

ALLIED WORLD ASSURANCE CO HOLDINGS LTD

Form DEF 14A

March 20, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
(Rule 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(A) of the Securities  
Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**

(Name of Registrant as Specified in Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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- (1) Amount Previously Paid:
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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD  
27 Richmond Road  
Pembroke HM 08, Bermuda**

**NOTICE OF 2009 ANNUAL GENERAL MEETING  
TO BE HELD ON MAY 7, 2009**

March 20, 2009

To Our Shareholders:

The 2009 Annual General Meeting of Allied World Assurance Company Holdings, Ltd (the Company) will be held at 10:00 a.m., local time, on Thursday, May 7, 2009 at the Company's corporate headquarters, 27 Richmond Road, Pembroke HM 08, Bermuda, for the following purposes:

To elect three Class III Directors to hold office until the Company's Annual General Meeting in 2012 or until their successors are duly elected and qualified or their office is otherwise vacated;

To approve certain individuals as eligible subsidiary directors of certain of our non-U.S. insurance subsidiaries;

To approve and adopt the Third Amended and Restated Bye-laws of Allied World Assurance Company Holdings, Ltd to (i) permit the Company to hold its own acquired shares as treasury shares in lieu of cancellation; (ii) increase the share ownership limits for the Company's founding shareholders to not more than 24.5% of the Company's common shares; (iii) give the Company's Board of Directors greater flexibility to permit or prohibit transfers, purchases, acquisitions or issuances of shares, among other things, in accordance with the Company's bye-laws; and/or (iv) give the Company's Board of Directors the ability to hold Board meetings in the United States;

To act on a proposal to appoint Deloitte & Touche as the Company's independent auditors to serve until the Company's Annual General Meeting in 2010; and

To transact such other further business, if any, as lawfully may be brought before the meeting.

Only shareholders of record holding voting common shares, as shown by the transfer books of the Company, as of the close of business on March 11, 2009 are entitled to vote at the Annual General Meeting and at any adjournment or postponement thereof.

**Please sign, date and return the enclosed proxy card in the return envelope furnished for that purpose, as promptly as possible, whether or not you plan to attend the meeting. If you later desire to revoke your proxy for any reason, you may do so in the manner described in the attached Proxy Statement. For further information concerning the individuals nominated as directors, use of the proxy and other related matters, you are urged to read the Proxy Statement on the following pages.**

By Order of the Board of Directors,

Wesley D. Dupont  
Secretary



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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD  
27 Richmond Road  
Pembroke HM 08, Bermuda**

**PROXY STATEMENT**

**GENERAL MEETING INFORMATION**

**Q: Why am I receiving these materials?**

A: You are receiving these materials because you are a shareholder of Allied World Assurance Company Holdings, Ltd (the Company) as of the Record Date (as defined below). The Board of Directors (the Board) of the Company is soliciting the enclosed proxy to be voted at the 2009 Annual General Meeting of the Company's shareholders to be held at 10:00 a.m., local time, on Thursday, May 7, 2009 at the Company's corporate headquarters, 27 Richmond Road, Pembroke HM 08, Bermuda, and at any adjournment or postponement thereof (the Annual General Meeting). This Proxy Statement summarizes the information you need to know to vote at the Annual General Meeting. References in this Proxy Statement to we, us and our refer to Allied World Assurance Company Holdings, Ltd and our consolidated subsidiaries, unless the context requires otherwise. When the enclosed proxy card is properly executed and returned, the Company's common shares, par value \$0.03 per share (the Common Shares), it represents will be voted, subject to any direction to the contrary, at the Annual General Meeting **FOR** the matters specified in the Notice of Annual General Meeting attached hereto and described more fully herein.

This Proxy Statement, the attached Notice of Annual General Meeting and the enclosed proxy card are being first mailed to shareholders on or about March 20, 2009. A copy of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2008 accompanies this Proxy Statement. Although the Annual Report and Proxy Statement are being mailed together, the Annual Report is not part of this Proxy Statement.

**Q: Who is entitled to vote?**

A: The Board has set March 11, 2009, as the record date for the Annual General Meeting (the Record Date). Shareholders of record holding voting Common Shares (the Voting Shares), as shown by the transfer books of the Company as of the close of business on the Record Date, will be entitled to vote at the Annual General Meeting and at any adjournment or postponement thereof. Holders of non-voting Common Shares (the Non-Voting Shares) will receive this Proxy Statement but are not entitled to vote at the Annual General Meeting and at any adjournment or postponement thereof. As of March 3, 2009, there were outstanding 35,716,627 Voting Shares and 13,521,978 Non-Voting Shares.

**Q: What will I be voting on?**

A: You are voting on seven items (collectively, the proposals):

A. To elect three Class III directors to hold office until the Company's Annual General Meeting in 2012 or until their successors are duly elected and qualified or their office is otherwise vacated (Item A on Proxy Card);

B. To approve certain individuals as eligible subsidiary directors of certain of our non-U.S. insurance subsidiaries (Item B on Proxy Card);

C. To approve and adopt the Third Amended and Restated Bye-laws of Allied World Assurance Company Holdings, Ltd as follows:

C(1): To approve an amendment to the Company's bye-laws to permit the Company to hold its own acquired shares as treasury shares in lieu of cancellation (Item C(1) on Proxy Card);



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C(2): To approve an amendment to the Company's bye-laws to increase the share ownership limits for the Company's founding shareholders (as defined under Item C(2) herein) to not more than 24.5% of the Common Shares (Item C(2) on Proxy Card);

C(3): To approve an amendment to the Company's bye-laws to give the Board sole and absolute discretion to permit or prohibit transfers, purchases, acquisitions or issuances of shares, among other things, in accordance with the Company's bye-laws (Item C(3) on Proxy Card);

C(4): To approve an amendment to the Company's bye-laws to give the Board the ability to hold Board meetings in the United States (Item C(4) on Proxy Card); and

D. To act on a proposal to appoint Deloitte & Touche as the Company's independent auditors to serve until the Company's Annual General Meeting in 2010 (Item D on Proxy Card).

You may also vote on any other business that properly comes before the meeting.

**Q: What are the voting recommendations of the Board?**

A: Your Board unanimously recommends that you vote:

A. **FOR** each of the nominees to the Board;

B. **FOR** each slate of eligible subsidiary directors;

C. **FOR** the approval and adoption of the Third Amended and Restated Bye-laws of Allied World Assurance Company Holdings, Ltd as follows:

C(1): **FOR** the approval of an amendment to the Company's bye-laws to permit the Company to hold its own acquired shares as treasury shares in lieu of cancellation;

C(2): **FOR** the approval of an amendment to the Company's bye-laws to increase the share ownership limits for the Company's founding shareholders to not more than 24.5% of the Common Shares;

C(3): **FOR** the approval of an amendment to the Company's bye-laws to give the Board sole and absolute discretion to permit or prohibit transfers, purchases, acquisitions or issuances of shares, among other things, in accordance with the Company's bye-laws;

C(4): **FOR** the approval of an amendment to the Company's bye-laws to give the Board the ability to hold Board meetings in the United States; and

D. **FOR** the appointment of Deloitte & Touche as the Company's independent auditors.

**Q: How many votes do I have?**

A: Holders of Voting Shares are entitled to one vote per share on each matter to be voted upon by the shareholders at the Annual General Meeting.

**Q: How do I vote?**

A: The manner in which your shares may be voted depends on how your shares are held. If you own shares of record, meaning that your Voting Shares are represented by certificates or book entries in your name so that you appear as a shareholder on the records of the Company's share transfer agent, Continental Stock Transfer & Trust Company, a proxy card for voting those shares will be included with this Proxy Statement. You may direct how your shares are to be voted by completing, signing and returning the proxy card in the enclosed envelope. If you own shares of record, you may also vote your Voting Shares in person at the Annual General Meeting.

If you own shares through a bank or brokerage firm, you may instead receive from your bank or brokerage firm a voting instruction form with this Proxy Statement that you may use to instruct them how your shares are to be voted. As with a proxy card, you may direct how your shares are to be voted by completing, signing and returning the voting instructions form in the envelope provided. Many banks and brokerage firms have arranged for Internet or telephonic voting of shares and provide instructions for using those services on the voting

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instruction form. If you want to vote your shares in person at the meeting, you must obtain a proxy from your bank or broker giving you the right to vote your Voting Shares at the Annual General Meeting.

The Company has requested that bank, brokerage and other custodians, nominees and fiduciaries forward solicitation materials to the beneficial owners of Voting Shares and will reimburse the banks, brokers and other fiduciaries for their reasonable out-of-pocket expenses for forwarding the materials.

### **Q: What does it mean if I receive more than one proxy card?**

A: Generally, it means that you hold shares registered in more than one account. To ensure that all of your shares are voted, you should complete, sign and return each proxy card you receive.

### **Q: What happens if I sign and return my proxy card but do not indicate how to vote my shares?**

A: If no instructions are provided in an executed proxy card, the Voting Shares represented by the proxy will be voted at the Annual General Meeting FOR each of the proposals, and, as to any other business as may properly come before the Annual General Meeting, in accordance with the proxyholder's judgment as to such business.

### **Q: How are abstentions and broker non-votes treated?**

A: Abstentions and broker non-votes will be counted toward the presence of a quorum at, but will not be considered votes cast on any of the proposals brought before, the Annual General Meeting. Therefore, abstentions and broker non-votes will have no effect on the outcome of any proposal brought before the Annual General Meeting.

### **Q: Can I change my vote after I have mailed my signed proxy card or otherwise instructed how my shares are to be voted?**

A: Yes. Any shareholder giving a proxy may revoke it prior to its exercise by providing the Secretary of the Company with written notice of revocation, by voting in person at the Annual General Meeting or by executing a later-dated proxy card; *provided, however*, that the action is taken in sufficient time to permit the necessary examination and tabulation of the subsequent proxy or revocation before the vote is taken.

Attendance at the Annual General Meeting by a shareholder who has executed and delivered a proxy card to us shall not in and of itself constitute a revocation of such proxy. Only your vote at the Annual General Meeting will revoke your proxy.

### **Q: How does the voting take place at the Annual General Meeting?**

A: A vote by poll will be taken on all matters properly brought before the Annual General Meeting. On a vote by poll, each shareholder present who elects to vote in person and each person holding a valid proxy is entitled to one vote for each Voting Share owned or represented.

The three nominees for election as Class III Directors of the Company at the Annual General Meeting who receive the highest number of FOR votes will be elected as directors. This is called plurality voting; an absolute majority of the votes cast is not a prerequisite to election.

All other proposals require the affirmative FOR vote of a majority of the votes cast at the Annual General Meeting.

To be clear, with respect to the bye-law proposals, each material amendment to the Company's bye-laws (Items C(1) - (4)) will be voted on separately and will not be contingent on the approval of any other amendment. To be approved, each of Items C(1) - (4) must separately receive the affirmative FOR vote of a majority of the votes cast at the Annual General Meeting. Only those amendments (as set forth in Items C(1) - (4)) receiving the requisite vote of the shareholders, if any, will be incorporated into the Third Amended and Restated Bye-Laws of Allied World Assurance Company Holdings, Ltd.

**Q: Are there any voting restrictions?**

A: Each Voting Share entitles the holder of record on such date to one vote on a poll; *provided, however*, if the number of Controlled Shares of any holder would constitute 10% or more of the total combined voting power

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of the issued Voting Shares (such holder, a 10% Shareholder ), such holder will have the voting rights attached to its Voting Shares reduced to less than 10% of the total voting rights attached to the issued and outstanding Voting Shares, in the manner provided in the Company's Second Amended and Restated Bye-Laws (the Bye-Laws ).

Controlled Shares of any person refers to all Voting Shares owned by such person, whether (i) directly; (ii) with respect to persons who are United States persons, by application of the attribution and constructive ownership rules of Section 958(a) and 958(b) of the U.S. Internal Revenue Code of 1986 (the Code ); or (iii) beneficially, directly or indirectly, within the meaning of Section 13(d)(3) of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act ), and the rules and regulations thereunder.

As of the date of this Proxy Statement, the Company is not aware of any shareholders that possess Controlled Shares requiring a reduction in their voting power to less than 10%; however, the applicability of the foregoing provisions may have the effect of increasing another shareholder's voting power to 10% or more, thereby requiring a corresponding reduction in such other shareholder's voting power. The Company's Bye-Laws exclude from the calculation of the 10%-voting power limitation described in the preceding paragraph any Voting Shares owned by a bank, broker, dealer or investment adviser that does not have or exercise the power to vote those shares and that has only a passive investment intent as reflected in its ability to file beneficial ownership reports on Schedule 13G under the Exchange Act with respect to the Voting Shares it holds. Because the applicability of the voting power reduction provisions to any particular shareholder depends on facts and circumstances that may be known only to the shareholder or related persons, the Company requests that any holder of Voting Shares with reason to believe that it is a 10% Shareholder within the meaning of the Bye-Laws please contact the Secretary of the Company promptly so that the Company may determine whether the voting power of such holder's Voting Shares should be reduced. By submitting a proxy, a holder of Voting Shares will be deemed to have confirmed that, to its knowledge, it is not, and is not acting on behalf of, a 10% Shareholder. The Company's directors are empowered to require any shareholder to provide information as to that shareholder's legal or beneficial share ownership, the names of persons having beneficial ownership of the shareholder's shares, relationships with other shareholders or persons or any other facts the directors may deem relevant to a determination of the number of Controlled Shares attributable to any person. The directors may disregard the votes attached to shares of any holder failing to respond to such a request or submitting incomplete or untrue information. The directors retain certain discretion to make such final adjustments as to the aggregate number of votes attaching to the Voting Shares of any shareholder that they consider fair and reasonable in all the circumstances to ensure that no person will be a 10% Shareholder at any time.

**Q: How many votes are required to transact business at the Annual General Meeting?**

A: A quorum is required to transact business at the Annual General Meeting. Without giving effect to the limitation on voting rights described above, the quorum required at the Annual General Meeting is two or more persons present in person and representing in person or by proxy more than 50% of the total issued and outstanding Voting Shares throughout the meeting.

**Q: What else will happen at the Annual General Meeting?**

A: At the Annual General Meeting, shareholders will also receive the report of the Company's independent auditors and the Company's financial statements for the year ended December 31, 2008.

**Q: Who pays the costs of soliciting proxies?**

A: The cost of the solicitation of proxies will be borne by the Company. Solicitation will be made by mail, and may be made by the Company's directors, officers and employees, personally or by telephone, facsimile or other electronic means, for which the Company's directors, officers and employees will not receive any additional

compensation. Proxy cards and materials also will be distributed to beneficial owners of Voting Shares through banks, brokers, custodians, nominees and other parties, and the Company expects to reimburse such parties for their charges and expenses. W.F. Doring & Co., Inc. has been retained to assist the Company in the solicitation of proxies at a fee not expected to exceed \$3,500, plus out-of-pocket expenses.

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**Q: How may I receive a copy of the Company's Annual Report on Form 10-K?**

A: The Company will furnish without charge to any shareholder, a copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the U.S. Securities and Exchange Commission (the SEC). A copy of such report may be obtained upon written request to the Company at 27 Richmond Road, Pembroke HM 08, Bermuda, Attention: Wesley D. Dupont, Secretary. Each such request must include a representation that, as of March 11, 2009, the person making the request was a beneficial owner of Common Shares entitled to vote at the Annual General Meeting. The Annual Report on Form 10-K, and all of the Company's filings with the SEC, can be accessed through our website at [www.awac.com](http://www.awac.com) under the SEC Filings link located in the section entitled Investor Relations. As permitted by the SEC's rules, the Company will not furnish any exhibits to its Annual Report on Form 10-K without charge, but will provide along with such report a list of such exhibits and information about its charges for providing them.

**Table of Contents****ELECTION OF DIRECTORS****(Item A on Proxy Card)**

The Board is divided into three classes of directors, Class I, Class II and Class III, each of approximately equal size. Three director nominees are being presented for election at the Annual General Meeting to serve as Class III Directors until the Annual General Meeting in 2012 or until their successors are duly elected and qualified or their office is otherwise vacated. All of the nominees are current members of the Board. Such nominees were recommended for appointment to the Board by the Nominating & Corporate Governance Committee of the Board.

**Your Board unanimously recommends a vote FOR each of the nominees listed on the enclosed proxy card.** It is not expected that any of the nominees will become unavailable for election as a director but, if any nominee should become unavailable prior to the meeting, proxies will be voted for such persons as your Board shall recommend.

The name, age, principal occupation and certain other information concerning each nominee is set forth below.

*Scott A. Carmilani* (age 44) was elected our President and Chief Executive Officer in January 2004, became a director in September 2003 and was appointed Chairman of the Board in January 2008. Mr. Carmilani was, prior to joining our Company as Executive Vice President in February 2002, the President of the Mergers & Acquisition Insurance Division of subsidiaries of American International Group, Inc. ( AIG ) and responsible for the management, marketing and underwriting of transactional insurance products for clients engaged in mergers, acquisitions or divestitures. Mr. Carmilani was previously the Regional Vice-President overseeing the New York general insurance operations of AIG. Before that he was the Divisional President of the Middle Market Division of National Union Fire Insurance Company of Pittsburgh, Pa., which underwrites directors and officers liability, employment practice liability and fidelity insurance for middle-market-sized companies. Prior to joining our Company, he held a succession of underwriting and management positions with subsidiaries of AIG since 1987.

