidated Tax and Expense Sharing Agreement

Subsequent to the examination date, the Company filed an amended Allied World US Consolidated Tax and Expense Sharing Agreement to add DNA and DSI to the agreement.

Program Administrators Agreement with Crump Insurance Services, Inc.

Allied World Assurance Company (U.S.) Inc.

Effective March 25, 2010, the Company, AWNAC, and DSI entered into a Program Administrators Agreement with Crump Insurance Services, Inc. to provide Contractors' Pollution Liability business.

Program Administrators Agreement with JLT Facilities, Inc.

Effective September 30, 2010, the Company and its affiliate, AWNAC, terminated its Program Administrators Agreement with JLT Facilities, Inc. for lawyers professional liability coverage.

AWAH \$300 million senior debt issuance

On November 9, 2010, AWAH priced an offering of \$300 million aggregate principal amount of senior notes due 2020, pursuant to their effective shelf registration. The use of the proceeds will include share repurchases and general corporate purposes.

Redomestication of Allied World Assurance Holdings, Ltd.

On December 1, 2010, AWAH, the Company's ultimate parent, announced that it had completed its redomestication of its group holding company from Bermuda to Switzerland. The new Swiss holding company will remain subject to the U.S. Securities and Exchange Commission reporting requirements and will continue to report its consolidated financial results in U. S. dollars and under U. S. generally accepted accounting principles.

COMPANY HISTORY

AWUS was incorporated on March 25, 1992, under the laws of the State of California, by representatives of the Swiss Reinsurance Company, and began business on December 31, 1992. Formerly known as Commercial Underwriters Insurance Company (CUIC), it was acquired on

Allied World Assurance Company (U.S.) Inc.

July 15, 2002, from Swiss Reinsurance America Corporation (Swiss Re) by Allied World Assurance Holdings (Ireland) Ltd (Allied Ireland), a wholly-owned subsidiary of Allied World Assurance Holdings, Ltd (AWAH), a Bermuda holding corporation.

The acquisition was consummated pursuant to a Stock Purchase Agreement dated February 13, 2002, by and between Swiss Re and AWAH. AWAH subsequently assigned its rights to acquire CUIC over to AWAH IRE pursuant to the terms of the Stock Purchase Agreement. On October 23, 2002, CUIC changed its name to AWUS and effective July 16, 2003, AWUS was re-domesticated from the state of California to the state of Delaware.

The Company is admitted in three states, including Delaware, and its surplus lines eligible in 49 jurisdictions, including the District of Columbia and Puerto Rico as well as an accredited reinsurer in over 38 jurisdictions, including the District of Columbia.

Common Capital Stock

The Restated Certificate of Incorporation provides that the authorized capital stock of the Company shall be 100,000 shares of \$2,000 par value common stock. At December 31, 2009, 2,600 shares were issued and outstanding, resulting in total capital stock of \$5,200,000. All shares of the Company are owned by AWUSH.

During the period under examination, the Company received contributions recorded to paid-in surplus totaling \$63,290,909, of which \$62,500,000 was a cash contribution in 2008 from the ultimate parent, AWAH, to provide additional capacity for premium growth. The remaining \$790,909 recorded paid-in surplus was related to Company incentive compensation plans. Under the plans, the Company was not required to reimburse AWAH for the cost of the compensation distributed to its employees and recognized the debt forgiveness as a capital contribution.

Dividends

The Company did not pay any stockholder dividends during the period of examination.

Reconciliation of Capital and Surplus

The following reconciliation of capital and surplus for the period December 31, 2006, to December 31, 2009, was extracted from the Company's filed Annual Statements:

Capital and Surplus, December 31, 2006		<u>\$51,545,484</u>
<u>2007</u>		
Net income	\$2,915,818	
Change in net unrealized foreign exchange gain or (loss)	12,148,336	
Change in net deferred income tax	-3,611,244	
Change in non-admitted assets	1,687,658	
Change in provision for reinsurance	10,323,347	
Surplus adjustments: Paid in	<u>179,206</u>	
	<u>\$23,643,121</u>	
Capital and Surplus, December 31, 2007		<u>\$75,188,605</u>
<u>2008</u>		
Net income	\$(5,905,526)	
Change in net unrealized foreign exchange gain or (loss)	(18,936,004)	
Change in net deferred income tax	8,498,342	
Change in non-admitted assets	(8,598,964)	
Change in provision for reinsurance	(66,077)	
Surplus adjustments: Paid in	<u>62,704,614</u>	
	<u>\$37,696,385</u>	
Capital and Surplus, December 31, 2008		<u>\$112,884,990</u>
<u>2009</u>		
Net income	\$4,408,692	
Change in net unrealized foreign exchange gain or (loss)	7,223,451	
Change in net deferred income tax	(3,656,775)	
Change in non-admitted assets	2,030,722	
Change in provision for reinsurance	61,200	
Surplus adjustments: Paid in	<u>407,089</u>	
	<u>\$10,474,379</u>	
Capital and Surplus, December 31, 2009		<u><u>\$123,359,368</u></u>

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and business of the Company shall be managed by its Board of Directors. The bylaws provide that the number of directors that shall constitute the whole Board shall not be less than two members or more than fifteen. Each director shall be elected for a term of one year and serve until such director's successor is elected and qualified.

