CAS Annual Meeting

Jack Sennott

November 2011

BERMUDA EUROPE HONG KONG USA

The Company Perspective

Are the conditions for increased M&A activity present in today's insurance marketplace?

Yes….

and No!

Issues / Trends in M&A – The Company Perspective

The Pricing Environment

The Claims Environment

Scale

Shareholder Base

Capacity Available

Valuations

Low Interest Rate Environment

Social Issues

Strength of Balance Sheet

Rating Agencies

Absolute Number of Companies

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With all appropriate credit to David Letterman…

Top 10 Reasons Why There Could (Should) be More M&A in the P&C Insurance Space

10. There are too Many Companies

- Diversification, largely driven by rating agency models, has increased the absolute number of markets competing for each segment of the business

As an example, according to Advisen, there are currently 82 markets for private and non-profit companies to meet they're management liability insurance needs

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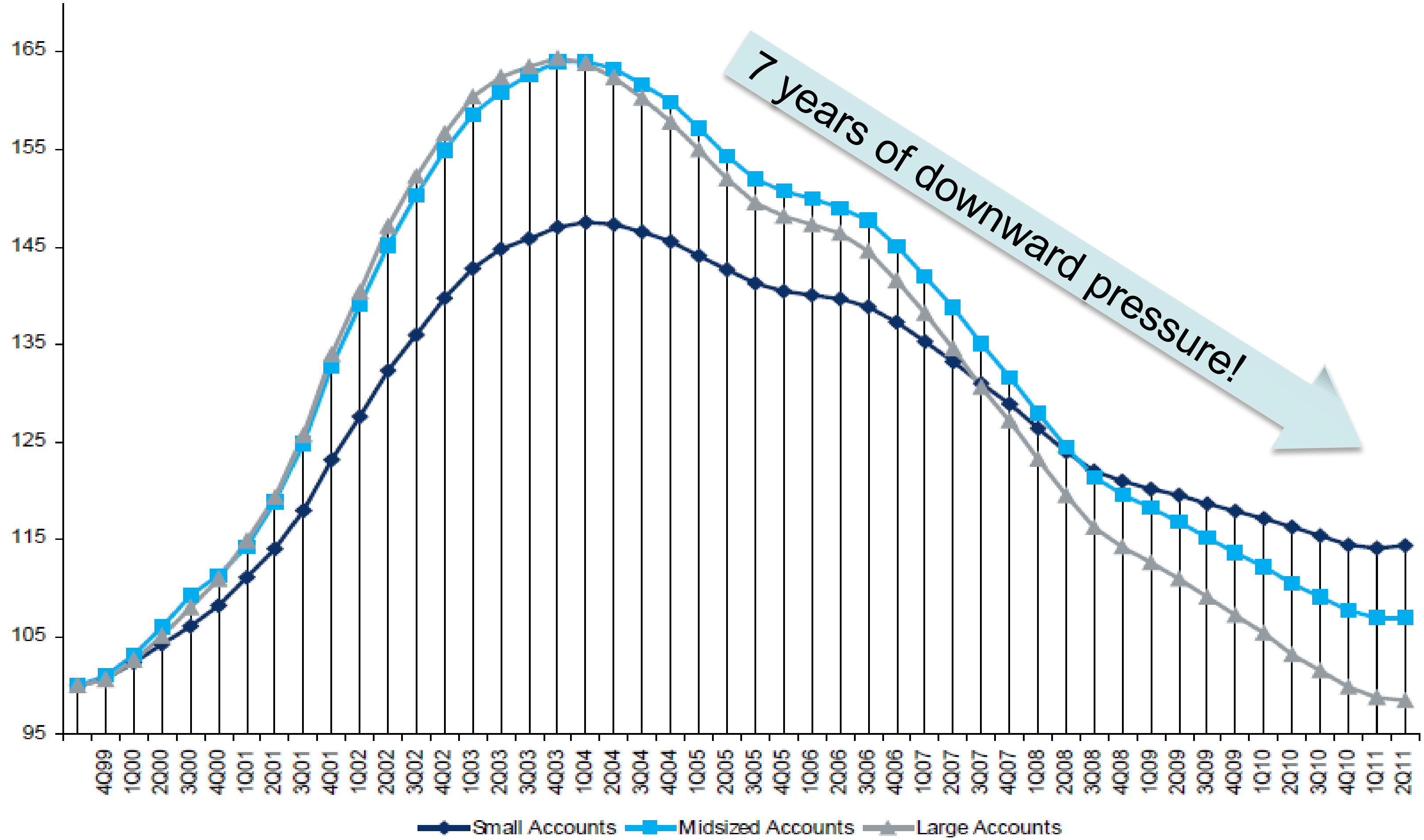
9. Several Consecutive Years of Price Erosion has Muted Accident Year Returns