*James F. Duffy* (age 65) was appointed to the Board in July 2006. Mr. Duffy retired in 2002 as Chairman and Chief Executive Officer of The St. Paul Reinsurance Group, where he originally served from 1993 until 2000 as President and Chief Operating Officer of global reinsurance operations. Prior to this, Mr. Duffy served as an executive vice president of The St. Paul Companies from 1984 to 1993, and as President and Chief Operating Officer of St. Paul Surplus Lines Insurance Company from 1980 until 1984. Mr. Duffy had 15 years prior experience in insurance underwriting with Employers Surplus Lines Insurance Company, First State Insurance Company and New England Re.

*Bart Friedman* (age 64) was appointed to the Board in March 2006, was elected Deputy Chairman of the Board in July 2006 and was appointed Lead Independent Director of the Board in January 2008. Mr. Friedman has been a partner at Cahill Gordon & Reindel LLP, a New York law firm, since 1980. Mr. Friedman specializes in corporate governance, special committees and director representation. Mr. Friedman worked early in his career at the SEC. Mr. Friedman is currently a member of the board of directors of Sanford Bernstein Mutual Funds, where he is a member of the Audit Committee and the Nominating and Governance Committee.

The following individuals are the Company's continuing directors:

<b>Name</b>	<b>Position</b>	<b>Term Expires</b>
Patrick de Saint-Aignan	Class II Director	2010



Scott Hunter	Class II Director	2010
Mark R. Patterson	Class I Director	2011
Samuel J. Weinhoff	Class I Director	2011

*Patrick de Saint-Aignan* (age 60) was appointed to the Board in August 2008. Mr. de Saint-Aignan has held multiple positions at Morgan Stanley internationally from 1974 to 2008, where he was a Managing Director and, most recently, an Advisory Director. He held responsibilities in corporate finance and capital markets and headed successively Morgan Stanley's global fixed income derivatives and debt capital markets activities, its office in Paris, France, and the firm-wide risk management function. He was also a Founder, Director and Chairman of the International Swaps and Derivatives Association (1985-1992), Censeur on the Supervisory Board of IXIS Corporate and Investment Bank (2005-2007) and a member of the board of directors of Bank of China Limited

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(2006-2008), where he was Chairman of the Audit Committee and a member of the Risk Policy Committee and the Personnel and Remuneration Committee. Mr. de Saint-Aignan is currently a member of the board of directors of State Street Corporation.

*Scott Hunter* (age 57) was appointed to the Board in March 2006. Mr. Hunter has served as an independent consultant to Bermuda's financial services industry since 2002. From 1986 until 2002, Mr. Hunter was a partner at Arthur Andersen Bermuda, whose clients included numerous insurance and reinsurance companies.

*Mark R. Patterson* (age 57) was appointed to the Board in March 2006. Since 2002, Mr. Patterson has served as Chairman of MatlinPatterson Asset Management, which manages distressed investment funds. From 1994 until 2002, Mr. Patterson was a Managing Director of Credit Suisse First Boston Corporation, where he served as Vice Chairman from 2000 to 2002. Mr. Patterson had 20 years prior experience in commercial and investment banking at Bankers Trust, Salomon Brothers and Scully Brothers & Foss. Mr. Patterson is currently a member of the board of directors of Broadpoint Securities Group, Inc., Polymer Group, Inc. and Flagstar Bancorp, Inc.

*Samuel J. Weinhoff* (age 58) was appointed to the Board in July 2006. Mr. Weinhoff has served as a consultant to the insurance industry since 2000. Prior to this, Mr. Weinhoff was head of the Financial Institutions Group for Schroder & Co. from 1997 until 2000. He was also a Managing Director at Lehman Brothers, where he worked from 1985 to 1997. Mr. Weinhoff had ten years prior experience at Home Insurance Company and the Reliance Insurance Company in a variety of positions, including excess casualty reinsurance treaty underwriter, investment department analyst, and head of corporate planning and reporting. Mr. Weinhoff is currently a member of the board of directors of Infinity Property and Casualty Corporation where he is a member of both the Executive Committee and the Audit Committee, and of Inter-Atlantic Financial, Inc. where he is a member of both the Audit Committee and Nominating Committee.

The Board has determined that Messrs. de Saint-Aignan, Duffy, Friedman, Hunter, Patterson and Weinhoff are independent directors under the listing standards of the New York Stock Exchange (the "NYSE"). The Company requires that a majority of its directors meet the criteria for independence under applicable law and the rules of the NYSE. The Board has adopted a policy to assist it and the Nominating & Corporate Governance Committee in their determination as to whether a nominee or director qualifies as independent. This policy contains categorical standards for determining independence and includes the independence standards required by the SEC and the NYSE as well as standards published by institutional investor groups and other corporate governance experts. In making its determination of independence, the Board applied these standards for director independence and determined that no material relationship existed between the Company and these directors. A copy of the Board Policy on Director Independence is attached as *Appendix A* to this Proxy Statement.

## **Meetings and Committees of the Board**

During the year ended December 31, 2008, there were five meetings of the Board (including regularly scheduled and special meetings). Each of our directors attended at least 75% of the aggregate Board meetings and committee meetings of which he was a member during the period he served on the Board, except for Mr. Patterson. Our non-management directors meet separately from the other directors in an executive session at least quarterly. Mr. Friedman, our Deputy Chairman of the Board and Lead Independent Director, served as the presiding director of the executive sessions of our non-management and independent directors held in 2008. The Deputy Chairman also has the authority to call meetings of the independent directors or full Board.

The Lead Independent Director's responsibilities include:

organizing and presiding over all meetings of the Board at which the Chairman of the Board is not present, including all executive sessions of the non-management and independent directors;

serving as the liaison between the Chairman of the Board and the non-management directors;

overseeing the information sent to the Board by management;

assisting the Chairman of the Board in setting meeting agendas and schedules for the Board to assure that there is sufficient time for discussion of all agenda items;

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facilitating communication between the Board and management;

being available to communicate with and respond to certain inquiries of the Company's shareholders; and

performing such other duties as requested by the Board.

Our Board has established an Audit Committee, a Compensation Committee, an Executive Committee, an Investment Committee and a Nominating & Corporate Governance Committee, each of which reports to the Board. In February 2009, our Board also established an Enterprise Risk Committee. During 2008, the Audit Committee held six meetings, the Compensation Committee held five meetings, the Executive Committee held no meetings, the Investment Committee held four meetings and the Nominating & Corporate Governance Committee held four meetings. The Board has adopted an Audit Committee Charter, a Compensation Committee Charter, an Investment Committee Charter and a Nominating & Corporate Governance Committee Charter. Copies of these charters are available on our website at [www.awac.com](http://www.awac.com) under "Corporate Governance". Printed copies are also available by sending a written request to the Company's Secretary.

Our Board has also approved Corporate Governance Guidelines, a Code of Business Conduct and Ethics and a Code of Ethics for Chief Executive Officer and Senior Financial Officers. The foregoing information also is available on our website at [www.awac.com](http://www.awac.com) under "Corporate Governance". Printed copies are also available by sending a written request to the Company's Secretary.

*Audit Committee.* The Audit Committee presently consists of Messrs. Hunter (Chairman), de Saint-Aignan, Duffy and Weinhoff, each of whom is an independent director. Pursuant to its charter, the Audit Committee is responsible for overseeing our independent auditors, internal auditors, compliance with legal and regulatory standards and the integrity of our financial reporting. Each member of the Audit Committee has been determined by the Board to be financially literate within the meaning of the NYSE Listing Standards and each has been designated by the Board as an audit committee financial expert, as defined by applicable rules of the SEC, based on either his extensive prior accounting and auditing experience or having a range of experience in varying executive positions in the insurance or financial services industry.

*Compensation Committee.* The Compensation Committee presently consists of Messrs. de Saint-Aignan (Chairman), Friedman, Hunter, Patterson and Weinhoff. During 2008, Mr. Patterson served as Chairman of this committee, and Mr. Weinhoff joined the Compensation Committee in February 2009. The Compensation Committee is comprised entirely of independent directors. Pursuant to its charter, the Compensation Committee has the authority to establish compensation policies and recommend compensation programs to the Board, including administering all stock option plans and incentive compensation plans of the Company. Pursuant to its charter, the Compensation Committee also has the authority to review the competitiveness of the non-management directors' compensation programs and approve these compensation programs and all payouts made thereunder. Additional information on the Compensation Committee's consideration of executive compensation, including a discussion of the roles of the Company's Chief Executive Officer and the independent compensation consultant in such executive compensation consideration, is included in "Executive Compensation" Compensation Discussion and Analysis.

*Executive Committee.* The Executive Committee presently consists of Messrs. Carmilani (Chairman), Duffy and Weinhoff. The Executive Committee has the authority to oversee the general business and affairs of the Company to the extent permitted by Bermuda law.

*Investment Committee.* The Investment Committee presently consists of Messrs. Patterson (Chairman), Hunter and Weinhoff. The Investment Committee is comprised entirely of independent directors. Pursuant to its charter, the

Investment Committee is responsible for establishing investment guidelines and supervising our investment activity.

*Nominating & Corporate Governance Committee.* The Nominating & Corporate Governance Committee presently consists of Messrs. Friedman (Chairman), Duffy and Hunter. The Nominating & Corporate Governance Committee is comprised entirely of independent directors. Pursuant to its charter, the Nominating & Corporate Governance Committee is responsible for identifying individuals believed to be qualified to become directors and to recommend such individuals to the Board and to set compliance policies and corporate governance standards.

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The Nominating & Corporate Governance Committee will consider nominees recommended by shareholders and will evaluate such nominees on the same basis as all other nominees. Shareholders who wish to submit nominees for director for consideration by the Nominating & Corporate Governance Committee for election at the Annual General Meeting in 2010 may do so by submitting in writing such nominees' names and other information required under Bye-law 34(2) of the Company's Bye-laws, in compliance with the procedures described under Shareholder Proposals for 2010 Annual General Meeting in this Proxy Statement.

The criteria adopted by the Board for use in evaluating the suitability of all nominees for director include the following:

high personal and professional ethics, values and integrity;

education, skill and experience with insurance, reinsurance or other businesses and organizations that the Board deems relevant and useful;

ability and willingness to serve on any committees of the Board; and

ability and willingness to commit adequate time to the proper functioning of the Board and its committees.

In addition to considering candidates suggested by shareholders, the Nominating & Corporate Governance Committee considers candidates recommended by current directors, officers and others. The Nominating & Corporate Governance Committee screens all director candidates and generally reviews written materials with respect to the candidate. The Nominating & Corporate Governance Committee determines whether or not the candidate meets the Company's general qualifications and specific qualities for directors and whether or not additional information is appropriate.

*Enterprise Risk Committee.* In February 2009, the Board established an Enterprise Risk Committee to oversee the management of the Company's enterprise risks. The Enterprise Risk Committee consists of Messrs. Duffy (Chairman), de Saint-Aignan and Hunter. This committee does not currently have a charter.

**Director Compensation**

The following table provides information concerning the compensation of the Company's non-management directors for fiscal year 2008.

**Non-Management Directors Compensation**

<b>Name</b>	<b>Fees Earned or Paid in Cash</b>	<b>Stock Awards(2)</b>	<b>All Other Compensation</b>	<b>Total(4)</b>
Patrick de Saint-Aignan <sup>(1)</sup>	\$ 22,125	\$	\$	\$ 22,125
James F. Duffy	\$ 87,500	\$ 117,528	\$	\$ 205,028
Bart Friedman	\$ 99,000	\$ 72,894	\$	\$ 171,894
Scott Hunter	\$ 116,000	\$ 72,894	\$	\$ 188,894
Mark R. Patterson	\$ 84,500	\$ 72,894	\$	\$ 157,394
Samuel J. Weinhoff	\$ 87,500	\$ 117,528	\$	\$ 205,028

Michael I.D. Morrison	\$ 62,500	\$ 89,576	\$ 152,423 <sub>(3)</sub>	\$ 304,499
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- (1) Mr. de Saint-Aignan was appointed to the Board on August 20, 2008.
- (2) As of December 31, 2008, our non-management directors held an aggregate of 14,230 restricted stock units ( RSUs ) under the Allied World Assurance Company Holdings, Ltd Second Amended and Restated 2004 Stock Incentive Plan (the Stock Incentive Plan ), as follows: Mr. de Saint-Aignan holds no RSUs; Mr. Duffy holds an aggregate of 2,458 RSUs; Mr. Friedman holds an aggregate of 2,604 RSUs; Mr. Hunter holds an aggregate of 2,604 RSUs; Mr. Patterson holds an aggregate of 2,604 RSUs; Mr. Weinhoff holds an aggregate of 2,458 RSUs; and Mr. Morrison holds an aggregate of 1,502 RSUs. Mr. Morrison also holds an aggregate of 116,667 stock options that were granted to him in 2001 and 2003 during the time he served as an executive

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officer of the Company. As part of their director compensation arrangement, on February 28, 2008, Messrs. Duffy, Friedman, Hunter, Morrison, Patterson and Weinhoff each received 1,502 RSUs. The grant date fair value of each of these RSUs was \$43.27 per RSU based on the closing price of the Common Shares on the NYSE on such date, for a total fair value of approximately \$65,000 per individual grant. The total stock award compensation expense recorded in this table represents the accounting expense recognized in the consolidated financial statements of the Company in accordance with the Statement of Financial Accounting Standards No. 123(R) Share Based Payment ( FAS 123(R) ) and does not correspond to the actual value that may be recognized by each director. For additional information on the calculation of the compensation expense, please refer to note 12(b) of the Company's consolidated financial statements contained in the Form 10-K for the year ended December 31, 2008, as filed with the SEC.

- (3) In October 2004, we entered into a consulting agreement with Mr. Morrison pursuant to which he received \$150,000 annually. For the first quarter of 2008, we also paid health benefits on behalf of Mr. Morrison and his wife.
- (4) In 2008, our non-management directors did not receive any non-equity incentive plan compensation. In addition, in 2008, we did not have any pension or deferred compensation plans for our non-management directors. Accordingly, these columns are not included in the Non-Management Directors Compensation table above.

In 2008, our non-management directors have been paid the following aggregate fees for serving as directors of both the Company and Allied World Assurance Company, Ltd:

\$55,000 annually for serving as a director; and

\$1,500 per meeting attended by a director as discussed below.

In addition, our Lead Independent Director receives an annual retainer of \$15,000. We also provide to all non-management directors reimbursement of expenses incurred in connection with their service on the Board, including the reimbursement of director educational expenses.

Each non-management director receives an annual equity award of RSUs of the Company worth approximately \$65,000. Each RSU represents the right to receive one newly-issued, fully paid and non-assessable Common Share of the Company at a future date and fully vests on the first anniversary of the date of grant, subject to continued service as a director through such date. Other than with respect to vesting terms, the RSUs are awarded to our non-management directors pursuant to the Stock Incentive Plan and are granted on similar terms and conditions as those granted to our employees generally. In 2009, these annual equity awards were granted concurrently with the grant of equity awards to members of our senior management following the preparation and completion of the 2008 year-end financial statements. Accordingly, on February 26, 2009, each of our non-management directors received 1,665 RSUs.

***Committee Fees and Additional Retainers***

An attendance fee of \$1,500 is paid to each non-management director committee member for attendance at committee meetings thereof. Committee meetings of the Company and Allied World Assurance Company, Ltd held on the same day are considered one meeting for the purpose of calculating attendance fees.

The chairman of a committee of the Board also serves as the chairman of the same committee of the board of directors of Allied World Assurance Company, Ltd, and receives one retainer, paid annually, for such service in addition to the base retainer for serving as a director. For 2008, the Chairman of the Audit Committee of both the Company and



Allied World Assurance Company, Ltd received an additional annual retainer of \$25,000, and each other Audit Committee member received an additional annual retainer of \$10,000. In February 2009, the Compensation Committee increased these annual retainers to \$35,000 and \$15,000, respectively. All other committee chairmen of both the Company and Allied World Assurance Company, Ltd receive an additional annual retainer of \$8,000.

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***Stock Ownership Policy***

In order to promote equity ownership and further align the interests of the Board with our shareholders, the Board adopted a stock ownership policy for all non-management directors. Under this policy, non-management directors are expected to own, within five years after his joining the Board, equity interests of the Company with a value equal to five times the then-current annual cash retainer for serving on the Board. Non-management directors are expected not to sell any Common Shares until they are in compliance with this policy. Mr. Carmilani, our President, Chief Executive Officer and Chairman of the Board, is subject to a stock ownership policy for senior employees as described in Executive Compensation Compensation Discussion and Analysis Stock Ownership Policy.

**APPROVAL OF ELIGIBLE SUBSIDIARY DIRECTORS  
(Item B on Proxy Card)**

In accordance with our Bye-Laws, no person may be elected as a director of any of the Company's non-U.S. insurance subsidiaries (excluding Allied World Assurance Company, Ltd) unless such person has been approved by the Company's shareholders (Eligible Subsidiary Directors). The individuals identified below have been nominated to serve as Eligible Subsidiary Directors for certain of our non-U.S. insurance subsidiaries.