The Board, by vote of a majority of the whole Board, may from time to time designate one or more committees. The bylaws provide that each committee report its actions in the interim between meetings of the Board at the next meeting of the Board or as otherwise directed by the Board.

Dividends on the capital stock may be declared by the Board on shares of any class or series of capital stock of the Company. The Board may declare these at such times and in such amounts as business conditions of the Company render advisable.

Directors

The Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2009, is as follows:

<u>Name</u>	<u>Principal Occupation</u>
Scott Andrew Carmilani	Chairman of the Board, President and Chief Executive Officer of AWAH
Richard Edward Jodoin	Vice Chairman of the Allied US Entities
Worth Gordon Knight	President of the Company
John Justin McElroy	President – US Professional Lines of the Company

Officers

The bylaws state that the officers of the corporation shall consist of a President, a Secretary, a Treasurer, and may, at the discretion of the Board of Directors, include a Chairman and one or more Vice Chairmen and one or more Vice Presidents (including Executive Vice Presidents or Senior Vice Presidents). The following persons were elected as officers and were serving in that capacity at December 31, 2009:

<u>Name</u>	<u>Office</u>
Worth Gordon Knight	President
Wesley David Dupont	Secretary
Robert John Larson	Treasurer and Vice President
Robert Lane Bowden II	Executive Vice President of U.S. Marketing and Business Development
David John Newman	Executive Vice President and Chief Underwriting Officer
Paul Christopher Martin	Executive Vice President and Chief Actuarial Officer
Mark Ira Rosen	Executive Vice President and Chief Claims Officer
Todd Joseph Germano	President of U.S. Property and Casualty
John Justin McElroy	President of U.S. Professional Lines
Karen Leshowitz Colonna	Senior Vice President, Assistant Secretary and Deputy General Counsel, U.S. Compliance

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919.

Allied World Assurance Company (U.S.) Inc.

Holding Company System

The Company is a member of an insurance holding company system as defined under Chapter 50, “Insurance Holding Companies” of the Delaware Insurance Code. The Company is a wholly owned subsidiary of AWUSH. AWUSH is a wholly owned subsidiary of Allied Ireland, whose ultimate parent is AWAH. The following depicts an abbreviated organizational chart of the Company’s relationship within the holding company system at December 31, 2009.

<u>Company</u>	<u>Domicile</u>	<u>% own</u>
Allied World Assurance Company Holdings, Ltd	Bermuda	
Allied World Assurance Company, Ltd	Bermuda	100%
Allied World Assurance Holdings (Ireland) Ltd	Bermuda	100%
Allied World Assurance Holdings (U.S.) Inc.	Delaware	100%
Allied World Assurance Company (U.S.) Inc.	Delaware	100%
Allied World National Assurance Company	New Hampshire	100%
Allied World Reinsurance Company	New Hampshire	100%
Darwin Professional Underwriters Inc.	Delaware	100%
Darwin National Assurance Company	Delaware	100%
Darwin Select Insurance Company	Arkansas	100%
Vantapro Specialty Insurance Company	Arkansas	100%

As noted in the Notes to the Annual Statement, the ownership of the Company was transferred in 2008 within the group from Allied Ireland to AWUSH. Pursuant to 18 Del C. §5003, the Company filed a Form A Exemption due to the transaction causing no change in ultimate control or ownership.

Affiliated Agreements

The following agreements were in effect between the Company and its affiliates at December 31, 2009:

Intercompany Reinsurance

The Company is party to a multiline quota share agreement with its Bermuda affiliate, Allied World Assurance Company, Ltd (AWAC) and an intercompany pooling arrangement with AWNAC, both of which are discussed in the “Reinsurance” section of this Report.

Service and Expense Sharing Agreement – Allied World

Effective February 29, 2008, the Company entered into a service and expense sharing agreement with AWNAC and AWRE. Under this agreement, the Company and AWNAC provide services (such as reinsurance administration, accounting, investment, personnel, rental space, legal, etc.) to AWRE. In return, the Company and AWNAC charge AWRE for an amount equal to all charges and expenses associated with the services. The costs associated with these services are charged to AWRE within 30 days after the quarter ends, with payment required to be made within 30 days of receipt of the invoice.