Cumulative Quarterly Commercial Rate Changes by Account Size



Source: CIAB

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8. Low Interest Rate Environment for the Foreseeable Future

"To promote the ongoing economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to keep the **target range for the federal funds rate at 0 to 1/4 percent**. The Committee currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant **exceptionally low levels for the federal funds rate at least through mid-2013.**"

- August 9, 2011 Federal Open Market Committee meeting press release

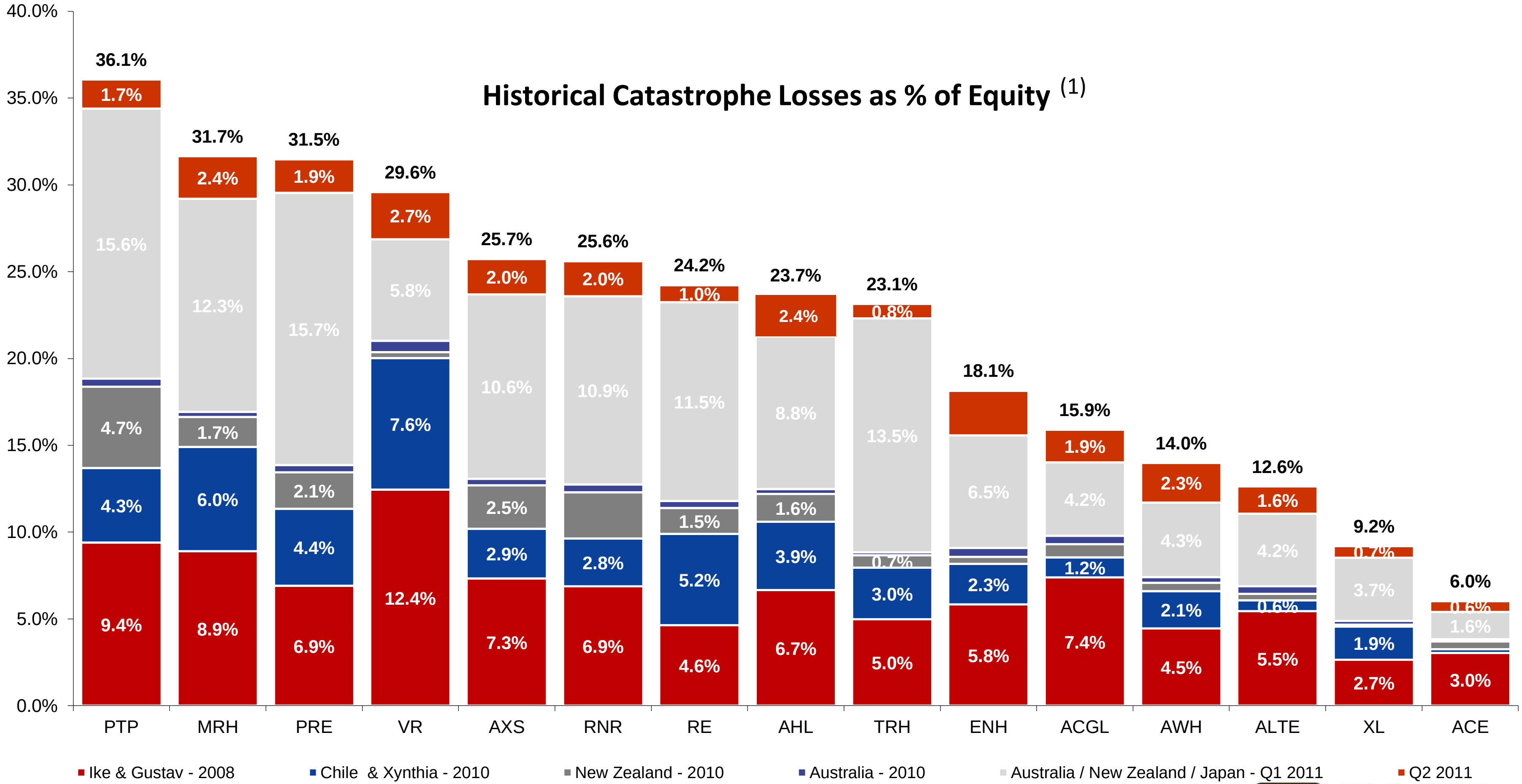
You can't subsidize poor underwriting with yield