**Your Board unanimously recommends a vote FOR each slate of nominees listed as Eligible Subsidiary Directors on the enclosed proxy card.** It is not expected that any of the nominees will become unavailable for approval as an Eligible Subsidiary Director but, if any nominee should become unavailable prior to the meeting, proxies will be voted for such persons as your Board shall recommend.

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

J. Michael Baldwin  
Scott A. Carmilani  
John Clifford  
Hugh Governey  
John T. Redmond

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

J. Michael Baldwin  
Scott A. Carmilani  
John Clifford  
Hugh Governey  
John T. Redmond

*J. Michael Baldwin* (age 67) has served as director of both Allied World Assurance Company (Europe) Limited and Allied World Assurance Company (Reinsurance) Limited since September 2002 and July 2003, respectively. Mr. Baldwin served as Managing Director of Allied World Assurance Company (Europe) Limited and Allied World Assurance Company (Reinsurance) Limited from November 2001 through July 2006. Mr. Baldwin worked for The Chubb Corporation (Chubb) for almost 30 years, starting in 1972. From 1997 to November 2001, Mr. Baldwin worked for Chubb's European Commercial Insurance Division in London and was elected Senior Vice President of Chubb Insurance Company of Europe in 1998. From 1991 to 1997, Mr. Baldwin was the Zone Underwriting Officer for Latin America and was elected Vice President in 1996. From 1988 to 1991, Mr. Baldwin managed Chubb's operations in Italy and from 1984 to 1988, he worked at Chubb U.S. as Home Foreign Manager and Underwriting Officer for Asia/Pacific. Prior to that, Mr. Baldwin held various underwriting and managerial positions at Chubb in

Latin America. From 1962 to 1972, Mr. Baldwin worked for Royal Insurance in both the United Kingdom and Venezuela.

*Scott A. Carmilani.* Please see Mr. Carmilani's biography under "Election of Directors" elsewhere in this Proxy Statement.

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*John Clifford* (age 59) has been a non-executive director of Allied World Assurance Company (Europe) Limited since November 2006 and a non-executive director of Allied World Assurance Company (Reinsurance) Limited since July 2004. From 1967 to date, Mr. Clifford has held various positions at the Bank of Ireland, including Group Secretary since 2003 to present; General Manager, Group Chief Executive Officer's Office, from 2000 to 2003; Executive Director GB (London Based), responsible for the Bank's commercial banking activities in Britain, from 1990 to 1999; General Manager, Group Credit Control, from 1987 to 1989; Group Chief Internal Auditor from 1985 to 1987; and Assistant General Manager Banking from 1983 to 1985. Mr. Clifford is a non-executive director of Irish Clearing House Ltd and a number of subsidiary companies within the Bank of Ireland Group. He is a fellow of the Institute of Bankers and a member of the Institute of Directors.

*Hugh Governey* (age 66) has been a non-executive director of both Allied World Assurance Company (Europe) Limited and Allied World Assurance Company (Reinsurance) Limited since November 2006. Mr. Governey served as a non-executive director of Coyle Hamilton Willis Holdings, Ltd., a subsidiary of Willis Group Holdings Ltd., a NYSE-traded company, from August 2005 through December 2007, when he retired. From 2004 to 2005, Mr. Governey was the Chief Executive Officer of Coyle Hamilton Willis Holdings Ltd. From 2000 to 2004, Mr. Governey was the Chief Executive Officer of Coyle Hamilton Holdings Ltd. Prior to that, from 1981 to 2000, he was the Managing Director of Coyle Hamilton Corporate Broking, and from 1970 to 1981, was a Director of Coyle Hamilton Phillips Ltd. From 1965 to 1970, he worked for V.P. Phillips & Co. Ltd. Insurance Brokers (then a part of C.E. Heath) and from 1960 to 1965, he worked for the Royal Exchange Assurance Dublin (now part of the AXA Group). From May 2005 to June 2006, Mr. Governey served as the President of the Bureau International des Producteurs d'Assurances et de Réassurances (BIPAR), the European Federation of Insurance Intermediaries, which represents the public affairs interests of insurance intermediaries with European institutions. He was Vice President of BIPAR and Chairman of its EU Executive Committee from 1997 to 1998 and was elected Honorary Vice President in 1999. Mr. Governey served as the President of the Dublin Chamber of Commerce from 1999 to 2000; as a member of the board of the Council of Insurance Agents & Brokers (U.S.) from 1998 to 2004; as Vice President of The Chartered Insurance Institute (U.K.) from 1997 to 1998; and as President of the Irish Brokers Association and the Insurance Institute of Dublin from 1994 to 1995 and 1989 to 1990, respectively.

*John T. Redmond* (age 53) has served as director of both Allied World Assurance Company (Europe) Limited and Allied World Assurance Company (Reinsurance) Limited since September 2002 and July 2003, respectively. Mr. Redmond joined us in July 2002 and is the President of Allied World Assurance Company (Europe) Limited and Allied World Assurance Company (Reinsurance) Limited. Prior to joining our Company, Mr. Redmond held various positions with Chubb, and served as a Senior Vice President of Chubb from 1993 until July 2002.

**APPROVAL OF THE THIRD AMENDED AND RESTATED BYE-LAWS  
OF ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD  
(Items C(1) - (4) on Proxy Card)**

At the Annual General Meeting, the Company's shareholders will be asked to approve and adopt the Company's Third Amended and Restated Bye-Laws to (i) permit the Company to hold its own acquired shares as treasury shares in lieu of cancellation; (ii) increase the share ownership limits for the Company's founding shareholders to not more than 24.5% of the Common Shares; (iii) give the Board greater flexibility to permit or prohibit transfers, purchases, acquisitions or issuances of shares, among other things, in accordance with the Company's bye-laws; and/or (iv) give the Board the ability to hold Board meetings in the United States. Pursuant to Section 13(5) of the Companies Act 1981 of Bermuda, as amended (the Companies Act), and bye-law 89 of the Company's current Bye-Laws, any amendment to the Company's Bye-Laws must receive shareholder approval.

The proposed amendments to the Company's Bye-Laws are explained in greater detail in Items C(1) - (4) below. Each material amendment (Items C(1) - (4)) will be voted on separately and will not be contingent on the approval of any

other amendment. To be approved, each of Items C(1) - (4) must separately receive the affirmative FOR vote of a majority of the votes cast at the Annual General Meeting. The Board unanimously approved and adopted the Company's Third Amended and Restated Bye-Laws on February 26, 2009 incorporating each of the amendments described in Items C(1) - (4). The Third Amended and Restated Bye-Laws will become

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effective upon the approval of the Company's shareholders, incorporating only those amendments that are approved by the Company's shareholders by voting on Items C(1) - (4).

**Your Board unanimously recommends a vote FOR the approval and adoption of the Third Amended and Restated Bye-Laws of Allied World Assurance Company Holdings, Ltd in its entirety.**

The following summary of the proposed changes to the Company's current Bye-laws is qualified in its entirety by express reference to the text of the Third Amended and Restated Bye-Laws, a copy of which has been marked to show all changes that would be made to the Company's current Bye-Laws if each of Items C(1) - (4) is approved and is attached as *Appendix B* to this Proxy Statement. The Board encourages each shareholder to review *Appendix B* in its entirety.

**Proposed Changes**

***ITEM C(1): To approve an amendment to the Company's bye-laws to permit the Company to hold its own acquired shares as treasury shares in lieu of cancellation***

In 2006, a comprehensive review of the Companies Act was undertaken by the Legislative Change Committee of the Bermuda International Business Association, in collaboration with the Bermuda Ministry of Finance, with a view to modernizing the Companies Act to take into account various company law reform initiatives that have taken place in the United Kingdom and elsewhere. Following this review, a bill entitled the Companies Amendment Act 2006 (the Amendment Act) was enacted on December 29, 2006.

The Amendment Act includes a provision that allows Bermuda companies, if permitted by their memorandum of association or bye-laws, to hold their own acquired shares as treasury shares in lieu of cancellation. Treasury shares generally represent shares that were issued to shareholders but which have since been reacquired by the issuing company and are available for retirement or later reissuance. All rights attaching to treasury shares, such as voting and dividend rights, are suspended and cannot be exercised by the Company while it holds such treasury shares. Under the Amendment Act, companies continue to be able to purchase their own shares for cancellation so long as their constitutional documents permit it. Our Bye-Laws currently permit us to purchase our Common Shares for cancellation, but do not permit us to hold the purchased shares in treasury. The Board believes that having the ability to hold reacquired Common Shares in treasury, which feature is currently enjoyed by most companies incorporated in the United States, affords us valuable corporate financial flexibility under various circumstances, and is in our best interest and in the best interests of our shareholders. Consequently, the proposed Third Amended and Restated Bye-Laws add a definition of "Treasury Share" and reflect other related bye-law modifications and conforming changes that would permit us either to cancel Common Shares purchased by us or hold them in treasury, in either case as determined by the Board and in accordance with the Companies Act. Furthermore, the proposed Third Amended and Restated Bye-Laws include a new bye-law 50(2) which clarifies that all rights attaching to treasury shares held by us will be suspended and may not be exercised by us while held in treasury. It also clarifies that treasury shares held by us will be excluded from the calculation of any percentage or fraction of share capital, or the number of shares, of the Company as required by the Companies Act and for the purposes of the calculation of the quorum and majority vote required to approve an amalgamation.

**Your Board unanimously recommends a vote FOR the approval of an amendment to the Company's bye-laws to permit the Company to hold its own acquired shares as treasury shares in lieu of cancellation.**

***ITEM C(2): To approve an amendment to the Company's bye-laws to increase the share ownership limits for the Company's founding shareholders (as defined below) to not more than 24.5% of the Common Shares***

Our Bye-Laws contain limitations that generally prevent share transfers that would result in any U.S. person owning directly, indirectly, constructively or beneficially 10% or more of our Common Shares by vote or value. Additionally, the Bye-Laws limit the voting rights of any owner of our Voting Shares to prevent any person from owning directly, indirectly, constructively or beneficially 10% or more of the total voting rights of the Company. These provisions were designed to minimize the risk that the Company or any of its insurance subsidiaries would be

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treated as a controlled foreign corporation ( CFC ) under the U.S. federal income tax laws. Certain of our founders, specifically AIG, Chubb and certain affiliates of The Goldman Sachs Group, Inc. (the Goldman Sachs Funds ), all owned more than 10% of our Common Shares at the time of our formation (referred to herein as our founders or founding shareholders ) and were prohibited by our Bye-Laws from owning a greater percentage of our Common Shares than the percentage owned by each founder as of July 17, 2006 (the Founder Limits ), the closing date of our initial public offering of Common Shares (the IPO ).

The Company considered increasing the Founder Limits to give the Company s founders greater flexibility to acquire our Common Shares in the future. After discussion and in consultation with the Company s advisors, the Board determined that increasing the Founder Limits to not more than 24.5% of our Common Shares, thereby allowing our founders to acquire and trade more of our Common Shares, would be in our best interest and in the best interests of our shareholders. In this regard, a revised bye-law 64(2) increases the Founder Limits to not more than 24.5% of our Common Shares. In making its determination, the Board also considered certain possible negative effects from increasing the Founder Limits, particularly the possibility that the founders may buy and hold Common Shares up to the 24.5% limit, which could have a marginally negative effect on the Company s trading volumes and also marginally increase the potential for large sales of the Company s shares in the future. The Board determined that these potential negative effects do not outweigh the potential positive effects of the proposed amendment.

The Board does not believe the amendment to the Founders Limits as described above will make it more difficult for shareholders to obtain approval of any proposal or transaction that is not supported by our founders, nor will it enable our founders to obtain greater influence over the Company s management and business. Under the revised bye-laws, each of our founders will, as before, be prevented from owning directly, indirectly, constructively or beneficially 10% or more of the total voting shares or rights of the Company. For further information about the share ownership of our founders, please see Principal Shareholders elsewhere in this Proxy Statement. The Goldman Sachs Funds currently own only Non-Voting Shares and even if they were to increase their ownership percentage in the Company, they would continue to be required to own only Non-Voting Shares. By holding only Non-Voting Shares, the Goldman Sachs Funds may not vote on this proposal.

**Your Board unanimously recommends a vote FOR the approval of an amendment to the Company s bye-laws to increase the share ownership limits for the Company s founding shareholders to not more than 24.5% of the Common Shares.**

***ITEM C(3): To approve an amendment to the Company s bye-laws to give the Board sole and absolute discretion to permit or prohibit transfers, purchases, acquisitions or issuances of shares, among other things, in accordance with the Company s bye-laws***

Our Bye-Laws contain several provisions restricting the transferability by shareholders or issuance by us of Common Shares in violation of certain ownership limits, including the 10% ownership limit (by vote or value) for U.S. shareholders and Founder Limits described under Item C(2) above. These ownership limits are generally designed to prevent the Company from being exposed to any materially adverse tax or regulatory consequences, including the risk that the Company or any of its insurance subsidiaries would be treated as a CFC under U.S. federal income tax laws. As currently drafted, certain of these bye-law restrictions are automatically applied and do not give the Board any flexibility to permit or prohibit a transfer or issuance of shares even if the Board believes such action, based on its review of all of the facts and circumstances (including its consideration of any adverse tax or regulatory consequences), is in our best interest and in the best interests of our shareholders. After discussion and in consultation with the Company s advisors, the Board believes that the Bye-Laws should be amended to give the Board sole and absolute discretion to permit or prohibit a transfer or issuance of shares, or to take certain other actions with respect thereto, in accordance with the Company s bye-laws. In this regard, the proposed Third Amended and Restated Bye-Laws provide for certain technical amendments, specifically to bye-laws 50(5), 52(2), 64(8), (9) and (11) and 74,



and new bye-law 1(5) to give the Board sole and absolute discretion to: (a) issue securities (including bonus shares), (b) decline to issue Common Shares, (c) decline to register a share transfer, purchase or other acquisition (or reverse a violating transfer, purchase or other acquisition previously registered), (d) require a person to dispose of Common Shares, (e) take any other action the Board may determine is necessary or advisable in certain circumstances, particularly if there is reason to believe that such issuance, transfer, purchase or

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other acquisition may cause any person to violate the ownership limits, including the Founder Limits or (f) resolve any conflicts, ambiguities or questions of interpretations of the bye-laws.

The Board believes that the amendments proposed by this Item C(3) will better serve the Company's shareholders by giving the Board greater flexibility to permit or prohibit share transfers and issuances and to take other related actions that are in the best interests of the Company and its shareholders, rather than relying solely on the automatic operation of a bye-law provision that may not necessarily achieve the same result.

**Your Board unanimously recommends a vote FOR the approval of an amendment to the Company's bye-laws to give the Board sole and absolute discretion to permit or prohibit transfers, purchases, acquisitions or issuances of shares, among other things, in accordance with the Company's bye-laws.**

***ITEM C(4): To approve an amendment to the Company's bye-laws to give the Board the ability to hold Board meetings in the United States***

Our Bye-Laws currently prohibit holding meetings of the Board in the United States. The Board believes that it is in the Company's best interest to have the ability to hold Board meetings in the United States in urgent circumstances or where it is determined that holding such meetings would not result in any adverse U.S. federal income tax consequences to the Company. Consequently, the proposed Third Amended and Restated Bye-Laws would remove bye-law 17(3), which prohibits the Board from holding its meetings in the United States.

**Your Board unanimously recommends a vote FOR the approval of an amendment to the Company's bye-laws to give the Board the ability to hold Board meetings in the United States.**

The Company does not expect that approval and adoption of the Third Amended and Restated Bye-Laws, or any part thereof, will have any specific U.S. federal income tax consequences to the Company's shareholders, or materially increase the risk that the Company or any of its insurance subsidiaries will be treated as a CFC under U.S. federal income tax laws.

**APPOINTMENT OF INDEPENDENT AUDITORS  
(Item D on Proxy Card)**

The appointment of independent auditors is subject to approval annually by the Company's shareholders. Deloitte & Touche has served as the Company's independent auditors since April 9, 2002. The Audit Committee of your Board has recommended the appointment of Deloitte & Touche as our independent auditors for the fiscal year ending December 31, 2009.

Representatives of Deloitte & Touche are expected to attend the Annual General Meeting and will have an opportunity to make a statement if they wish. They will also be available to answer questions at the meeting. If approved, Deloitte & Touche will serve as the Company's auditor until the Company's Annual General Meeting in 2010 for such compensation as the Audit Committee of your Board shall determine.

**Your Board unanimously recommends a vote FOR the appointment of Deloitte & Touche as the Company's independent auditors.**

**Fees to Independent Registered Public Accountants for Fiscal 2008 and 2007**

The following table shows information about fees billed to us by Deloitte & Touche for services rendered for the fiscal years ended December 31, 2008 and 2007.

	<b>2008</b>	<b>2007</b>
Audit Fees	\$ 3,494,176	\$ 3,307,800
Audit-Related Fees(1)		
Tax Fees(2)		\$ 2,699
All Other Fees(3)	\$ 156,041	\$ 233,577

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- (1) Audit-Related Fees are fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under the Audit Fees category.
- (2) In 2007, Tax Fees related to the transition to another firm of certain tax compliance services.
- (3) In 2008, All Other Fees were fees related to technical consultations and services provided in relation to a corporate restructuring, securities offerings and procedures related to obtaining authorization to carry on insurance business in Hong Kong, and in 2007, All Other Fees were fees related to securities offerings.