Service and Expense Sharing Agreement – Darwin

Effective January 1, 2010, the Company entered into a Service and Expense Sharing Agreement with its affiliates, DNA and AWNAC, whereby the Company and AWNAC will provide, upon request, the following services to DNA: reinsurance administration, accounting, insurance underwriting, operational and facilities, including equipment and supplies, personnel, claims, actuarial, rental space, and legal. DNA will pay an amount equal to all charges and expenses associated with the services provided (i.e. salaries) on an actual cost basis. In addition, DNA will provide, upon request, the following services to the Company and AWNAC: insurance underwriting, operational and facilities, including equipment and supplies, rental space, and risk

Allied World Assurance Company (U.S.) Inc.

management. The Company and AWNAC will pay an amount equal to all charges and expenses associated with the services provided (i.e. salaries) on an actual cost basis.

Administrative Services Agreements

Effective April 1, 2008, the Company entered into three separate administrative services agreements with Newmarket Administrative Services, Inc. (NAS), Newmarket Administrative Services (Ireland) Limited (NASI), and Newmarket Administrative Services (Bermuda), Ltd. (NASB) Under the agreements, NAS, NASI and NASB charge the Company for certain services performed for the Company (including investment/asset management, clerical/administrative, claims, actuarial, human resources, internal audit, etc.) incurred by NAS, NASI and NASB. The costs associated with these services are charged to the Company quarterly.

Cross Services Agreements

Effective April 1, 2008, the Company entered into two separate cross service agreements with NAS and NASB. Under the agreements, the Company charges NAS and NASB for certain services performed for NAS and NASB (accounting/finance, human resources, information technology and supervisory) incurred by the Company and also for equipment (furniture, office supplies, phones, software and computers). The costs associated with these services are charged to the NAS and NASB quarterly.

Tax Sharing Agreement

Effective June 27, 2008, the Company entered into a Tax Allocation Agreement with other members of the consolidated group. This agreement provides that estimated tax payments are made quarterly as if the Company were filing its own federal income tax return for such taxable year. The method of allocation among affiliates is subject to the written tax sharing

Allied World Assurance Company (U.S.) Inc.

agreements and based on separate return calculations with current credit for net losses to the extent the losses provide a benefit in the consolidated tax return. Any separate tax liability owed by the Company is payable to its parent within ten days of the filing date. The Company's parent will pay separate tax return refunds within thirty days of filing, except as otherwise noted.

Corporate Governance

The Company's corporate governance is integrated with that of its ultimate parent, AWAH. AWAH holds overall responsibility for governance but delegates responsibility for the execution of certain control processes to respective operating platforms. Allied US is considered a platform consisting of the Company and its U.S. affiliates, AWNAC, AWRE, DNA, DSI and Vantapro. Based on interviews, supporting documentation, and other information obtained and evaluated during this examination, corporate governance of Allied US was considered strong.

Board of Directors and Audit Committee

AWAH's governance process establishes the roles of its Audit Committee and Board of Directors. Two Boards provide oversight of the Company, the AWAH Board and the Company's specific Board. Together, the Boards are responsible for overseeing internal controls over financial reporting established by management and the process by which management satisfies itself that they are working effectively. The Boards are apprised of the Company's financial position, operating results, and objectives and strategies. Additionally, the Boards are made aware of sensitive information, investigations, and improper acts in a sufficient and timely manner.

The Company does not have a separate Audit Committee, and thus, relies on the AWAH Audit Committee for monitoring and assisting the Board. Additionally, the AWAH Head of

Internal Audit directs the internal audit program across all AWAH operations and subsidiaries. The program is designed to provide management and the Board, through its Audit Committee, with reasonable assurance that AWAH's controls and procedures are able to contain risks within acceptable limits.

Enterprise Risk Management (ERM)

Allied World has established a formal ERM framework to analyze its risk profile and adopt appropriate risk mitigation strategies. The framework describes the control processes that are utilized by management to monitor, control and achieve their business objectives. In addition, it defines the organization's risk tolerances and risk appetite and measures how the organization performs within these boundaries.

Allied World continuously refines its ERM framework and overall risk culture to provide assurance that they will achieve their financial objectives while remaining within their risk appetite. Risk assessment is an ongoing process with periodic updates and improvements being made to reflect changes in the Company's operations and processes as well as changes in the industry, economic and business environment.