The Audit Committee has a policy to pre-approve all audit and non-audit services to be provided by the independent auditors and estimates therefor. The Audit Committee pre-approved all audit services and non-audit services and estimates therefor provided to the Company by the independent auditors in 2008 and 2007.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

*The following summarizes certain relationships and the material terms of certain of our agreements. This summary is subject to, and is qualified in its entirety by reference to, all of the provisions of the relevant agreements. A copy of certain of these agreements has been previously filed with the SEC and is listed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, a copy of which will be provided upon request. See General Meeting Information How may I receive a copy of the Company's Annual Report on Form 10-K? .*

**Founding Shareholders**

We were formed in November 2001, by a group of investors, including AIG, Chubb, the Goldman Sachs Funds and Securitas Allied Holdings, Ltd, an affiliate of Swiss Reinsurance Company. These investors purchased Common Shares and, other than Securitas Allied Holdings, Ltd, were granted warrants that entitle them to purchase a total of 5,500,000 additional Common Shares, or approximately 11% of all Common Shares outstanding at our formation, at an exercise price of \$34.20 per Common Share. These warrants expire on November 21, 2011.

The warrants are exercisable, in whole or in part, (1) in connection with any sale of Common Shares by the exercising selling shareholder or (2) to avoid a reduction of the exercising selling shareholder's equity ownership below a certain percentage. The exercise price and number of shares issuable under each warrant are subject to adjustment with respect to certain dilution events. The following table shows the ownership of warrants by AIG and Chubb as of March 3, 2009:

<b>Holder</b>	<b>Warrants to Acquire Common Shares</b>
American International Group, Inc.	2,000,000
The Chubb Corporation	2,000,000

**Certain Business Relationships**

**Transactions with Affiliates of American International Group, Inc.**

*Software License*

On February 16, 2007, Allied World Assurance Company, Ltd entered into an amended and restated software license agreement, effective as of November 17, 2006, with Transatlantic Holdings, Inc., a publicly traded company in which AIG holds a controlling interest, for certain reinsurance accounting management information software proprietary to Transatlantic Holdings, Inc. The initial term of the agreement expires on November 17, 2009 and will automatically renew for successive one-year terms unless either party delivers prior written notice to terminate at least 90 days prior to the end of any current term. Allied World Assurance Company, Ltd has paid \$3.9 million to Transatlantic Holdings, Inc. for the initial term of the license.

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### ***Guarantee***

On May 22, 2006, Allied World Assurance Company, Ltd entered into a guarantee in favor of AIG. Pursuant to the guarantee, Allied World Assurance Company, Ltd absolutely, unconditionally and irrevocably guaranteed the payment of all amounts legally due and owed by either Allied World Assurance Company (Europe) Limited or Allied World Assurance Company (Reinsurance) Limited to certain reinsurance subsidiaries of AIG under any new or renewal contract of reinsurance entered into between such AIG subsidiaries and Allied World Assurance Company (Europe) Limited and/or Allied World Assurance Company (Reinsurance) Limited on or after January 1, 2006.

### ***Office Space***

Allied World Assurance Company, Ltd entered into a lease on November 29, 2006 with American International Company Limited, a subsidiary of AIG, under which Allied World Assurance Company, Ltd rents 78,057 square feet of office space at 27 Richmond Road, Pembroke HM 08, Bermuda that serves as the Company's corporate headquarters. The lease is for a 15-year term commencing on October 1, 2006 with an option to extend for an additional ten years. For the first five years under the lease, Allied World Assurance Company, Ltd will pay an aggregate monthly rent and user fees of approximately \$0.4 million. In addition to the rent, Allied World Assurance Company, Ltd will also pay certain maintenance expenses. Effective as of October 1, 2011, and on each five-year anniversary date thereafter, the rent payable under the lease will be mutually agreed to by Allied World Assurance Company, Ltd and American International Company Limited.

### ***Hedge Fund***

Since April 1, 2004, Allied World Assurance Company, Ltd has invested a total of \$56.6 million in shares of AIG Select Hedge Ltd. (the "Select Fund"). The Select Fund is a fund of hedge funds and is a Cayman Islands exempted company incorporated under the Companies Law of the Cayman Islands. The Select Fund's investment objective is to seek attractive long-term, risk-adjusted absolute returns in a variety of capital market conditions. The investment manager of the Select Fund is AIG Global Investment Corp., a wholly-owned subsidiary of AIG. Allied World Assurance Company, Ltd may request a redemption of all or some of its shares by giving notice three business days prior to the last business day of any calendar month for the redemption to be effective the last business day of the next following month. The Select Fund will pay the investment manager both a management fee and an incentive fee. The management fee is an annual asset-based fee of 1.5%, payable quarterly, and a 5% incentive fee is paid to the investment manager at the end of each year on the net capital appreciation of our shares, so long as a 5% non-cumulative annual return is obtained. The management fee for the year ended December 31, 2008 was \$0.5 million, and no incentive fee was paid in 2008. On October 31, 2008, Allied World Assurance Company, Ltd redeemed its shares in the Select Fund.

### ***Transactions with AIG in the Ordinary Course of Business***

We either accept or reject reinsurance offered by subsidiaries of AIG based upon our assessment of the risk selection, pricing, terms and conditions. All of our reinsurance transactions with AIG or its subsidiaries are open-market transactions that we believe have been on customary, arm's length terms. We assumed premiums from subsidiaries of AIG of approximately \$62.7 million for the year ended December 31, 2008, and we ceded premiums to subsidiaries of AIG during the same period of approximately \$17.2 million.

### ***Transactions with Affiliates of The Chubb Corporation***

#### ***Transactions with Chubb in the Ordinary Course of Business***

We either accept or reject reinsurance offered by subsidiaries of Chubb based upon our assessment of risk selection, pricing, terms and conditions. All of our reinsurance transactions with Chubb or its subsidiaries are open-market transactions that we believe have been on customary, arm's length terms. We assumed premiums from subsidiaries of Chubb of approximately \$10.5 million for the year ended December 31, 2008, and we ceded premiums to subsidiaries of Chubb during the same period of approximately \$1.1 million.

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**Registration Rights**

We executed a Registration Rights Agreement upon the closing of our IPO that provided AIG, Chubb, the Goldman Sachs Funds and Securitas Allied Holdings, Ltd. (the Specified Shareholders ) with registration rights for Common Shares held by them (or obtainable pursuant to warrants held by them) or any of their affiliates. Each of the Specified Shareholders has the right under this agreement to require us to register Common Shares under the Securities Act of 1933, as amended (the Securities Act ) for sale in the public market, in an underwritten offering, block trades from time to time, or otherwise. For the Specified Shareholders (other than AIG), the total amount of Common Shares requested to be registered under any demand of that kind must, as of the date of the demand, equal or exceed 10% of all Common Shares outstanding or Common Shares having a value of \$100 million (based on the average closing price during any 15 consecutive trading days ending within 30 days prior to but not including such date of demand). We agreed to waive this provision for AIG in connection with our purchase of an AIG subsidiary in December 2007 holding 11,693,333 Common Shares so that AIG may still make a demand registration request for Common Shares underlying its warrant. We may include other Common Shares in any demand registration of that kind on a second-priority basis subject to a customary underwriter's reduction. If we propose to file a registration statement covering Common Shares at any time, each Specified Shareholder will have the right to include Common Shares held by it (or obtainable pursuant to warrants held by it) in the registration on a second-priority basis with us, ratably according to the relevant respective holdings and subject to a customary underwriter's reduction. We have agreed to indemnify each Specified Shareholder with respect to specified liabilities, including civil liabilities under the Securities Act, and to pay specified expenses relating to any of these registrations. In addition, the Goldman Sachs Funds, as the financial founder, have the right under the Registration Rights Agreement to appoint Goldman Sachs & Co. as the lead managing underwriter if the Goldman Sachs Funds are selling more than 20% of the Common Shares sold in a registered public offering.

**Review, Approval or Ratification of Transactions with Related Persons**

Pursuant to our Audit Committee charter, the Audit Committee reviewed and approved the related party transactions we entered into during 2008. We do not have written standards in connection with the review and approval of related party transactions as we believe each transaction should be analyzed on its own merits. In making its decision, the Audit Committee reviews, among other things, the relevant agreement, analyzes the specific facts and circumstances and speaks with, or receives a memorandum from, management that outlines the background and terms of the transaction. As insurance and reinsurance companies enter into various transactions in the ordinary course of business, the Audit Committee does not review these types of transactions to the extent they are open-market transactions that happen to involve related parties.



**Table of Contents****PRINCIPAL SHAREHOLDERS**

The table below sets forth information as of March 3, 2009 regarding the beneficial ownership of our Common Shares by:

each person known by us to beneficially own more than 5% of our outstanding Voting Shares,

each of our directors,

our Chief Executive Officer ( CEO ), Chief Financial Officer ( CFO ) and our three other most highly compensated officers who were serving as executive officers at the end of our 2008 fiscal year (collectively, our named executive officers or NEOs ), and

all of our directors and executive officers as a group.

Name and Address of Beneficial Owner	Beneficial Ownership of Common Shares(1)		Percent of Common Shares
	Voting	Non-Voting	
American International Group, Inc. 70 Pine Street New York, NY 10270	2,000,000(2)		3.9%
The Chubb Corporation(3) 15 Mountain View Road Warren, NJ 07059	3,386,000	4,692,005	16.4%
Wellington Management Company, LLP(4) 75 State Street Boston, MA 02109	4,816,847		9.8%
Scott A. Carmilani	195,991(5)		*
Patrick de Saint-Aignan			*
James F. Duffy	4,952		*
Bart Friedman	6,649		*
Scott Hunter	4,649		*
Mark R. Patterson	33,649		*
Samuel J. Weinhoff	5,452		*
Joan H. Dillard	58,888(6)		*
Wesley D. Dupont	38,697(7)		*
Marshall J. Grossack	16,707(8)		*
W. Gordon Knight	6,160(9)		*
All directors and executive officers as a group (14 persons)	446,716(10)		*

\* Less than 1%.

(1) Pursuant to the regulations promulgated by the SEC, our Common Shares are deemed to be beneficially owned by a person if such person directly or indirectly has or shares the power to vote or dispose of our Common Shares, whether or not such person has any pecuniary interest in our Common Shares, or the right to acquire the power to vote or dispose of our Common Shares within 60 days of March 3, 2009, including any right to acquire

through the exercise of any option, warrant or right. As of March 3, 2009, we had 49,238,605 Common Shares issued and outstanding (35,716,627 Voting Shares and 13,521,978 Non-Voting Shares). All amounts listed represent sole voting and dispositive power unless otherwise indicated.

As of March 3, 2009, the Goldman Sachs Funds owned in the aggregate 8,159,793 Non-Voting Shares, or 16.6% of the Common Shares outstanding as of this date. The Goldman Sachs Funds also hold warrants to purchase in the aggregate 1,500,000 Non-Voting Shares. Under the terms of these warrants and our Bye-laws, the Goldman Sachs Funds are permitted to hold only Non-Voting Shares and each warrant is convertible only into Non-Voting Shares. Because the Goldman Sachs Funds are prohibited from owning Voting Shares, these funds' holdings have not been included in the table above pursuant to applicable SEC rules. For more information on the warrants held by the Goldman Sachs Funds, please see [Certain Relationships and Related Transactions](#) [Founding Shareholders](#) .

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- (2) Based on information reported on Schedule 13G/A, as filed by AIG with the SEC on December 18, 2007, the 2,000,000 Voting Shares reported as beneficially owned by AIG in the table above are issuable upon the exercise of a warrant. The warrant is exercisable, in whole or in part, only (1) in connection with a contemporaneous sale by AIG of Common Shares or (2) to avoid a reduction of AIG's equity ownership percentage below 19.8%. Based upon the percentage of currently outstanding Common Shares, AIG may currently exercise the warrant with respect to 2,000,000 Common Shares.
- (3) Based on information reported on Schedule 13G/A, as filed by Chubb with the SEC on February 13, 2009, and information we received from our transfer agent. Of the aggregate amount of 8,078,005 Common Shares shown as beneficially owned by Chubb in the table above, (i) 3,386,000 shares are Voting Shares and (ii) 4,692,005 shares are Non-Voting Shares. A total of 2,000,000 Common Shares are issuable upon exercise of a warrant held by Chubb that is exercisable, in whole or in part, only (1) in connection with the contemporaneous sale by Chubb of Common Shares or (2) to avoid a reduction of Chubb's equity ownership percentage below 15.8%. Based upon the percentage of currently outstanding Common Shares held by Chubb, Chubb may not currently exercise this warrant other than in connection with its contemporaneous sale of Common Shares.
- (4) Based on information reported on Schedule 13G, as filed by Wellington Management Company, LLP, an investment advisor (Wellington), with the SEC on February 17, 2009, Wellington is the beneficial owner of 4,816,847 Voting Shares held by its clients who had the right to receive, or the power to direct the receipt of, dividends from, or the proceeds from the sale of, such securities. No such client was known to have such right or power with respect to more than 5% of the class of the Voting Shares. According to this Schedule 13G, Wellington had the following dispositive powers with respect to the Voting Shares: (a) sole voting power: none; (b) shared voting power: 4,080,685; (c) sole dispositive power: none; and (d) shared dispositive power: 4,778,347.
- (5) Includes stock options exercisable to purchase 98,333 Voting Shares.
- (6) Includes stock options exercisable to purchase 24,999 Voting Shares.
- (7) Includes stock options exercisable to purchase 18,750 Voting Shares.
- (8) Includes stock options exercisable to purchase 10,832 Voting Shares.
- (9) Includes stock options exercisable to purchase 4,125 Voting Shares.
- (10) Includes stock options exercisable to purchase 199,373 Voting Shares.

**Table of Contents****EXECUTIVE OFFICERS**

Our executive officers are elected by and serve at the discretion of your Board. The following table identifies the executive officers of the Company, including their respective ages and positions as of the date hereof.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Scott A. Carmilani(1)	44	President, Chief Executive Officer and Chairman of the Board
Joan H. Dillard	57	Senior Vice President and Chief Financial Officer
Wesley D. Dupont	40	Senior Vice President, General Counsel and Secretary
John J. Gauthier	47	Senior Vice President and Chief Investment Officer, Newmarket Administrative Services, Inc.
Marshall J. Grossack	49	Senior Vice President and Chief Corporate Actuary
Richard E. Jodoin	57	Vice Chairman, Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company; President, Newmarket Administrative Services, Inc.
W. Gordon Knight	50	President, Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company
John T. Redmond(2)	53	President, Allied World Assurance Company (Europe) Limited and Allied World Assurance Company (Reinsurance) Limited

(1) Please see Mr. Carmilani's biography under "Election of Directors" elsewhere in this Proxy Statement.

(2) Please see Mr. Redmond's biography under "Approval of Eligible Subsidiary Directors" elsewhere in this Proxy Statement.

*Joan H. Dillard*, CMA, is our Senior Vice President and Chief Financial Officer. In April 2003, Ms. Dillard began working for American International Company Limited, a subsidiary of AIG, and began providing accounting services to us pursuant to a former administrative services contract with American International Company Limited. Through that contract, Ms. Dillard served as our Vice President and Chief Accounting Officer until November 30, 2005. As of December 1, 2005, Ms. Dillard became an employee of our Company. From August 2001 until December 2002, Ms. Dillard served as the Chief Financial Officer of Worldinsure Ltd., an insurance technology provider. From May 2000 until April 2001, Ms. Dillard served as the Chief Operating Officer and Chief Financial Officer of CICcorp Inc., a medical equipment service provider. From March 1998 until May 2000, Ms. Dillard served as the Chief Financial Officer of ESG Re Limited, based in Hamburg, Germany, and from 1993 until 1998, Ms. Dillard worked for TIG Holdings, Inc. and served as the Chief Financial Officer of TIG Retail Insurance and later as the Senior Vice President of Alternative Distribution. Prior to that, Ms. Dillard served in various senior financial positions at both USF&G Corporation and American General Corporation. Ms. Dillard is currently a member of the board of directors of RAM Holdings Ltd. where she is a member of the Compensation Committee.

*Wesley D. Dupont* is our Senior Vice President, General Counsel and Secretary. In November 2003, Mr. Dupont began working for American International Company Limited, a subsidiary of AIG, and began providing legal services to us pursuant to a former administrative services contract with American International Company Limited. Through

that contract, Mr. Dupont served as our Senior Vice President, General Counsel and Secretary from April 2004 until November 30, 2005. As of December 1, 2005, Mr. Dupont became an employee of our Company. Prior to joining American International Company Limited, Mr. Dupont worked as an attorney at Paul, Hastings, Janofsky & Walker LLP, a large international law firm, where he specialized in general corporate and securities law. From April 2000 to July 2002, Mr. Dupont was a Managing Director and the General Counsel for Fano Securities, LLC, a specialized securities brokerage firm. Prior to that, Mr. Dupont worked as an attorney at Kelley Drye & Warren LLP, another large international law firm, where he also specialized in general corporate and securities law.

*John J. Gauthier*, CFA, has been the Senior Vice President and Chief Investment Officer of Newmarket Services Company, Inc., a subsidiary of the Company, since October 2008 and oversees the management of the

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Company's investment portfolio. Previous to joining our company, Mr. Gauthier was Global Head of Insurance Fixed Income Portfolio Management at Goldman Sachs Asset Management from February 2005 to September 2008. Prior to that position, from 1997 to January 2005 he was Managing Director and Portfolio Manager at Conning Asset Management where he oversaw investment strategy for all property and casualty insurance company clients. Mr. Gauthier also served as Vice President at General Reinsurance/New England Asset Management, as well as a Portfolio Manager at General Reinsurance.

*Marshall J. Grossack* has been our Senior Vice President and Chief Corporate Actuary since July 2004. From June 2002 until July 2004, Mr. Grossack was a Vice President and Actuary for American International Company Limited, a subsidiary of AIG, and provided services to us pursuant to a former administrative services contract with American International Company Limited. From June 1999 until June 2002, Mr. Grossack worked as the Southwest Region Regional Actuary for subsidiaries of AIG in Dallas, Texas.

*Richard E. Jodoin* has been the Vice Chairman of Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company since May 2008. From July 2002 to May 2008, Mr. Jodoin served as the President of each of these companies. Since December 2006, he has also served as the President of Newmarket Administrative Services, Inc. Prior to joining us, Mr. Jodoin was employed by the Lexington Insurance Company in various positions for 17 years and served as Executive Vice President from 1994 until July 2002.

*W. Gordon Knight* has been President of Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company since May 2008. He joined Allied World National Assurance Company as President, U.S. Operations, Distribution and Marketing in January 2008. Prior to joining us, Mr. Knight was the President of Sales & Marketing for AIG Domestic Brokerage Group from 2005 to January 2008. Prior to that, he was President of AIG WorldSource since 2000. Mr. Knight was also the Executive Vice President of Regional Operations for Commercial Lines for American International Underwriters, Japan and held various other senior management positions during his 26 years at AIG.

## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

#### **Executive Summary**

*Overview.* The Company is a Bermuda-based specialty insurance and reinsurance company that underwrites a diversified portfolio of property and casualty insurance and reinsurance lines of business. The Company became a public company in July 2006 after the successful completion of its IPO. In accordance with the rules of the NYSE, a majority of the members of the Board are independent and the Compensation Committee is presently comprised of five independent Board members. The Board has adopted a Compensation Committee Charter discussed elsewhere in this Proxy Statement. The Compensation Committee oversees our compensation programs and makes all final compensation decisions regarding the NEOs. The Company has achieved considerable growth since its inception in November 2001 and its compensation programs and plans have been designed to reward executives who contribute to the continuing success of the Company.

*Compensation Philosophy.* The Compensation Committee believes that an effective executive compensation program is one that is designed to reward strong Company and individual performance, which serves to align the interests of the NEO and the Company's shareholders and which balances the objectives of pay-for-performance and retention. The insurance and reinsurance industry is very competitive, cyclical and often volatile, and the Company's success depends in substantial part on its ability to attract and retain successful, high-achieving employees who will remain motivated and committed to the Company during all insurance industry cycles.

*2008 NEO Compensation Structure.* In keeping with this philosophy, our NEO compensation structure is comprised of cash compensation primarily consisting of base salary and annual cash bonus, and long-term equity-based compensation consisting of RSUs granted under the Company's Stock Incentive Plan and performance-based awards granted under the Company's LTIP. For 2008, the Compensation Committee targeted total cash compensation at approximately the 50th percentile and total direct compensation (including both cash compensation and equity-based compensation) at approximately the 75th percentile of our Bermuda Peer Group described herein,

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with actual pay delivered to the NEOs dependent on various factors, including Company and individual performance, job responsibilities and the NEO's ability to help the Company achieve its goals and objectives. The Compensation Committee designs its NEO compensation packages to remain competitive with our Bermuda Peer Group in attracting and retaining employees. The Compensation Committee believes that by having a substantial portion of NEO compensation in the form of long-term equity awards, a portion of which is at risk with vesting dependent on the Company achieving certain performance targets, the Company pays for performance and the interests of the NEOs and the Company's shareholders are better aligned. The Compensation Committee may no longer continue to benchmark the NEOs' total cash compensation on an annual basis.

## **Compensation Objectives**

The Compensation Committee's objectives for the Company's compensation programs include:

Driving and rewarding employee performance that supports the Company's business objectives and financial success;

Attracting and retaining talented and highly-skilled employees;

Aligning NEO compensation with the Company's financial success by having a substantial portion of compensation in long-term, performance-based equity awards, particularly at the senior officer level where such person can more directly affect the Company's financial success; and

Remaining competitive with other insurance and reinsurance companies, particularly other Bermuda insurance and reinsurance companies with which the Company competes for talent.

## **Compensation Oversight and Process**

The Compensation Committee has established a number of processes to assist it in ensuring that NEO compensation is achieving its objectives. Among those are:

Assessment of Company performance;

Assessment of individual performance via interactions with the CEO and other NEOs;

Benchmarking and engaging a compensation consultant; and

Total compensation review, which includes base salary, annual cash bonuses, long-term incentive compensation, perquisites and contributions to retirement plans.

In determining the level of compensation for the NEOs in 2008, both quantitative and qualitative factors of the Company's and each NEO's performance were analyzed.

## ***Assessment of Company Performance***

The Company's performance was assessed using various factors that the Compensation Committee believed were relevant to creating value for its shareholders. These factors include growth in book value, earnings before interest and taxes, return on equity and the Company's combined ratio. The Company's performance was considered in light of the significant volatility in the insurance industry as well as significant turmoil in the U.S. and international financial markets, which affected the Company's underwriting and investment results. Throughout 2008, each of the Company's



operating segments faced increased competition, decreasing rates for new and renewal business and pressure on insurance policy and reinsurance contract terms and conditions to broaden coverage.

*Assessment of Individual Performance*

Each NEO's performance is reviewed annually by Mr. Carmilani, our CEO, on his or her individual skills and qualifications, management responsibilities and initiatives, staff development and the achievement of departmental, geographic and/or established business goals and objectives, depending on the role of the NEO. Each NEO's performance was assessed on both Company and individual achievements in light of adverse market and general

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economic conditions. Mr. Carmilani's performance was reviewed by the Compensation Committee and was also assessed on both the Company's achievements and his individual achievements in light of adverse market and general economic conditions. In 2008, these performance reviews formed the basis on which compensation-related decisions were made for annual cash bonuses and grants of RSUs under the Company's Stock Incentive Plan as well as 2009 base salaries and grants of performance-based awards granted under the Company's LTIP. Due to the volatility of the insurance industry and thus the Company's financial results, the Compensation Committee believes that pure quantitative performance measures are not the most appropriate measure of rewarding NEO performance.

*The CEO's Role.* The Compensation Committee determines the Company's compensation philosophy and objectives and sets the framework for the NEOs' compensation structure. Within this framework, Mr. Carmilani, our CEO, is responsible for recommending to the Compensation Committee all aspects of compensation for each NEO, excluding himself. He reviews the recommendations, survey data and other materials provided to him by Watson Wyatt (our independent compensation consultant) as well as proxy statements and other publicly available information, and consults with our Senior Vice President of Human Resources in making his recommendations. He also assesses the Company's and each other NEO's performance as described above. The conclusions and recommendations resulting from these reviews and consultations, including proposed salary adjustments, annual cash bonus amounts and equity award amounts, are then presented to the Compensation Committee for its consideration and approval. The Compensation Committee has discretion to modify any recommendation it receives from management, but strongly relies on Mr. Carmilani's recommendations.

*The Board and NEO Interactions.* The Board has the opportunity to meet with the NEOs regularly during the year. In 2008, the Company's NEOs met with and made presentations to the Board regarding their respective business lines or responsibilities. The Company believes that the interaction among its NEOs and the Board is important in enabling the Board, including the members of the Compensation Committee, to form its own assessment of each NEO's performance.

*Timing of Awards.* The Compensation Committee believes that compensation decisions regarding employees should be made after year-end results have been determined to better align employee compensation with Company performance and shareholder value. This requires that annual cash bonuses, equity awards and base salary adjustments be determined after year-end financials have been prepared and completed. The Compensation Committee's policy is to approve compensation decisions at its regularly scheduled meeting during the first quarter of the year.

## ***Benchmarking***

*The Role of Watson Wyatt, Our Independent Compensation Consultant.* The Company has engaged Watson Wyatt for the benefit of the Compensation Committee to conduct analyses on key aspects of NEO and other senior officer pay and performance, and to provide recommendations about compensation plan design. Watson Wyatt reports directly to the Compensation Committee. Watson Wyatt meets with members of senior management to gain a greater understanding of key issues facing the Company and its equity and retirement plans and other benefits. The Compensation Committee meets separately with Watson Wyatt to review in detail all compensation-related decisions regarding the CEO. During this review, the Compensation Committee receives Watson Wyatt's recommendations, surveys (including Bermuda Peer Group compensation information) and other materials.

The survey data and other information provided by Watson Wyatt are used as a frame of reference for setting the total cash and total direct compensation of our NEOs. With the aid of this data, the Compensation Committee has sought to target cash compensation (base salary and annual cash bonus) at approximately the 50<sup>th</sup> percentile and total direct compensation (both cash and equity-based compensation) at approximately the 75<sup>th</sup> percentile among the Bermuda Peer Group, with variations to this target for each NEO based on a variety of factors discussed herein. Setting compensation targets based on data provided by an independent third party is intended to ensure that our

compensation practices are both prudent and effective.

*Compensation Benchmarking to Bermuda Peer Group.* The Company's Bermuda Peer Group consists of seven companies that were reviewed with Watson Wyatt and adopted by the Compensation Committee based on being within the range of annual revenue, market to book value, net income, total assets and return on equity similar to the Company. The Bermuda Peer Group includes: Arch Capital Group Ltd., Aspen Insurance Holdings Limited,

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Axis Capital Holdings Limited, Endurance Specialty Holdings Ltd., Max Capital Group, Ltd., Montpelier Re Holdings Ltd. and Platinum Underwriters Holdings, Ltd. Watson Wyatt compared key aspects of these companies executive compensation programs and also compared the pay of individual executives where the jobs are sufficiently similar to make the comparison meaningful.

### ***Total Compensation Review***

In 2009, the Compensation Committee reviewed a summary report or tallysheet prepared by the Company for each NEO as well as the other executive officers. The purpose of a tallysheet is to show the aggregate dollar value of each officer's total 2008 annual compensation, including base salary, annual cash bonus, equity-based compensation, perquisites and all other compensation. The tallysheet also shows amounts payable to each NEO upon termination of his or her employment under various severance and change-in-control scenarios. Tallysheets are reviewed by our Compensation Committee for primarily informational purposes and are not a material factor in making determinations as to compensation amounts.

### **Components of Executive Compensation**

For 2008, total compensation for the NEOs consisted of the following components:

Base salary;

Annual cash bonus;

Equity compensation, through grants of RSUs and performance-based awards;

Perquisites, particularly reimbursement for housing expenses; and

Retirement, health and welfare benefits.

### **Cash Compensation**

#### ***Base Salary***

*Overview.* Base salary is the fixed element of each NEO's annual cash compensation. Having competitive base salaries is an important part of attracting and retaining key employees. Base salaries are benchmarked to our Bermuda Peer Group and are also impacted by the NEO's performance as well as the Company's performance. In 2008, the Compensation Committee wanted to reward the NEOs and our other senior officers for their and the Company's solid performance in 2007. The Compensation Committee reviewed the base salaries of our NEOs with the objective of benchmarking total cash compensation (base salaries and annual cash bonuses) at around the 50<sup>th</sup> percentile of the Bermuda Peer Group.

The Compensation Committee also reviewed the Company's COLA benefit. Based on data provided by the Company and Watson Wyatt, the Compensation Committee determined that a separate COLA benefit was no longer typical in the Bermuda marketplace. Based on additional data provided by Watson Wyatt, the Compensation Committee determined that adding COLA to each NEO's base salary would not increase his or her base salary above approximately the 50<sup>th</sup> percentile of the Bermuda Peer Group. Accordingly, the Compensation Committee approved, effective as of March 1, 2008, eliminating the COLA as a separate benefit and instead adding the dollar amount of the COLA each applicable NEO was receiving into his or her annual base salary. For 2007 and 2008, the annualized base salary rates for the NEOs are summarized below:

<b>Name</b>	<b>Fiscal Year 2007</b>	<b>Fiscal Year 2008</b>	<b>Dollar Amount of COLA</b>	<b>Annualized Percent Increase <i>WITH</i> COLA being Added to Base Salary</b>	<b>Annualized Percent Increase <i>WITHOUT</i> COLA being Added to Base Salary</b>
Scott A. Carmilani	\$ 900,000	\$ 970,000	\$ 67,074	7.7%	*
Joan H. Dillard	\$ 320,000	\$ 455,000	\$ 59,548	42.2%	23.6%
Wesley D. Dupont	\$ 276,500	\$ 344,000	\$ 63,178	24.4%	1.6%
Marshall J. Grossack	\$ 275,000	\$ 338,000	\$ 63,178	22.9%	0.0%
W. Gordon Knight(1)		\$ 525,000			

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\* Mr. Carmilani's percent increase without COLA being added to his base salary was less than 1%.

- (1) Mr. Knight joined us on January 16, 2008. As an executive officer residing in the United States, Mr. Knight never received a COLA as that benefit was available only to the Company's senior officers who resided in Bermuda.

**Annual Cash Bonus**

*Overview.* The Company pays annual cash bonuses pursuant to its cash bonus program, which is designed to align individual performance with the Company's performance and earnings growth objectives for the year. The Company's annual cash bonus program is another important element in retaining talented employees and rewarding performance. Cash bonuses paid to our NEOs for 2008 appear in the Summary Compensation Table in the Non-Equity Incentive Plan Compensation column.

After extensive internal reviews and discussions, as well as consultations with Watson Wyatt, the Company established a structured, yet still flexible, cash bonus program that has been implemented by the Compensation Committee.

*Cash Bonus Program.* The cash bonus program has two facets: (1) an overall cash bonus pool that is funded and out of which individual annual cash bonuses are paid; and (2) a process by which individual annual cash bonuses are determined. For each senior officer eligible to participate in the cash bonus program, a target bonus percentage was established during the first quarter of 2008. Each officer's 2008 target bonus was based on a percentage of his or her base salary. Target bonus percentages for the NEOs and other senior officers were recommended by the CEO and approved by the Compensation Committee. The CEO's target bonus percentage was determined solely by the Compensation Committee. Our NEOs were eligible to receive an annual cash bonus based on a percentage of their annual base salary as follows:

<b>Name</b>	<b>Bonus Target Percentage</b>
Scott A. Carmilani	100%
Joan H. Dillard	100%
Wesley D. Dupont	75%
Marshall J. Grossack	50%
W. Gordon Knight	100%

The methodology used to determine the annual cash bonus pool from which individual bonuses are paid contains both a formulaic element and a discretionary element. The formulaic element makes up half of the cash bonus pool funding, and the discretionary element makes up the other half of this pool. The objective is to provide structure and predictability for the Company's senior officers while also permitting the Compensation Committee to take actions when necessary in light of the cyclical and volatility of the insurance and reinsurance industry.

*The Formulaic Element.* For the 2008 fiscal year, the annual cash bonus pool used earnings before interest and taxes (EBIT) as the financial metric to establish funding targets in one of three categories: (1) Minimum Target, (2) Target and (3) Maximum Target. The Minimum Target category was the lowest EBIT number that could be reached and still obtain funding of the formulaic element. This half of the annual cash bonus pool is only 50% funded if the Minimum Target is reached. The Target category is where EBIT meets the goal set by the Compensation Committee, and if the Company reaches this category, this portion of the annual cash bonus pool is 100% funded. The Maximum Target

occurs when the Company equals or exceeds 120% of its EBIT goal and this portion of the cash bonus pool is 150% funded.

For 2008, the following EBIT amounts and annual cash bonus pool funding were approved:

<b>Performance Versus Goal</b>	<b>Minimum Target</b>	<b>Target</b>	<b>Maximum Target</b>
EBIT	\$302 million	\$378 million	\$454 million
EBIT as a Percentage Goal	80%	100%	120%
Bonus Pool Funding	50%	100%	150%

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*Why use EBIT as the financial metric?* The Compensation Committee selected the EBIT financial metric for the 2008 fiscal year because it believed it was the most relevant measure of the Company's annual results.

*How is EBIT calculated?* EBIT is calculated by taking the Company's net income and adding back interest expense and tax expense. In 2008, EBIT was derived as follows (based on approximate totals): \$183.6 million of net income, plus \$38.7 million of interest expense, less \$7.6 million of income tax recovery equals \$214.7 million of EBIT. The Company missed the EBIT targets above primarily due to the significant amount of net realized investment losses recognized during the year, which included other-than-temporary impairment charges of \$212.9 million. Based on the Company not achieving the \$302 million Minimum Target reflected in the table above, the formulaic element of the cash bonus pool was not funded.