The Enterprise Risk Committee oversees reviews and helps management assess risks and exposures that could materially impact the Company. Separate from this Board delegated committee, there is a Risk Management Committee (RMC) made up of senior managers of the Company who serve to recognize, evaluate and respond to the broad spectrum of risks impacting the organization. The RMC consists of the Chief Financial Officer, Chief Risk Officer, their Chief Underwriting Officers, and General Counsel and also includes senior representation from all geographic divisions within Allied World. The RMC reviews the risk profile as well as

outputs from stress tests to ensure constant alignment between risk taking activities and their risk appetite.

There is an annual risk assessment performed by the Chief Risk Officer and Internal Audit which identifies significant internal and external risks that the Company faces. There is a separate section within the risk assessment that specifically looks at fraud risks. The risk assessment is presented to and reviewed by the RMC periodically. This risk assessment also feeds the audit plan for the year and is presented to management and the Audit Committee.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2009, the Company was licensed to transact multiple lines of insurance business in the states of California, Delaware and New York, and is surplus lines eligible in 49 jurisdictions, including the District of Columbia and Puerto Rico as well as an accredited reinsurer in 38 jurisdictions, including the District of Columbia.

Plan of Operation

For the year ending 2009, approximately 61% or \$107,708,019 of the Company's direct written premium was written in 5 states: California (19.3%), New York (17.9%), Florida (11.2%), Texas (8.6%) and Illinois (3.5%). Direct premium written in the other jurisdictions amounted to \$69,966,439.

The Company participates in a pooling arrangement with AWNAC, whereby AWUS acts as the lead company and accepts 100% of AWNAC net policy liabilities, after third party

Allied World Assurance Company (U.S.) Inc.

reinsurance and cessions to the multiline quota share reinsurance agreement. The Company then retrocedes back to AWNAC, 45% of the net policy liability and retains 55%. As the result of AWUS being licensed in 3 states and AWNAC being licensed in 44 states, the pool is eligible to write traditional lines of business in virtually all states. This is appropriate with the Allied US Entities' plan to move from a surplus lines based carrier to a more traditional insurance carrier.

The two companies operate in the excess and surplus lines segment of the U.S. market, specializing in direct casualty and property insurance, with particular emphasis on professional liability, excess casualty risks, and commercial property insurance. The Companies' property segment provides coverage for a wide range of industries, including hotels and casinos, manufacturing, real estate companies, retail chains, and municipalities. The casualty segment focuses on general casualty insurance for construction, consumer products, energy, manufacturing, real estate, and medical and healthcare products. Additionally, the Companies provide professional liability products, including D&O, EPL, E&O and fiduciary. The Companies market their products to middle-market and non-Fortune 1000 companies.

AWAH (ultimate parent) has segregated itself into three platforms: U.S., International (which includes Bermuda, Europe and Asia) and Reinsurance. Within the U.S. platform, the group provides a diverse range of specialty liability products, with a particular emphasis on coverages for healthcare and professional liability risks. They offer a selection of direct casualty insurance (which focuses on general casualty for construction, consumer products, energy, manufacturing, real estate and medical and healthcare products) and general property insurance (which focuses on a wide range of industries including hotels, casino, manufacturing, real estate, retail chains and municipalities). The Allied US Entities target generally small and middle-

Allied World Assurance Company (U.S.) Inc.

market, non-Fortune 1000 accounts domiciled in North America, including public entities, private companies and non-profit organizations. During 2008 and 2009, they enhanced their 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 their IT platform to accommodate the increasing business demands. All this has allowed the group to assume a leading role as a writer of primary professional liability and other specialty liability coverage for small and midsized firms.

The Company's insurance policies were placed through a network of approximately 90 insurance intermediaries, including excess and surplus lines wholesalers and regional and national retail brokerage firms. A significant portion the Company's \$177.8 million of direct written premium was produced within a relatively small number of intermediary firms. The top 5 producing brokers; AmWINS (\$14.3 million), Marsh & McLennan Companies, Inc. (\$14.2 million), Swett & Crawford Group (\$13.8 million), Aon Corporation (\$13.6 million) and CRC (\$12.8 million), accounted for 39% of the Company's total direct written premium in 2009.

Program Administrators

In addition to writing direct business, the Company also acquires business through the use of Program Administrators. At year end, the Allied US Entities were engaged in seven active programs offering a variety of products including professional liability, excess casualty and primary general liability. Business written through a program was serviced by the program administrator, but the Company maintained administrative control, including claims (although this may have been outsourced in certain situations), review of underwriting, financial condition,

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IT capabilities and ongoing audits and reviews. During 2009, AWUS wrote over \$21 million through programs which accounted for approximately 12.0% of its total direct writings.

Best's Rating

Based on A.M. Best's current opinion of the consolidated financial condition and operating performance of the property and casualty members of AWAH, the Company was assigned a Best's rating of A (Excellent) for the year ended 2009.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the three year period since the previous examination in 2006:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premium Written</u>	<u>Net Income</u>
2009	\$267,490,477	\$123,359,368	\$ 36,989,294	\$ 4,408,692
2008	\$228,299,241	\$112,884,991	\$ 26,545,826	\$ (5,905,526)
2007	\$164,050,233	\$ 75,188,605	\$ 9,666,459	\$ 2,915,818
2006	\$141,105,825	\$ 51,545,484	\$ 11,479,838	\$ 2,845,443

Since December 31, 2006, the Company reported the following financial results:

- Approximately 89.6% increase in admitted assets. The majority of the increase in 2009 was driven by the increase in the fixed asset portfolio that followed favorable results from the improved financial markets. The growth from 2007 to 2008 is primarily related to capital contributions of \$62.7 million and cash from operations of \$12.8 million.
- Approximately 139.3% increase in capital and surplus. Surplus increased due to the normal growth of the Company over the period, including capital contributions of \$62.7 million and an increase in net income in 2008 of \$4.4 million.

- Approximately 222.2% increase in net premium written. Increases in this area were driven by the Company's expansion, with new offices in Atlanta, Dallas, Los Angeles and Costa Mesa and significant underwriting staff and new products. In addition, there was a relative decrease in ceded written premiums under the multi-line reinsurance treaty with AWAC, its Bermuda affiliate.
- Approximately 54.9% increase in net income. The increase in 2009 was primarily the result of business growth and an increase in net investment gains. In 2008, the Company recorded Other Than Temporary Impairment (OTTI) of \$9.7 million. With the favorable market conditions in 2009, no OTTI was made and the Company experienced a net investment gain.

REINSURANCE

As of December 31, 2009, the Company's reinsurance program consisted primarily of ceded reinsurance. In the ordinary course of business, the Company reinsures certain risks to limit its maximum losses and protect itself from catastrophes.

The Company is party to a Multiple Line Non-Obligatory Quota Share Reinsurance Agreement with its Bermuda affiliate, AWAC, effective January 1, 2002. This agreement was amended on January 1, 2008 for business written on or after this date. Under this agreement, the Company cedes 70% of all direct and assumed policy liabilities effective on or after January 1, 2008, and 85% of all policy liabilities, net of cessions to external reinsurers for policies effective prior to January 1, 2008. This represents the Company's gross liability including incurred but not reported (IBNR) on each policy, less known and unknown recoveries from all other reinsurance. This agreement applies to all lines of business written or assumed by the Company, and to all policies issued within the United States and Canada. AWNAC has a similar agreement with AWAC.

The Company is also member of an inter-company pooling agreement (Pooling Agreement) with its affiliate, AWNAC, effective July 15, 2002. The Company's share of the pool is 55%. Under the Pooling Agreement, AWNAC cedes 100% of all remaining policy

liabilities, after cession to non-affiliates and AWAC, to the Company, and coincident with this assumption, the Company retrocedes 45% of the total policy liabilities between the two companies back to AWNAC.

The impact of reinsurance on premiums of the Company and AWNAC in 2009 is shown below:

	<u>AWNAC</u>	<u>AWUS</u>
Direct Written Premiums	\$150,677,434	\$177,674,459
Assumed (other than inter-company)	<u>0</u>	<u>822,017</u>
Gross Written Premiums	\$150,677,434	\$178,496,476
<i>Ceded:</i>		
Various property and casualty treaties	<u>13,537,710</u>	<u>16,816,347</u>
Quota Share Base	\$137,139,724	\$161,680,129
Multiline Quota Share AWAC	104,190,527	125,065,574
Catastrophe Program with AWAC	<u>-40,092</u>	<u>2,350,582</u>
Net	\$32,989,288	\$34,263,973
Assumed from (ceded to) pool	<u>(32,989,288)</u>	<u>32,989,288</u>
Total Pool	0	\$67,253,262
Pooling Percentage	45%	55%
Net after Pooling	<u><u>\$30,263,968</u></u>	<u><u>\$36,989,294</u></u>

Assumed Reinsurance

Excluding intercompany pooling, there were several immaterial assumed contracts on the Schedule F for the Company totaling \$822,017. The Company has no current plans to assume any reinsurance material to its operations.

Ceded Reinsurance

The Company cedes business to AWNAC per the Pooling Agreement, to AWAC through the Multiline Quota Share Agreement, both discussed above, and to various third party reinsurers. Excluding these intercompany agreements, ceded reinsurance totaled \$16,816,347 and represented approximately 9.4% of gross written premiums. The Company's reinsurance program has historically included fixed and variable quota share treaty reinsurance from third party reinsurer's on its property business, general casualty business, professional lines, healthcare and program business. Facultative reinsurance is also used when necessary to maintain limits within underwriting guidelines. In 2009, the Company also incorporated per risk excess of loss reinsurance on certain lines of business.