*How were the targets determined?* The targets for the 2008 annual cash bonus pool were raised from 2007, with the target being raised from \$353 million in 2007 to \$378 million in 2008. This target was based on the Company's budgeted EBIT. The Compensation Committee wanted to raise the target to a fair yet demanding goal, recognizing that the Company faced significant challenges going into 2008 that included expanding its U.S. insurance and reinsurance platform and growing its other businesses at a time of increased competition in the insurance industry, decreasing rates for new and renewal business and pressure on insurance policy and reinsurance contract terms and conditions to broaden coverage. For 2009, the target is based on budgeted EBIT for the Company, which amount has decreased slightly from 2008 due to increasing expenses as a result of the Company's recent growth in infrastructure. The calculation for 2009 annual cash bonuses will use EBIT plus other comprehensive income.

*The Discretionary Element.* As stated above, the discretionary portion of the award is intended to give the Compensation Committee flexibility in light of the cyclicity and volatility of the insurance and reinsurance industry. The Compensation Committee funds the formulaic element of the annual cash bonus pool based on EBIT and then funds half of the total annual cash bonus pool based on various discretionary considerations. Like the formulaic half of the cash bonus program, the discretionary portion of the award may be funded at 0% to 150% of the discretionary half of the bonus pool, which is independent of the funding level of the formulaic portion of any award. The Compensation Committee then determines each senior officer's annual cash bonus, which is paid out of the total pool. Depending on the overall cash bonus pool funding level, awards to individual officers are made based on the CEO's and Compensation Committee's assessments of individual performance.

The Compensation Committee sought to reward the NEOs for their solid performance and achievements in 2008, in spite of adverse market and general economic conditions. Highlights of the Company's achievements in 2008 include:

Significantly expanding the Company's business in the United States, including:

Expanding the Company's insurance product offerings across a wide array of specialty coverages;

Acquiring an affiliate of Berkshire Hathaway licensed in 49 states and the District of Columbia to launch the Company's U.S. reinsurance platform in the first quarter of 2008 and growing this platform throughout 2008;

Creating retail and wholesale broking divisions within the Company to enhance its insurance distribution platform in the United States;

Expanding the scope of the Company's U.S. operations by opening additional offices in Atlanta, Georgia and Costa Mesa and Los Angeles, California to penetrate further into the Southeastern and Western regions of the United States;



Continuing to build and develop a team of highly-experienced U.S. senior management and underwriting professionals with proven track records; and

Completing successfully the acquisition of Darwin Professional Underwriters, Inc.;

Maintaining underwriting discipline during a challenging business environment and the ongoing displacement within the industry as a result of the U.S. government bail-out of AIG and the financial difficulties of other large insurance companies;

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Strong management of the Company's catastrophe exposures;

Maintaining investment discipline that resulted in total shareholders' equity growing in 2008 in spite of the financial market turmoil and growing recession;

Growing the Company's international operations by opening a branch office in Switzerland and significantly progressing in its efforts to expand into Asia; and

Posting of a strong annualized operating return on average equity of 20.6%.

Based on these achievements and other considerations, the Compensation Committee funded the discretionary half of the cash bonus pool at 150%. For 2008, total funding of the cash bonus pool was decreased by 50% from 2007. The annual cash bonus earned for 2008 by each of the NEOs as a percentage of his or her salary and as a percentage of target bonus is as follows:

Name	Bonus as a Percentage of Salary	Bonus as a Percentage of Target
Scott A. Carmilani	75.3%	75.3%
Joan H. Dillard	76.9%	76.9%
Wesley D. Dupont	58.1%	77.5%
Marshall J. Grossack	41.4%	82.8%
W. Gordon Knight	85.7%	85.7%

*Other Compensation.* In January 2008, Mr. Knight joined us to spearhead our U.S. platform expansion. In order to procure his services, Mr. Knight received a \$100,000 cash payment upon joining us and a \$2,487,332 cash payment in March 2008 as compensation for equity awards granted to him by his former employer that he forfeited upon joining us.

**2008 Cash Compensation**

Based on its review of the data provided by Watson Wyatt, the Compensation Committee determined that Mr. Carmilani was in approximately the 50<sup>th</sup> percentile of the Bermuda Peer Group for base salary with the proposed addition of COLA (as discussed below) and total target cash compensation. The committee determined that Ms. Dillard's 2007 base salary was less than the 25<sup>th</sup> percentile of the Bermuda Peer Group, even with the proposed addition of COLA, so the committee increased her base salary to \$455,000 for 2008, slightly above the 50<sup>th</sup> percentile of the Bermuda Peer Group. The Compensation Committee also increased her target bonus percentage to 100% of her base salary, which raised her total target cash compensation to over the 75<sup>th</sup> percentile of the Bermuda Peer Group. The CEO and Compensation Committee increased Ms. Dillard's cash compensation to this level to reward her for increased responsibilities, to recognize the value she added to the Company during 2007 and to compensate her for prior years when her total direct compensation was below the 75<sup>th</sup> percentile of our Bermuda Peer Group.

For Messrs. Dupont and Grossack, each of their respective 2007 base salaries was below the 25<sup>th</sup> percentile of the Bermuda Peer Group, and remained so even after the proposed addition of COLA to their base salaries. Mr. Dupont's target bonus percentage for 2008 was increased to 75% of his base salary, and Mr. Grossack's remained at 50% of his base salary, which resulted in total target cash compensation for each of Messrs. Dupont and Grossack being below

the 25<sup>th</sup> percentile of the Bermuda Peer Group. The decisions by the CEO and Compensation Committee to keep each of these officers below the 50<sup>th</sup> percentile in total cash compensation were not performance related. Each of Messrs. Dupont and Grossack were recognized to have performed extremely well during 2007 and prior years and had played a vital role in the Company achieving its 2007 goals. In addition to individual performance, factors that were determinative in their compensation decisions included: (i) the low number of position matches for each of these officers to similarly-titled officers who were NEOs among the Bermuda Peer Group to permit more accurate comparisons of compensation and (ii) length of service to the Company.

Mr. Knight's base salary put him at around the 75<sup>th</sup> percentile of our Bermuda Peer Group, which was higher than the targeted 50<sup>th</sup> percentile of such group. Mr. Knight's base salary was not approved by the Compensation

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Committee at the time of his joining our company because he was not deemed an executive officer at such time. His salary was determined by our CEO and was largely based on competitive forces in the marketplace, his intended job responsibilities, scope and role in spearheading the Company’s U.S. platform expansion, his career experience and future performance expectations. The Compensation Committee set his target bonus percentage at 100% of his base salary based on these factors.

**Equity Compensation**

For the NEOs in 2008, the Company’s long-term incentive compensation was structured under:

the Stock Incentive Plan; and

the LTIP.

*Overview.* The Compensation Committee believes that a substantial portion of each NEO’s compensation should be in the form of long-term equity awards, the largest portion of which should be at risk awards with vesting dependent on the Company achieving certain performance targets. Equity awards serve to align the interests of the NEOs and the Company’s shareholders. Equity awards also help to ensure a strong connection between NEO compensation and the Company’s financial performance because the value of the award depends on the Company’s future performance and share price. Long-term equity awards, meaning awards that vest over a period of years, also serve as a management retention tool. The Compensation Committee utilizes equity awards to accomplish its compensation objectives while recognizing its duty to the Company’s shareholders to limit equity dilution. The Compensation Committee has received analysis from Watson Wyatt on relevant factors of its equity compensation program, including the values of the vested and unvested equity stakes, potential dilution, overall usage, gross run-rates, burn rates and comparisons to the equity compensation programs of the Bermuda Peer Group over the most recent three-year period for which data was available.

*RSU Awards.* An RSU gives a holder the right to receive a specified number of Common Shares at no cost (or, in the Company’s sole discretion, an equivalent cash amount in lieu thereof) if the holder remains employed at the Company through the applicable vesting date. The Company has historically settled RSUs in Common Shares, but for RSUs that were granted in 2009 for 2008 performance, the holder will receive half of the aggregate amount of such RSUs in Common Shares on the applicable vesting date, and the other half in cash equal to the market value of the Common Shares on the applicable vesting date. Although an RSU’s value may increase or decrease with changes in the share price during the period before vesting, an RSU will have value in the long term, encouraging retention. While the bulk of the Company’s RSU awards to NEOs have historically been made pursuant to our annual grant program, the Compensation Committee retains the discretion to make additional awards at other times. In July 2006, the Board awarded special retention RSUs to key employees of the Company, including the NEOs then employed by us, prior to the IPO to motivate and ensure the long-term retention of our senior officers by increasing their unvested equity stakes and to ensure continuity of management as the Company approached its IPO. These RSUs were awarded under the Stock Incentive Plan with vesting terms as follows: 50% vest after the fourth anniversary of the date of grant and the remaining 50% vest after the fifth anniversary. The Company also grants RSUs as part of its equity compensation package to its employees, including the NEOs. Generally these RSUs vest pro rata over four years. The Company granted the following awards in the fiscal years 2008 and 2009 to date:

<b>Name</b>	<b>RSUs Granted in 2008 for 2007 Performance</b>	<b>RSUs Granted in 2009 for 2008 Performance</b>
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Scott A. Carmilani	16,667	10,000
Joan H. Dillard	5,000	5,000
Wesley D. Dupont	4,000	4,000
Marshall J. Grossack	3,000	2,500
W. Gordon Knight	10,000(1)	5,000

(1) Mr. Knight's 2008 RSU grant was not to reward prior performance but was part of the equity he received, along with a stock option grant to purchase 16,500 of our Common Shares, to join our company.

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*LTIP Awards.* Each LTIP award represents the right to receive a number of the Company's Common Shares in the future, based upon the achievement of established performance criteria during an applicable three-year performance period. Awards issued in 2008 will vest after the fiscal year ending December 31, 2010 in accordance with the terms and performance conditions of the LTIP as described in more detail below. The LTIP awards are at risk, meaning should the Company fail to perform at a minimum prescribed level, no LTIP awards will vest and no compensation will be derived by the NEOs from these awards. The Compensation Committee believes that the performance-based LTIP awards serve to promote the Company's growth and profitability over the long term. By having a three-year vesting period, the LTIP awards also encourage employee retention.

*Financial Metric.* The Compensation Committee selected adjusted book value as the financial metric for the 2008 grant of performance-based LTIP awards because it believes this metric correlated best with long-term shareholder value and the long-term health of the Company. While it continues to believe that adjusted book value is an effective financial metric, the Compensation Committee will evaluate other financial metrics to be used for 2009 LTIP awards as part of its ongoing best practices review of executive compensation.

For 2008, vesting of the performance shares is based on an average annual growth in the adjusted book value of the Company's Common Shares as follows:

<b>Performance Versus Goal</b>	<b>Below Threshold</b>	<b>Threshold</b>	<b>Target</b>	<b>Maximum</b>
2008-2010 Average Per Annum Adjusted Book Value Growth	Below 9%	9%	12%	15%
Number of Shares Earned	0	50% of Targeted Shares	100% of Targeted Shares	150% of Targeted Shares

No performance-based equity awards vest if the Company's average annual growth in adjusted book value for the three-year period ending December 31, 2010 falls below 9%. The Compensation Committee believes that even at this threshold amount, there is a significant increase in value to the Company's shareholders, and the NEOs' and shareholders' interests are aligned because the NEOs' receipt of Common Shares is conditioned upon the Company's performing well. LTIPs have been awarded since 2006. The LTIP awards from 2006 vested at the maximum, or 150% of targeted shares. No other LTIP awards have vested because the applicable performance periods have not yet been completed.

In 2008, each of the Company's NEOs received an award of performance shares as set forth below. In addition, Mr. Carmilani received a special LTIP award of 57,777 shares, which is discussed below.

<b>Name</b>	<b>Target Shares</b>
Scott A. Carmilani	117,375 57,777
Joan H. Dillard	25,000
Wesley D. Dupont	16,000
Marshall J. Grossack	16,000
W. Gordon Knight	20,000

*How is Adjusted Book Value calculated?* For purposes of vesting performance shares under the LTIP, adjusted book value is defined as total shareholder s equity adjusted for (1) any special, one-time dividends declared; (2) accumulated other comprehensive income (consisting primarily of unrealized gains and losses on the investment portfolio); and (3) any capital events (such as capital contributions or share repurchases).

*Is there a Discretionary Element?* In addition to the above three factors, the Compensation Committee may consider in its discretion any other extraordinary events that may affect year-end results.

The number of performance-based awards available for grant each year is determined by the Compensation Committee. In making its determination, the Compensation Committee may consider the number of available shares remaining under the LTIP, the number of employees who will be participating in the LTIP, market data from

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competitors with respect to the percentage of outstanding shares made available for annual grants to employees and the need to retain and motivate key employees.

The Compensation Committee granted to Mr. Carmilani performance-based awards of 117,375 shares and 16,667 RSUs to bring his total direct compensation (including both cash compensation and equity-based compensation) to approximately the 75<sup>th</sup> percentile of our Bermuda Peer Group. The Compensation Committee also wanted to award Mr. Carmilani with a special award to recognize his leadership role in developing, and executing on, the Company's business plan, to help ensure his retention with the Company by granting him an at risk award that vests over a period of years and upon the achievement of defined financial metrics, and to compensate him for the prior year when his total direct compensation was below the approximate 75<sup>th</sup> percentile of our Bermuda Peer Group. Accordingly, Mr. Carmilani received an additional LTIP award of 57,777 shares, 50% of which are eligible to vest after December 31, 2011 and 50% of which are eligible to vest after December 31, 2012. These LTIP awards vest upon the achievement of the established performance criteria discussed above during the applicable four- and five-year periods.

After the grant of LTIP awards and RSUs, Ms. Dillard's total direct compensation was above the 75<sup>th</sup> percentile of the Bermuda Peer Group and each of Messrs. Dupont's and Grossack's total direct compensation was at around the 50<sup>th</sup> percentile of this group, in consideration of the factors discussed above. Mr. Knight's total direct compensation was not based on targets to the Bermuda Peer Group, but instead on the factors previously discussed under 2008 Cash Compensation.

## **Benefits and Perquisites**

The location of our global headquarters in Bermuda affects our ability to attract and retain talented employees as well as the ways in which we compensate employees residing in Bermuda. Because many of our NEOs are non-Bermudians who have relocated to Bermuda, we believe it is important to remain competitive with other Bermuda insurance and reinsurance companies regarding compensation in order to attract and retain talented employees to grow our business. Many of the benefits and perquisites discussed below are offered only to those NEOs who have relocated to and reside in Bermuda. Some of the NEOs have not received one or more of these benefits or perquisites in 2008.

Our NEOs receive various perquisites paid by the Company. In 2008, for Bermuda executives these perquisites included a housing allowance, COLA (for January and February 2008 only), club membership and return flights to their home country for executives and their family members who reside in Bermuda. Many of these perquisites are typical of perquisites provided to the Company's other expatriate employees located in Bermuda. Similar perquisites are provided by the Company's competitors for employees in a similar position and have been necessary for recruitment and retention purposes. For Mr. Knight, our NEO located in the United States, perquisites included a housing allowance, reimbursement for air travel to his home in Atlanta, Georgia and financial and tax planning. The Company's NEO perquisites generally include:

*Housing Allowance.* Non-Bermudians are significantly restricted by law from owning property in Bermuda. This has resulted in a housing market that is largely based on renting to expatriates who work on the island. Housing allowances are a near universal practice for expatriates. The Company bases its housing and utility allowances on available rental market information and the Company's knowledge of the housing rental market in general. Each housing and utility allowance is based on the level of the employment position and the size of the employee's family living in Bermuda compared with such market data. In 2008, the housing and utility allowance for our NEOs located in Bermuda was increased slightly to account for the rising cost of housing and utilities in Bermuda.

As part of Mr. Knight's overall benefits package, the Company provided Mr. Knight with an allowance for an apartment in New York City. Because of his position and his role in spearheading the Company's U.S. platform



expansion, the Company believed it was critical that Mr. Knight be located primarily at the Company's office in New York, which is one of the largest insurance markets in the United States and which is where many of the Company's other U.S. senior officers are located.

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*COLA.* In addition to base salary, the NEOs and other senior officers who work on the island received a monthly COLA for January and February 2008 only, based upon the amount of base salary that would have been spent on a basket of goods and services had such individual not resided in Bermuda versus the cost of the same basket of goods and services in Bermuda. The Compensation Committee reviewed this benefit and, effective as of March 1, 2008, decided to eliminate the COLA as a separate benefit and instead added the amount of COLA each senior officer was receiving into his or her annual base salary. The dollar amount of COLA received in January and February 2008 by Messrs. Carmilani, Dupont and Grossack and Ms. Dillard is included within the aggregate amount reflected in the All Other Compensation column to the Summary Compensation table below.

*Club Membership.* The provision of a club membership or financial assistance with joining a club in Bermuda is common practice in the marketplace and enables the NEOs and other employees who are expatriates to settle into the community. It also has the benefit of enabling the NEOs to establish social networks with clients and others.

*Home Leave.* Reimbursement for airfare to a home country is common practice for expatriates who are working in Bermuda. The Company believes that this helps the expatriate and his or her family to better keep in touch with relatives and other social networks. Such a benefit is provided by the Bermuda Peer Group companies and is necessary for both recruitment and retention purposes.