ACCOUNTS AND RECORDS

Accounting System and Information/IT Process Flows

All necessary accounting records of the Company are maintained on electronic data processing equipment (EDP), made available to the Company under its service agreements with its affiliates, NAS, NASB and NASI. The general ledger is maintained on a statutory basis with additional accounts used to convert to the accrual basis suitable for Generally Accepted Accounting Principles.

As part of this examination, INS Services, Inc. performed a review of the Company's controls over its information and technology IT environment.

General Background and Overview

The Company processes all its U.S. related business electronically via networked, enterprise level applications and systems. The U.S. Data Center is located in Carlstadt, NJ and

Allied World Assurance Company (U.S.) Inc.

hosted by SunGard Availability Services. Prior to December 31, 2009, the Company also utilized a data center at AWAH's Bermuda location.

The Company uses the Sun GL system to maintain its general ledger. Financial Reporting is done out of the Enterprise Data Warehouse (EDW) located in at the NJ data center. EDW is the primary reporting vehicle for the company. Accompanying are narratives describing the primary computer applications utilized by the Company to perform its key processes:

Primary Computer Applications for Premiums

The primary computer applications used by the Company for premium and underwriting transactions are "Dragon" and "Genius." "TIRS" is the primary system used by AWAC Re. During the examination period, the Dragon and Genius applications were utilized by the Company to create reservations, quote, bind, book, issue policies, perform post-bind transactions, and generate billings and accounts receivable. Dragon is the Darwin legacy system and Genius is the legacy system of the Allied World companies. Subsequent to the Darwin acquisition, AWUS and AWNAC began renewing all policies in the Dragon application and discontinued use of the Genius system for underwriting and premium processing. All policies for AWUS and AWNAC are now written through Dragon, and claims are processed through "IVOS", as the Genius system is in runoff and handles only claims and endorsements on policies originally written in Genius.

The TIRS system is utilized by AWRE to perform underwriting and accounting functions related specifically to its reinsurance operations. The TIRS system has an underwriting and accounting module and is utilized to record reservations and bound policies, perform post-bind transactions, and to account for estimated and actual premium and related data.

Primary Computer Applications for Investments

The Company's investment management is outsourced to various investment managers and held in custody at Mellon Bank, N.A. The Company's investment accounting is outsourced to BlackRock, Inc.

BlackRock receives daily trading files from the respective investment managers as well as daily transactions from the Custodian. BlackRock enters this information into their PAM system and reconciles the transactions.

On a monthly basis, BlackRock sends the Company a monthly "Investment Package" which contains the monthly PAM reports. The PAM reports consist of a par reconciliation (between custodian and investment manager), an asset reconciliation (between BlackRock and investment manager), and journals for the Company to book into the general ledger. Each month, the custodian and investment managers make monthly holdings / activity reports available to the Company on password-protected portals.

Primary Computer Applications for Disbursements (Claims)

The Company's claims are processed and all claims related financial information is tracked based on the system through which the underlying policy was processed. For instance, Genius processed policies have claims processed in Genius, and Dragon processed policies have claims processed in iVOS. iVOS is the claims system that interfaces with the Dragon underwriting system. As discussed in "Primary Computer Applications for Premiums," the Company discontinued the use of the Genius system in 2009 in favor of the Dragon system, iVOS.

Independent Accountants

The Company's financial statements are audited each year by the firm of Deloitte & Touche LLP (D&T), of New York, NY. The Examiners reviewed the audited statutory financial statements for all years under examination. For all years under review, D&T issued an unqualified opinion.

As noted in the "Scope of Examination" section of this Report, the examiners reviewed D&T's 2009 workpapers, and incorporated their work and findings as deemed applicable to the current examination.

Actuarial Opinion

The Company's loss reserves and related actuarial items were reviewed by G. Christopher Nyce, FCAS, MAAA, with KPMG LLP, who issued a statement of actuarial opinion based on the financial information presented by the Company. The opinion stated that the reserves and related actuarial values carried on the balance sheet were computed in accordance with accepted loss reserving standards and principles and are reasonable in the aggregate for unpaid loss and loss expense obligations and all unearned premium obligations of the Company related to long duration contracts under the terms of its contracts and agreements and met the requirements of the insurance laws of the state of Delaware.

The consulting firm of INS Consultants, Inc., Philadelphia, PA was contracted to do an independent loss reserving review. The findings from that review are discussed in Note 2 of the "Notes to Financial Statements" section of this Report.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2009, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2009

Statement of Liabilities, Surplus and Other Funds, December 31, 2009

Underwriting and Investment Exhibit, Statement of Income, December 31, 2009

Capital and Surplus Account, Statement of Income, December 31, 2009

Schedule of Examination Adjustments

Slight differences noted in the following schedules are due to rounding.

Analysis of Assets
As of December 31, 2009

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$ 215,784,320		\$ 215,784,320	1
Cash and short-term investments	6,924,909		6,924,909	1
Investment income due and accrued	1,624,808		1,624,808	
Uncollected premiums and agents' balances in course of collection	17,075,976	\$ 686,426	16,389,550	
Amounts recoverable from reinsurers	18,485,279		18,485,279	
Current federal and foreign income tax recoverable	1,138,320		1,138,320	
Net deferred tax asset	3,754,207	2,146,209	1,607,998	
Electronic data processing equipment and software	1,378,383	1,378,383	-	
Furniture and equipment	4,825,904	4,825,904	-	
Receivables from parent, subsidiaries and affiliates	4,633,826		4,633,826	
Aggregate write-ins:				
Prepaid Assets - Aircraft				
Ownership Interest	218,625	218,625	-	
Prepaid Assets - Others	138,226	138,226	-	
Other Accounts Receivable	901,467		901,467	
Total Assets	<u>\$ 276,884,250</u>	<u>\$ 9,393,773</u>	<u>\$ 267,490,477</u>	

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2009

<u>Liabilities, Surplus and Other Funds</u>		Notes
Losses	\$ 59,631,775	2
Loss adjustment expenses	5,873,633	2
Other expenses	6,803,633	
Taxes, licenses and fees	435,419	
Unearned premiums	21,248,385	
Ceded reinsurance premiums payable	31,665,115	
Amounts withheld or retained by company for account of others	120,985	
Provision for reinsurance	5,800	
Payable to parent, subsidiaries and affiliates	13,507,172	
Aggregate write-ins for liabilities:		
Deferred Commissions	4,035,951	
Other Liabilities	66,241	
Retroactive Reinsurance Reserve Assumed	737,000	
Total Liabilities	<u>\$ 144,131,109</u>	
Common capital stock	\$ 5,200,000	
Gross paid in and contributed surplus	210,018,909	
Unassigned funds (surplus)	<u>(91,859,541)</u>	
Surplus as regards policyholders	<u>\$ 123,359,368</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 267,490,477</u></u>	

Underwriting and Investment Exhibit - Statement of Income
As of December 31, 2009

STATEMENT OF INCOME
As of December 31, 2009

UNDERWRITING INCOME

Premiums earned	\$ 32,760,903
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DEDUCTIONS

Losses incurred	\$ 18,401,368
Loss adjustment expenses incurred	2,144,051
Other underwriting expenses incurred	29,028,725
Total underwriting deductions	\$ 49,574,144
Net underwriting gain or (loss)	\$ (16,813,241)

INVESTMENT INCOME

Net investment income earned	\$ 7,967,340
Net realized capital gains or (losses)	8,581,784
Net investment gain or (loss)	\$ 16,549,124

OTHER INCOME

Net gain or (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premiums	
Aggregate write-ins for miscellaneous income	496,703
Total other income	\$ 496,703
Net income before dividends to policyholders and before federal income taxes	\$ 232,586
Dividends to policyholders	-
Net income after dividends to policyholders but before federal income taxes	\$ 232,586
Federal and foreign income taxes incurred	(4,176,106)
Net income	\$ 4,408,692

**Capital and Surplus Account – Statement of Income
As of December 31, 2009**

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2008	<u>\$ 112,884,990</u>
GAINS AND (LOSSES) IN SURPLUS	
Net income	\$ 4,408,692
Change in net unrealized foreign exchange capital gain	7,223,451
Change in net deferred income tax	(3,656,775)
Change in non-admitted assets	2,030,722
Change in provision for reinsurance	61,200
Surplus adjustments:	
Paid in	<u>407,089</u>
Change in surplus as regards policyholders for the year	<u>\$ 10,474,379</u>
Surplus as regards policyholder, December 31, 2009	<u><u>\$ 123,359,368</u></u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

No examination changes were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Assets

(1) Investments

Investment Operations functions are performed on the parent level (AWAH) in Bermuda. The Company utilizes third-party Investment managers (Conning Corporation) to provide certain discretionary investment management services on behalf of the Company. Conning replaced Goldman Sachs in 2009. The accounting for Investments is outsourced to Blackrock Solutions.