The Company reimbursed Mr. Knight for a limited number of flights to Atlanta, Georgia to return to his home there as well as to help launch and manage the Company's Atlanta office that opened in July 2008. The Company believes that this perquisite to Mr. Knight is important for retention purposes, with minimal cost to the Company.

*Financial and Tax Planning.* Because many of the Company's senior officers are non-Bermudians and are subject to complicated tax issues from working abroad, the Company provides reimbursement or payment of the cost of up to \$10,000 for financial and tax planning to certain of the senior officers, including its NEOs. The Company believes this perquisite is necessary for retention purposes and is important for the financial welfare of the Company's expatriated employees.

In 2008, the Company also began offering to reimburse or pay up to \$10,000 for financial and tax planning for certain of its senior officers in the United States, including Mr. Knight. The Company believes this perquisite is important for retention purposes and for helping to ensure the long-term financial security of the NEOs.

*Tax Gross-Ups.* In 2006, the U.S. Tax Increase Prevention and Reconciliation Act of 2005 (the Tax Act) was passed, which significantly increased the amount of U.S. federal tax our Bermuda employees who are U.S. citizens have to pay. As a result of the Tax Act, the Company agreed to gross-up U.S. taxpayers who are employees working in Bermuda in connection with these additional tax obligations. The Company believes this perquisite is important in retaining employees affected by the Tax Act.

*Aircraft Usage.* One of the Company's subsidiaries leases the fractional use of one aircraft and fractionally owns another. The Company determined that these aircraft were necessary primarily to facilitate directors attending Board meetings in Bermuda. During 2008, the NEOs used these aircraft from time to time for business purposes. If the aircraft are used for personal reasons, the incremental cost for such use, not including fixed costs, shall be included in total perquisites for the NEO. During 2008, only Mr. Carmilani, our CEO, used the aircraft for personal reasons. See Summary Compensation Table below for more information.

## **Retirement, Health and Welfare Benefits**

The Company offers a variety of health and welfare programs to all eligible employees. The NEOs are generally eligible for the same benefit programs on the same basis as the rest of the Company's employees. The health and

welfare programs are intended to protect employees against catastrophic loss and include medical, pharmacy, dental, vision, life insurance, accidental death and disability, and short- and long-term disability. The Company provides full-time employees with these benefits at no cost to the employee. We offer a qualified 401(k) savings and retirement plan for our employees who are U.S. citizens (wherever they may be located) and similar

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plans for our other employees. All Company employees, including the NEOs, are generally eligible for these plans. The Company contributes to such employees' accounts as well in the form of a matching contribution and up to a 2% profit sharing contribution. The Compensation Committee approved the 2% profit-sharing contribution feature, effective as of January 1, 2008, and reduced the benefits available under the Allied World Assurance Company (U.S.) Inc. Amended and Restated Supplemental Executive Retirement Plan (the "SERP"), as discussed below.

We have established the SERP for certain of our employees who are U.S. citizens (generally assistant vice presidents and up) wherever they may be located. Each of our NEOs participates in the SERP. Prior to the amendment and restatement of the SERP, we made a contribution equal to 10% of a participant's annual base salary, subject to a cap of \$200,000. Effective as of April 1, 2008, we contribute under the SERP up to 10% of a participant's annual base salary in excess of the then-effective maximum amount of annual compensation that could be taken into account under a qualified plan under the Code, as established by the Internal Revenue Service from time to time (the "IRS Compensation Limit"), with an annual base salary cap of \$600,000. This means that we will start making contributions under the SERP to a participant only after such participant has earned annual base salary in excess of the IRS Compensation Limit (\$230,000 in 2008) and will stop making such contributions once a participant has earned \$600,000. Under the SERP, the NEO may voluntarily contribute up to 25% of his or her annual base salary up to a maximum of \$600,000. The Compensation Committee reduced the number of employees eligible to receive a Company contribution under the SERP to achieve the common market practice of providing supplemental retirement contributions only for compensation over the IRS Compensation Limit.

There is a five-year cumulative vesting period for all Company contributions so that upon completion of five years of service, a participant will be 100% vested in all prior and future contributions made on his or her behalf by the Company or its subsidiaries. The Company contributions shall also fully vest upon a participant's retiring after attaining the age of 65. Executives may defer receipt of part or all of their cash compensation under the SERP. The program allows U.S. officers to save for retirement in a tax-effective way at minimal cost to the Company. The investment alternatives under the SERP are the same choices available to all participants under the 401(k) plan, and the NEOs do not receive preferential treatment on their investments. The SERP complies with Section 409A of the Code. The Company believes that contributing to a participant's retirement and having a five-year cumulative vesting for the Company's contributions on behalf of a participant attracts senior officers who want to remain with the Company for the long term and help it achieve its business objectives.

**Stock Ownership Policy**

In order to promote equity ownership and further align the interests of management with our shareholders, in 2007 the Board adopted a stock ownership policy for senior employees. Under this policy, all of our employees with titles of vice president and above are expected to own within five years after his or her joining us or after a promotion, equity interests in the Company, expressed as a multiple of base salary as follows:

<b>Title</b>	<b>Multiple of Base Salary</b>
Chief Executive Officer	5 times
Executive Vice President, Senior Vice President or Presidents	2 times
Vice President	1 time

Employees are expected not to sell any Common Shares until they are in compliance with this policy. Under the Company's Policy Regarding Insider Trading for all Directors, Officers and Employees and its Code of Conduct and Business Ethics, employees are prohibited from engaging in speculative or "in and out" trading in securities of the

Company. In addition, the Company also prohibits hedging and derivative transactions in its securities (other than transactions in the Company's employee stock options) and trading in or through margin accounts. These transactions are characterized by short sales, buying or selling publicly traded options, swaps, collars or similar derivative transactions.

**Employment Agreements/Severance Arrangements**

Effective as of October 1, 2008, the Company entered into amended and restated employment agreements with Messrs. Carmilani, Dupont and Grossack and Ms. Dillard, our NEOs located in Bermuda. Effective as of the same

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date, Allied World National Assurance Company, a U.S. subsidiary of the Company, entered into an amended and restated employment agreement with Mr. Knight. These agreements were amended and restated primarily to comply with final U.S. Treasury regulations published under Section 409A of the Code regarding the treatment of deferred compensation, and for the Bermuda employment agreements, to combine COLA with and into the applicable NEO's base salary. Please see Narrative Disclosure Regarding Equity Plans and Employment Agreements Employment Agreements for more information.

**Summary Compensation Table**

The following table provides information concerning the compensation for services in all capacities earned by the NEOs for fiscal years 2008, 2007 and 2006.

Name and Principal Position	Year	Salary \$(2)	Stock Awards \$(3)	Option Awards \$(4)	Non-Equity Incentive Plan	All Other Compensation	Total (\$)
					Compensation \$(5)	Compensation \$(6)	
Scott A. Carmilani(1) <i>President, Chief Executive Officer and Chairman of the Board</i>	2008	\$ 958,333	\$ 5,148,117	\$ 46,800	\$ 730,000	\$ 446,500	\$ 7,329,750
	2007	\$ 900,000	\$ 2,804,225	\$ 78,965	\$ 1,350,000	\$ 447,117	\$ 5,580,307
	2006	\$ 550,000	\$ 1,457,120	\$ 209,105	\$ 900,000	\$ 418,633	\$ 3,534,858
Joan H. Dillard <i>Senior Vice President and Chief Financial Officer</i>	2008	\$ 432,500	\$ 1,516,760	\$ 100,582	\$ 350,000	\$ 263,083	\$ 2,662,925
	2007	\$ 320,000	\$ 1,102,419	\$ 100,589	\$ 360,000	\$ 253,472	\$ 2,136,480
	2006	\$ 300,000	\$ 325,117	\$ 100,589	\$ 330,000	\$ 238,333	\$ 1,294,039
Wesley D. Dupont <i>Senior Vice President, General Counsel and Secretary</i>	2008	\$ 332,750	\$ 1,105,679	\$ 75,438	\$ 200,000	\$ 289,499	\$ 2,003,366
	2007	\$ 276,500	\$ 833,637	\$ 75,442	\$ 210,000	\$ 298,100	\$ 1,693,679
	2006	\$ 265,000	\$ 303,518	\$ 75,442	\$ 155,000	\$ 279,702	\$ 1,078,662
Marshall J. Grossack(7) <i>Senior Vice President and Chief Corporate Actuary</i>	2008	\$ 327,500	\$ 804,834	\$ 24,094	\$ 140,000	\$ 275,006	\$ 1,571,434
	2007	\$ 275,000	\$ 541,806	\$ 29,044	\$ 205,000	\$ 291,859	\$ 1,342,709
W. Gordon Knight(7) <i>President, Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company</i>	2008	\$ 500,769	\$ 378,613	\$ 33,624	\$ 450,000	\$ 2,703,364	\$ 4,066,370

- (1) Mr. Carmilani receives no additional compensation for serving as our Chairman of the Board.
- (2) Effective as of March 1, 2008, the Compensation Committee approved eliminating the COLA as a separate benefit and instead added the dollar amount of the COLA each NEO (other than Mr. Knight) was receiving into his or her annual base salary. Accordingly, as of such date, the following dollar amounts of the COLA were added to the respective annual base salaries of our NEOs: for Mr. Carmilani \$67,074; for Ms. Dillard \$59,548; for Mr. Dupont \$63,178; and for Mr. Grossack \$63,178. As an executive officer residing in the United States, Mr. Knight never received a COLA as that benefit was available only to the Company's senior officers who

resided in Bermuda. For a description of the Company's former COLA benefit, see Compensation Discussion and Analysis Benefits and Perquisites COLA.

- (3) The amounts shown in the Stock Awards column equal the dollar amount recognized by us during the applicable year as compensation expense for financial statement reporting purposes as a result of RSU and LTIP awards made in such year and in prior years in accordance with FAS 123(R). Pursuant to the SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For RSU and LTIP awards issued in 2008, 2007 and in 2006 subsequent to the IPO, the fair value has been calculated using the closing price of the Company's Common Shares on the date of grant. For RSUs issued prior to the IPO, the incremental fair value as a result of the IPO and modification of the plans has been calculated using the difference between the IPO price of \$34.00 per share and the book value immediately prior to the IPO. For additional information on the calculation of the compensation expense, please refer to note 12(b) and (c) of the Company's consolidated financial statements contained in the Form 10-K for the year ended December 31, 2008, as filed with the SEC. These amounts reflect the Company's accounting expense for these awards and do not correspond to the actual value that may be recognized by the NEOs. For more information on RSU and performance-based awards under our LTIP made to the NEOs during 2008, please see the Grants of Plan-Based Awards table below.

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- (4) The amounts shown in the **Option Awards** column equal the dollar amount recognized by us during the applicable year as compensation expense for financial reporting purposes as a result of options granted in such year and in prior years in accordance with FAS 123(R). Pursuant to the SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For all stock option awards issued, the fair value has been calculated by using the Black-Scholes option-pricing model. For additional information on the calculation of the compensation expense including the valuation assumptions used within the option-pricing model, please refer to note 12(a) of the Company's consolidated financial statements contained in the Form 10-K for the year ended December 31, 2008, as filed with the SEC. These amounts reflect the Company's accounting expense for these awards and do not correspond to the actual value that may be recognized by the NEOs. For more information on option grants made to the NEOs during 2008, please see the **Grants of Plan-Based Awards** table below.
- (5) The amounts shown in the **Non-Equity Incentive Plan Compensation** column represent cash bonuses earned under our 2008, 2007 and 2006 cash bonus plans and were paid in March 2009, 2008 and 2007, respectively. For a description of our annual cash bonus plan, see **Compensation Discussion and Analysis - Cash Compensation Annual Cash Bonus**.
- (6) The amounts shown in the **All Other Compensation** column are attributable to perquisites and other personal benefits or compensation not reported elsewhere in the Summary Compensation Table. The table below shows certain components of the **All Other Compensation** column.

Name	Year	401(k)/		SERP	Perquisites(a)	Tax	Aggregate
		Company	Company	Company		Payments(b)	All
		Contributions	Contributions	Contributions			Other
							Compensation
Scott A. Carmilani	2008	\$ 11,500	\$ 37,000	\$ 280,588	\$ 115,228	\$ 446,500	
Joan H. Dillard	2008	\$ 11,500	\$ 29,377	\$ 156,180	\$ 64,154	\$ 263,083	
Wesley D. Dupont	2008	\$ 11,500	\$ 17,751	\$ 179,596	\$ 79,092	\$ 289,499	
Marshall J. Grossack	2008	\$ 11,500	\$ 17,151	\$ 164,430	\$ 80,365	\$ 275,006	
W. Gordon Knight(c)	2008	\$ 11,500	\$ 27,074	\$ 76,764		\$ 2,703,364	

- (a) Perquisites in 2008 for the NEOs include reimbursements for amounts for certain home leave travel expenses, housing allowances, utilities, club dues, tax preparation, financial planning, parking, company-leased or fractionally-owned airplane usage and COLA. Not all of these perquisites are applicable to all of our NEOs. For 2008, Mr. Carmilani received a housing allowance of \$198,200, Ms. Dillard received a housing allowance of \$123,000, Mr. Dupont received a housing allowance of \$141,000, Mr. Grossack received a housing allowance of \$141,000 and Mr. Knight received a housing allowance of \$72,000. We lease the fractional use of one aircraft and fractionally own another. We also lease aircraft outside of this arrangement on an as needed basis. The incremental cost of the personal use of these aircraft is based on the variable operating costs to us, including fuel costs, mileage, trip-related maintenance, federal excise tax, landing/ramp fees and other miscellaneous variable costs. Fixed costs that do not change based on usage, such as the lease and ownership costs and the cost of maintenance not related to trips, are excluded. During 2008, Mr. Carmilani used the aircraft on four occasions for personal use, the incremental cost of which was \$48,934 to the Company. The incremental costs of such uses are included in the aggregate amount of perquisites he received in 2008. For more information on personal benefits and perquisites, please see **Compensation Discussion and Analysis**



Benefits and Perquisites.

- (b) Consists of (i) gross-up payments to our NEOs residing in Bermuda who are U.S. taxpayers for additional tax obligations incurred in 2008 as a result of the Tax Act as follows: for Mr. Carmilani \$98,603, for Ms. Dillard \$47,529, for Mr. Dupont \$62,467 and for Mr. Grossack \$63,740; and (ii) payments of \$16,625 on behalf of our NEOs residing in Bermuda for his or her portion of the Bermuda payroll tax. The gross-up payments are estimates based on advice from an independent tax advisor and our current understanding of the Tax Act. The application of the Tax Act to the applicable NEOs has not been finalized and the gross-up amounts provided above are subject to revision. For more information on personal benefits and perquisites, please see Compensation Discussion and Analysis Benefits and Perquisites.

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(c) Mr. Knight also received a \$100,000 cash payment upon becoming employed by us and a \$2,487,332 cash payment as compensation for equity awards granted to him by his former employer that he forfeited upon joining our company.

(7) In accordance with SEC requirements, compensation information is being provided for Mr. Grossack only for the years for which he was an NEO. Mr. Knight became employed by us on January 16, 2008.

**Grants of Plan-Based Awards**

The following table provides information concerning grants of share-based awards made to our NEOs in fiscal year 2008.

Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Option Awards (\$/Sh)	Grant Date
	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
2/28/2008	\$ 485,000	\$ 970,000		58,688	117,375	176,062				\$ 5.00
2/28/2008				28,888	57,777	86,665				\$ 2.00
2/28/2008							16,667(3)			\$
2/28/2008	\$ 227,500	\$ 455,000		12,500	25,000	37,500				\$ 1.00
2/28/2008							5,000(3)			\$
2/28/2008	\$ 129,000	\$ 258,000		8,000	16,000	24,000				\$
2/28/2008							4,000(3)			\$
2/28/2008	\$ 84,500	\$ 169,000		8,000	16,000	24,000				\$
2/28/2008							3,000(3)			\$
2/28/2008	\$ 262,500	\$ 525,000		10,000	20,000	30,000				\$
2/28/2008							10,000(4)			\$
2/28/2008								16,500(5)	\$ 43.27	\$

- (1) The Company's 2008 cash bonus plan provided for funding of the pool based on target EBIT goals. The NEOs are eligible for annual cash bonuses as a percentage of their base salaries. For more information on the target EBIT goals and percentages, see Compensation Discussion and Analysis Cash Compensation Annual Cash Bonus.

The amounts provided in the Estimated Future Payouts Under Non-Equity Incentive Plan Awards columns above assume that the same percentage of funding of the annual cash bonus pool will be applied to each NEO.

*Threshold.* The amounts provided in the applicable threshold column above assume that the annual cash bonus pool will be 50% funded and that each NEO will receive 50% of the target cash bonus that he or she is eligible to receive. Accordingly, we have reduced by 50% the amount each NEO would be eligible to receive based on his or her target bonus as a percentage of base salary, as reflected below in the adjusted bonus column below.

Name	Bonus Target as a Percentage of Base Salary	Adjusted Bonus Target as a Percentage of Base Salary
Scott A. Carmilani	100%	50.0%
Joan H. Dillard	100%	50.0%
Wesley D. Dupont	75%	37.5%
Marshall J. Grossack	50%	25.0%
W. Gordon Knight	100%	50.0%

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The amounts provided in the applicable threshold column above indicates the dollar amount calculated by multiplying the adjusted bonus target as a percentage of base salary (as set forth in the table in this footnote) by the NEO's base salary.

*Target.* The amounts provided in the applicable target column above assume that the annual cash bonus pool will be 100% funded and that each NEO will receive the full amount of the cash bonus that he or she is eligible to receive. The dollar amount for each NEO is calculated by multiplying the bonus target as a percentage of base salary (as set forth in the table in this footnote) by the NEO's base salary.

*Maximum.* If we achieve or exceed the maximum threshold, the annual cash bonus plan will be 150% funded. However, individual bonuses under the annual cash bonus plan are not capped or subject to any maximums, so long as the aggregate amount of the bonus pool is not exceeded. Accordingly, no information appears in the applicable column above.

- (2) Amounts disclosed in these columns were awarded under the LTIP. The vesting of performance-based awards under the LTIP is currently based on average per annum adjusted book value growth, which is described in greater detail in Compensation Discussion and Analysis Equity Compensation LTIP Awards. The vested share amounts disclosed in the applicable threshold, target and maximum columns of the Estimated Future Payouts Under Equity Incentive Plan Awards heading assume an average per annum growth in adjusted book value of 9%, 12% and 15%, respectively. Each of the performance-based awards made under the LTIP had a grant date fair value equal to the closing price of the Common Shares on February 28, 2008 (\$43.27). In calculating the grant date value, it was assumed that the performance target regarding such awards will be attained.
- (3) Except for Mr. Knight, this number represents each NEO's annual grant of RSUs on February 28, 2008 pursuant to the Company's Stock Incentive Plan. In accordance with FAS 123(R), the grant date fair value included in the table reflects the closing price of the Common Shares on such date (\$43.27) multiplied by the number of RSUs granted to the NEO.
- (4) Mr. Knight was granted these RSUs pursuant to the Company's Stock Incentive Plan as compensation for equity awards granted to him by his former employer that he forfeited upon joining our company. In accordance with FAS 123(R), the grant date fair value included in the table reflects the closing price of the Common Shares on such date (\$43.27) multiplied by the number of RSUs granted to Mr. Knight.
- (5) Mr. Knight was granted this stock option award pursuant to the Company's Stock Option Plan as compensation for equity awards granted to him by his former employer that he forfeited upon joining our company. In accordance with FAS 123(R), a fair value of \$9.78 has been calculated by using the Black-Scholes option-pricing model. For additional information on the calculation of compensation expense, including the valuation assumption used within the option-pricing model, please refer to note 12(a) of the Company's consolidated financial statements contained in the Form 10-K for the year ended December 31, 2008, as filed with the SEC. The grant date fair value included in the table reflects the \$9.78 fair value multiplied by the number of Common Shares underlying the stock option granted to Mr. Knight.

**Narrative Disclosure Regarding Equity Plans and Employment Agreements**

***Stock Option Plan***

We implemented the Stock Option Plan, under which up to 4,000,000 Common Shares may be issued, subject to adjustment as described below. Of that amount, 2,307,892 Common Shares remained available for issuance as of December 31, 2008. During 2008, the Company granted stock options to purchase 323,300 Common Shares under the

Stock Option Plan. These stock options are exercisable in certain limited conditions, expire after ten years and generally vest pro rata over four years from the date of grant. Awards may be made to any of our directors, officers, employees (including prospective employees), consultants and other individuals who perform services for us, as determined by the Compensation Committee in its discretion. The Compensation Committee may grant non-qualified stock options to purchase Common Shares (at the price set forth in the award agreement, but in no event less than 100% of the fair market value of the Common Shares on the date of grant) subject to the terms and conditions as it may determine. While the Board retains the right to terminate the Stock Option Plan at any time, in any case the Stock Option Plan will terminate on May 8, 2018.

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The shares subject to the Stock Option Plan are authorized but unissued Common Shares. If any award is forfeited or is otherwise terminated or canceled without the delivery of Common Shares, then such shares will again become available under the Stock Option Plan. Our Compensation Committee has the authority to adjust the terms of any outstanding awards, the number of Common Shares covered by each outstanding award and the number of Common Shares issuable under the Stock Option Plan as it deems appropriate for any increase or decrease in the number of issued Common Shares resulting from a stock dividend, stock split, reverse stock split, recapitalization, reorganization, merger, consolidation, combination, exchange or any other event that the Compensation Committee determines affects our capitalization, other than regular cash dividends. In the event of a merger, amalgamation or consolidation, the sale of a majority of the Company's securities or the reorganization or liquidation of the Company, the Compensation Committee will have the discretion to provide, as an alternative to the adjustment described above, for the accelerated vesting of options prior to such an event or the cancellation of options in exchange for a payment based on the per-share consideration being paid in connection with the event.

### ***Stock Incentive Plan***

We implemented the Stock Incentive Plan, under which up to 2,000,000 Common Shares may be issued, subject to adjustment as described below. Of that amount, 843,469 Common Shares remained available for issuance as of December 31, 2008. During 2008, the Company granted 357,811 RSUs under the Stock Incentive Plan. The Stock Incentive Plan provides for awards of restricted stock, RSUs, dividend equivalent rights and other equity-based or equity-related awards. We will not grant stock options pursuant to the plan. Awards under the Stock Incentive Plan may be made to any of our directors, officers, employees (including prospective employees), consultants and other individuals who perform services for us, as determined by the Compensation Committee in its discretion. Only RSUs have been granted under the Stock Incentive Plan and these RSUs generally vest in the fourth or fifth year from the original grant date, or pro rata over four years from the date of grant. For additional information regarding RSUs granted under the Stock Incentive Plan, see Compensation Discussion and Analysis Equity Compensation RSU Awards. While the Board retains the right to terminate the Stock Incentive Plan at any time, the plan will automatically terminate on May 8, 2018.

The shares subject to the Stock Incentive Plan may be either authorized but unissued Common Shares or Common Shares previously issued and reacquired by the Company. If any award expires, terminates or otherwise lapses, in whole or in part, any Common Shares subject to such award will again become available for issuance under the Stock Incentive Plan. Our Compensation Committee has the authority to adjust the terms of any outstanding awards, the number of Common Shares covered by each outstanding award and the number of Common Shares issuable under the Stock Incentive Plan as it deems appropriate to preserve the intended benefits or intended potential benefits for any increase or decrease in the number of issued Common Shares resulting from a stock split, stock dividend, combination or exchange of the Common Shares, merger, amalgamation, consolidation, rights offering, separation, reorganization or liquidation, or any other change in the corporate structure or Common Shares. In the event of a merger, amalgamation or consolidation, the sale of a majority of the Company's securities or the reorganization or liquidation of the Company, the Compensation Committee will have the discretion to provide, as an alternative to the adjustment described above, for the accelerated vesting of awards prior to such an event or the cancellation of awards in exchange for a payment based on the per-share consideration being paid in connection with the event.

### ***Long-Term Incentive Plan***

On May 22, 2006, the Board adopted the Long-Term Incentive Plan. On November 7, 2007, the Board adopted the Amended and Restated Long-Term Incentive Plan to make certain changes necessary to comply with Section 409A of the Code. Under the LTIP, up to 2,000,000 Common Shares may be issued pursuant to the terms of the plan. Of that amount, 793,681 Common Shares remained available for issuance as of December 31, 2008. Participation in the LTIP is limited to employees who are selected by the Compensation Committee. During 2008, the Company granted

507,152 performance-based equity awards under the LTIP. See Compensation Discussion and Analysis Equity Compensation LTIP Awards for more information about the performance-based awards made under the LTIP.

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The LTIP provides for grants of long-term incentive awards that are earned based upon the achievement of applicable performance conditions over a three consecutive fiscal-year period. Performance conditions are selected by the Compensation Committee or the Board prior to the commencement of an applicable performance period from a list of permissible financial metrics, including (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per share; (v) book value per share; (vi) return on shareholders' equity; (vii) return on investment; (viii) stock price; (ix) improvements in capital structure; (x) revenue or sales; and (xi) total return to shareholders. Awards are expressed as a target amount representing the number of shares to be issued upon 100% achievement of applicable performance conditions, with the actual number of shares delivered ranging from 0% to between 50% and 150% of the target amount based on the level of actual achievement of applicable performance conditions.

The shares subject to the LTIP shall be authorized but unissued Common Shares. If any award expires or is canceled, forfeited or otherwise terminated, any Common Shares subject to such award will again become available for issuance under the LTIP. The Compensation Committee has the authority to adjust the terms of any outstanding awards, the number of Common Shares covered by each outstanding award and the number of Common Shares issuable under the LTIP as it deems appropriate for any increase or decrease in the number of issued Common Shares or in the capital structure of the Company resulting from a stock dividend, stock split, reverse stock split, recapitalization, reorganization, merger, consolidation, combination or exchange or any other event that the Compensation Committee determine affects our capitalization, other than the regular cash dividends.

**2008 Employee Share Purchase Plan**

On February 28, 2008, the Board adopted the ESPP, which was approved by our shareholders on May 8, 2008. The purposes of the ESPP are to provide employees of the Company and its subsidiaries with an opportunity to purchase our Common Shares, help such employees to provide for their future security and encourage such employees to remain in the employment of the Company and its subsidiaries. The ESPP is designed to qualify as an employee share purchase plan under Section 423 of the Code. A total of 1,000,000 Common Shares are reserved for issuance under the plan. The ESPP provides for consecutive six-month offering periods (or other periods of not more than 27 months as determined by the Compensation Committee) under which participating employees can elect to have between 1% and 10% of their base salary withheld and applied to the purchase of Common Shares at the end of the period. Unless otherwise determined by the Compensation Committee before an offering period, the purchase price will be 85% of the fair market value of the Common Shares at the end of the offering period. Applicable Code limitations specify, in general, that a participant's right to purchase shares under the plan cannot accumulate at a rate in excess of \$25,000 (based on the value at the beginning of the applicable offering periods) per calendar year.

**Equity Compensation Plan Information**

The following table presents information concerning our equity compensation plans as of December 31, 2008.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)</b>
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Equity compensation plans approved by shareholders	1,358,151	\$ 33.63	4,141,228(2)
Equity compensation plans not approved by shareholders(3)			793,681
Total	1,358,151	\$ 33.63	4,934,909

(1) Represents stock options granted under the Stock Option Plan, which have a weighted average remaining contractual life of 6.5 years.

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- (2) Includes 2,307,892 Common Shares available for issuance pursuant to stock options granted under the Stock Option Plan, 843,469 Common Shares available for issuance pursuant to RSUs awarded under the Stock Incentive Plan and 989,867 Common Shares available for purchase under the ESPP.
- (3) Represents 793,681 Common Shares available for issuance under the LTIP.

***Employment Agreements***

Effective as of October 1, 2008, the Company entered into amended and restated employment agreements with Messrs. Carmilani, Dupont and Grossack and Ms. Dillard (the Bermuda Employment Agreements). Effective as of the same date, Allied World National Assurance Company, a U.S. subsidiary of the Company, entered into an amended and restated employment agreement with Mr. Knight (the Knight Employment Agreement). These employment agreements were amended and restated primarily to comply with final U.S. Treasury regulations published under Section 409A of the Code regarding the treatment of deferred compensation, and for the Bermuda Employment Agreements, to combine the cost of living allowance with and into the NEO's base salary. Apart from the name, title, base salary and housing and utility allowance, the Bermuda Employment Agreements are identical, and apart from the company, name, title, base salary, the definition of Severance Multiplier (as defined below) and the exclusion of certain benefits that only the NEOs in Bermuda are eligible to receive, the Knight Employment Agreement is virtually identical to the Bermuda Employment Agreements. Under their respective employment agreements, each NEO receives an enumerated base salary that may be increased only upon the approval of the Compensation Committee. In addition, each NEO is eligible for a discretionary annual cash bonus.

The Bermuda Employment Agreements provide for base salary, financial and tax planning, an allowance for housing and utilities, an expense reimbursement for club membership fees for a club in Bermuda and other business expenses, subject to applicable limits set forth in each employment agreement and the policies of our Company as approved from time to time by the Compensation Committee. As discussed above under Compensation Discussion and Analysis Benefits and Perquisites, these types of perquisites are standard in the compensation packages of executives among our Company's Bermuda Peer Group and other Bermuda companies. The Knight Employment Agreement provides for base salary, financial and tax planning and expense reimbursement for other business expenses, subject to applicable limits set forth in his agreement and the policies of our Company as approved from time to time by the Compensation Committee.

Under each employment agreement, during the term of employment and ending on the 24-month anniversary following any termination of employment, the NEO is subject to a non-interference covenant. Generally, the non-interference covenant prevents the NEO from soliciting or hiring employees or other service providers of the Company or its subsidiaries and from inducing any customer, supplier, licensee or other business relation of the Company or its subsidiaries to cease doing business, or reduce the amount of business conducted, with the Company or its subsidiaries, or in any other manner interfering with the Company or its subsidiaries' relationship with these parties. During the term of employment and ending following the Non-Compete Period (as defined below), the NEO is subject to a non-competition covenant. Generally, the non-competition covenant prevents the NEO from engaging in activities that are competitive with the business of the Company or its subsidiaries in certain jurisdictions. Each employment agreement also contains standard confidentiality and assignment of inventions provisions. In addition, each employment agreement provides that we shall generally indemnify the NEO to the fullest extent permitted, except in certain limited circumstances.

The Non-Compete Period means the period commencing on the date of the employment agreement and (i) in the case of the NEO's termination of employment by us with cause, ending on the date of such termination; (ii) in the case of a NEO's termination of employment by us without cause or by the NEO for good reason, ending on the 24-month

anniversary of the date of such termination; and (iii) in the case of a NEO's termination of employment by the NEO without good reason or as a result of a disability, ending on the date of such termination; *provided, however*, in the case of clause (iii) above, we may elect to extend the Non-Compete Period up to an additional 12 months following the date of such termination, during which period we will be required to continue to pay the NEO his or her base salary and provide coverage under our company's health and insurance plans (or the economic equivalent of such coverage, including its cash value).

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Each employment agreement terminates upon the earliest to occur of (i) the NEO's death, (ii) a termination by reason of a disability, (iii) a termination by us with or without cause and (iv) a termination by the NEO with or without good reason. Upon any termination of the NEO's employment for any reason, except as may otherwise be requested by us in writing and agreed upon in writing by the NEO, the NEO will resign from any and all directorships, committee memberships or any other positions the NEO holds with the Company or any of its subsidiaries.

Upon termination of the NEO's employment with our company for any reason, including a termination by our company with cause or by the NEO without good reason, the NEO will be entitled to all prior accrued obligations. Upon termination of the NEO's employment due to his or her death or disability, the NEO (or his or her estate or beneficiaries), in addition to all prior accrued obligations, will be entitled to any (i) unpaid annual bonus in respect to any completed fiscal year prior to such termination, (ii) a pro rata annual bonus if such termination occurs during a fiscal year and (iii) vesting, as of the date of termination, in the number of equity-based awards that otherwise would have vested during the one-year period immediately following such termination.

Upon termination of the NEO's employment by us without cause or by the NEO with good reason, in addition to any prior accrued obligations and unpaid annual bonus, the NEO will receive (i) an amount equal to the Severance Multiplier multiplied by the sum of the NEO's base salary and annual bonus to be paid in substantially equal monthly installments over the period beginning on the termination date and ending one day prior to two and one-half months following the end of the Company's fiscal year in which such termination occurs, (ii) continuation of coverage under our health and insurance plans (or the economic equivalent of such coverage, including its cash value) for a period of years equal to the Severance Multiplier and (iii) vesting, as of the date of termination, in the number of equity-based awards that otherwise would have vested during the two-year period immediately following such termination. For each NEO other than Mr. Knight, the Severance Multiplier will equal two; *provided, however*, if the NEO's termination occurs within the 12-month period following a change in control, the Severance Multiplier will equal three. For Mr. Knight, the Severance Multiplier will equal two; *provided, however*, if Mr. Knight's termination occurs within the 12-month period following a change in control, the Severance Multiplier will equal four until January 16, 2010 and three thereafter.

We may require the NEO to execute a general release prior to payment of any amount or provision of any benefit as a result of termination of employment by us without cause or by the NEO for good reason. In addition, upon the occurrence of a change in control, all equity-based awards received by the NEO will fully vest immediately prior to such change in control.

**Table of Contents****Outstanding Equity Awards at Fiscal Year-End**

The following table summarizes the number of securities underlying awards for each NEO as of December 31, 2008.

Name	Option Awards				Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested (\$)(8)	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price(1)(\$)	Option Expiration Date	Market Value of Shares or Units of Stock That Have Not Vested (\$)(8)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#)		
Scott A. Carmilani	51,667		\$ 24.27	11/21/2011	8,333(2)	\$ 338,320	75,000(9)	\$ 3,045,000
	13,333		\$ 23.61	01/02/2013	50,000(3)	\$ 2,030,000	117,375(10)	\$ 4,765,425
	13,333		\$ 29.52	12/31/2013	9,000(4)	\$ 365,400	57,777(11)	\$ 2,345,746
	15,000	5,000	\$ 32.70	01/03/2015	16,667(5)	\$		