Total invested assets as of December 31, 2009 were comprised of the following:

	2009 A/S	% of Admitted Assets
Bonds	\$215,784,320	80.7%
Cash & Short-term investments	6,924,909	2.6%
Total Invested Assets	\$222,709,229	83.3%

The following reflects the changes in invested assets from the prior examination:

	2009 A/S	2006 A/S	Amount Change	% Change
Bonds	\$215,784,320	\$104,107,011	\$111,677,309	107%
Cash & Short-term investments	6,924,909	7,072,717	(147,808)	-2%
Receivable for Securities	-	442,500	(442,500)	n/a
Total Invested Assets	\$222,709,229	\$111,622,228	\$111,087,001	99.5%

The Company's bonds represented 96.9% of invested assets and 80.7% of admitted assets as of December 31, 2009 and were primarily rated as Class 1 with short-to-medium term duration. In 2009, the Company's portfolio shifted away from U.S. government securities and

towards non-U.S. government and high quality corporate issuers to increase yields while still maintaining high quality.

The Company's bond portfolio increased by \$38.5 million, or 21.7%, to \$215.8 million as of December 31, 2009, compared to the corresponding 2008 amount. This increase in the fixed asset portfolio was primarily due to improved financial markets, which led to the increasing net investment income and realized capital gains, net cash from operations and cash balances from the prior year reinvested in bonds.

Cash and short-term investments decreased by \$9.0 million, or 56.6%, to \$6.925 million as of December 31, 2009 compared to the corresponding 2008 amount. While the Company had positive cash flow from operations, the cost of investments acquired in 2009 contributed to a decrease in cash.

Liabilities

(2) Losses	(\$59,631,775)
Loss Adjustment Expenses	<u>(\$ 5,873,633)</u>
	<u>(\$65,505,408)</u>

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The Delaware Department of Insurance retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2009. The Consulting Actuary's analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook – 2009 Edition. The review does not address the collectability of reinsurance recoverables. Should any of AWUS reinsurers fail to fulfill obligations as stated in their contracts, a contingent liability would need to be established.

The conclusions set forth in the Consulting Actuary's report are based on information provided by the Company, including the 2009 Annual Statements, the related 2009 Statement of Actuarial Opinion signed by G. Christopher Nyce, FCAS, MAAA of KPMG, the certifying actuarial firm and the actuarial report that accompanied the opinion.

The Consulting Actuary performed an analysis on the Company's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment (DCC) expense and adjusting and other (A&O) expense. Procedures undertaken by the examination staff on control testing and accuracy testing indicate that the underlying loss and LAE data provided to the Consulting Actuary was reliable.

The Consulting Actuary also reviewed the Company's exhibit which balances the year-end 2009 data to Schedule P, on an all-lines total basis. The exhibit showed that the year-end amounts were closely reconciled to the Schedule P amounts.

The review by INS concluded that total loss and LAE reserves were \$53.5 million. This was approximately \$12 million less than the Company's held amount of \$65.5 million. On a gross basis, the INS estimate was \$308.2 million which was \$46.1 million less than the Company's held amount, \$354.4 million.

The consulting actuary also reviewed a selection of ceded reinsurance agreements and found them to have contract terms consistent with risk transfer.

Based on work performed, the Consulting Actuary found the Company's carried December 31, 2009 net and gross loss and LAE reserves were reasonably stated, and as such, no financial adjustment was required for examination purposes.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The prior examination report did not contain any recommendations.

SUMMARY OF RECOMMENDATIONS

There were no specific recommendations as a result of this examination.

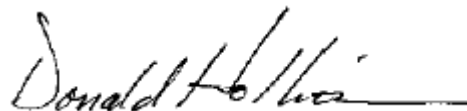
CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2006</u>	<u>December 31, 2009</u>	<u>Increase (Decrease)</u>
Assets	\$141,105,825	\$267,490,477	\$126,384,652
Liabilities	\$89,560,341	144,131,109	54,570,768
Common Capital Stock	5,200,000	5,200,000	0
Gross Paid In and Contributed Surplus	146,728,000	210,018,909	63,290,909
Unassigned Funds (Surplus)	<u>(100,382,516)</u>	<u>(91,859,541)</u>	<u>8,522,975</u>
Total Surplus as Regards Policyholders	<u>51,545,484</u>	<u>123,359,368</u>	<u>71,813,884</u>
Totals	<u>\$141,105,825</u>	<u>267,490,477</u>	<u>\$126,384,652</u>

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc., and its Information Technology consulting firm, INS Services, Inc. is acknowledged. In addition, the assistance and cooperation of examiners representing the states of Arkansas, and New Hampshire as well as the Company's outside audit firm, Deloitte & Touche, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Don Hollier, CFE
 Examiner-In-Charge
 State of Delaware
 Northeastern Zone, NAIC