7. Long-term Compensation Will be Negatively Impacted by the Previous Two Items

According to Farient and Equilar, at least 50% of insurance companies use growth in book value and return on equity as a primary measure of incentive compensation programs.

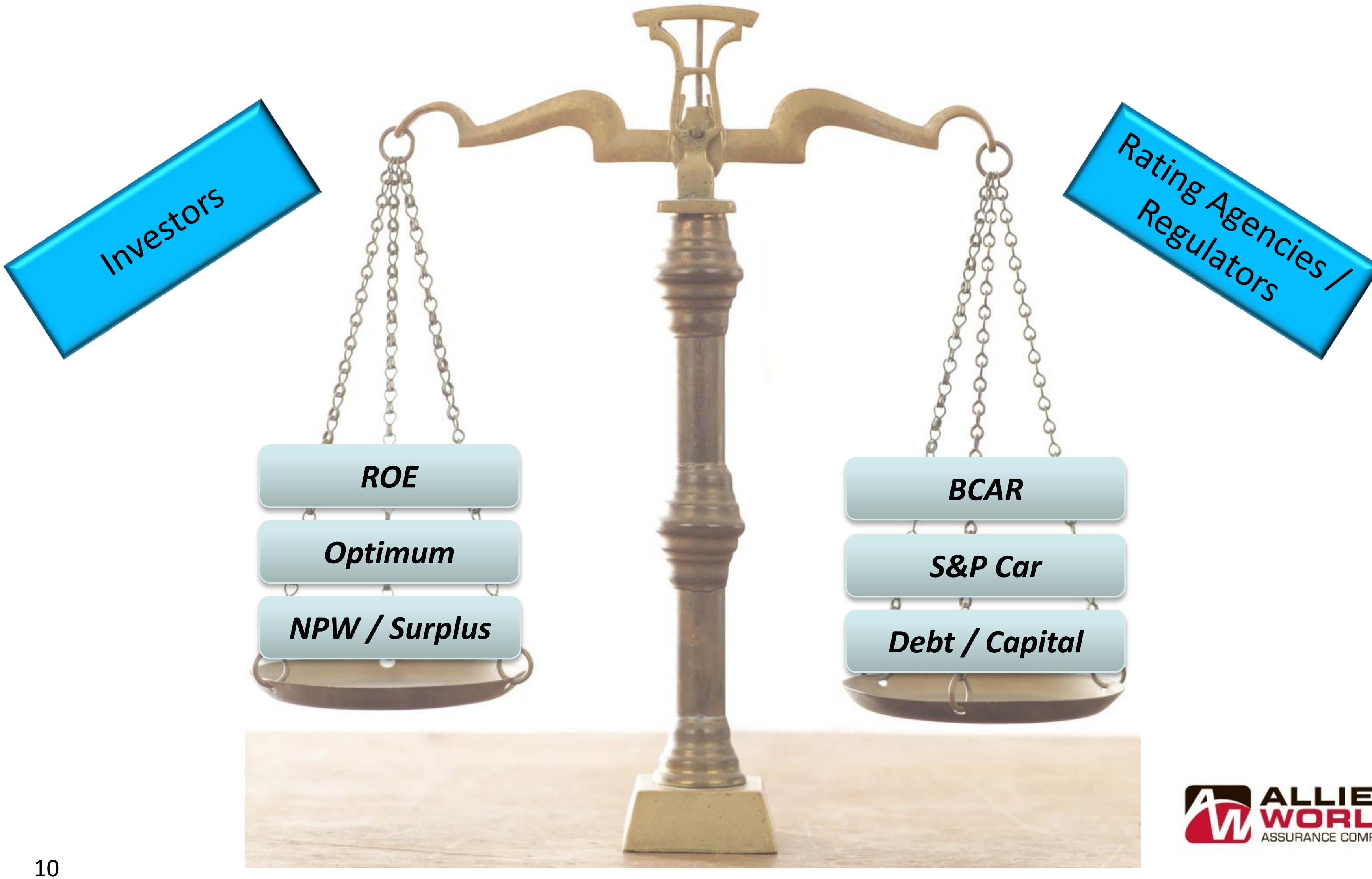
6. You Can't Shrink to Greatness

Smaller companies without scale risk a severe adverse surprise



(1) Based on ending Total Shareholders' Equity for the period prior to occurrence.
Source: SNL Financial, Company filings

5. In a No Growth Environment it is Very Difficult to Optimize your Capital Structure from Both an Investor and Rating Agency Perspective



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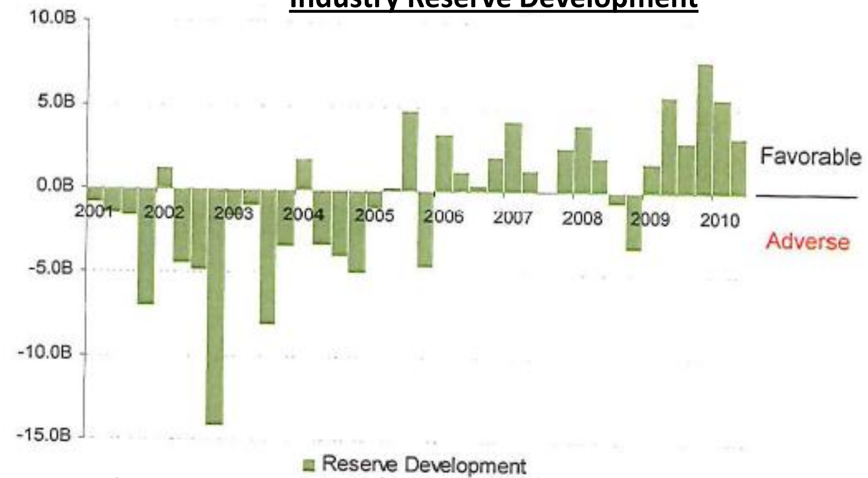
4. Balance Sheets have Released Lots of Favorable Reserves over the Past Several Years

Favorable/(Adverse) Development by Quarter ($M)

Year	Q1	Q2	Q3	Q4	Total
2001	(881)	(1,506)	(1,640)	(7,069)	(11,096)
2002	1,292	(4,482)	(4,904)	(14,200)	(22,294)
2003	(1,668)	(955)	(8,091)	(3,433)	(14,147)
2004	1,830	(3,340)	(4,061)	(4,958)	(10,529)
2005	(1,058)	194	4,843	(4,607)	(628)
2006	3,446	1,193	364	2,033	7,036
2007	4,249	1,268	75	2,687	8,279
2008	3,987	2,033	(706)	(3,454)	1,860
2009	1,806	5,817	3,038	7,836	18,497
2010	5,719	3,360			9,079

Industry Reserve Development



- No clear pattern of quarters for which industry reserve changes are implemented
- Favorable development through first half of 2010 already surpasses rating agencies' view of reserve redundancy as of year end 2009 - will this impact their view of a company's capital adequacy, ratings and outlooks?
- If the second half of 2010 is similar to the first half, over 80% of the industry reserve redundancy as of year end 2009 would be exhausted

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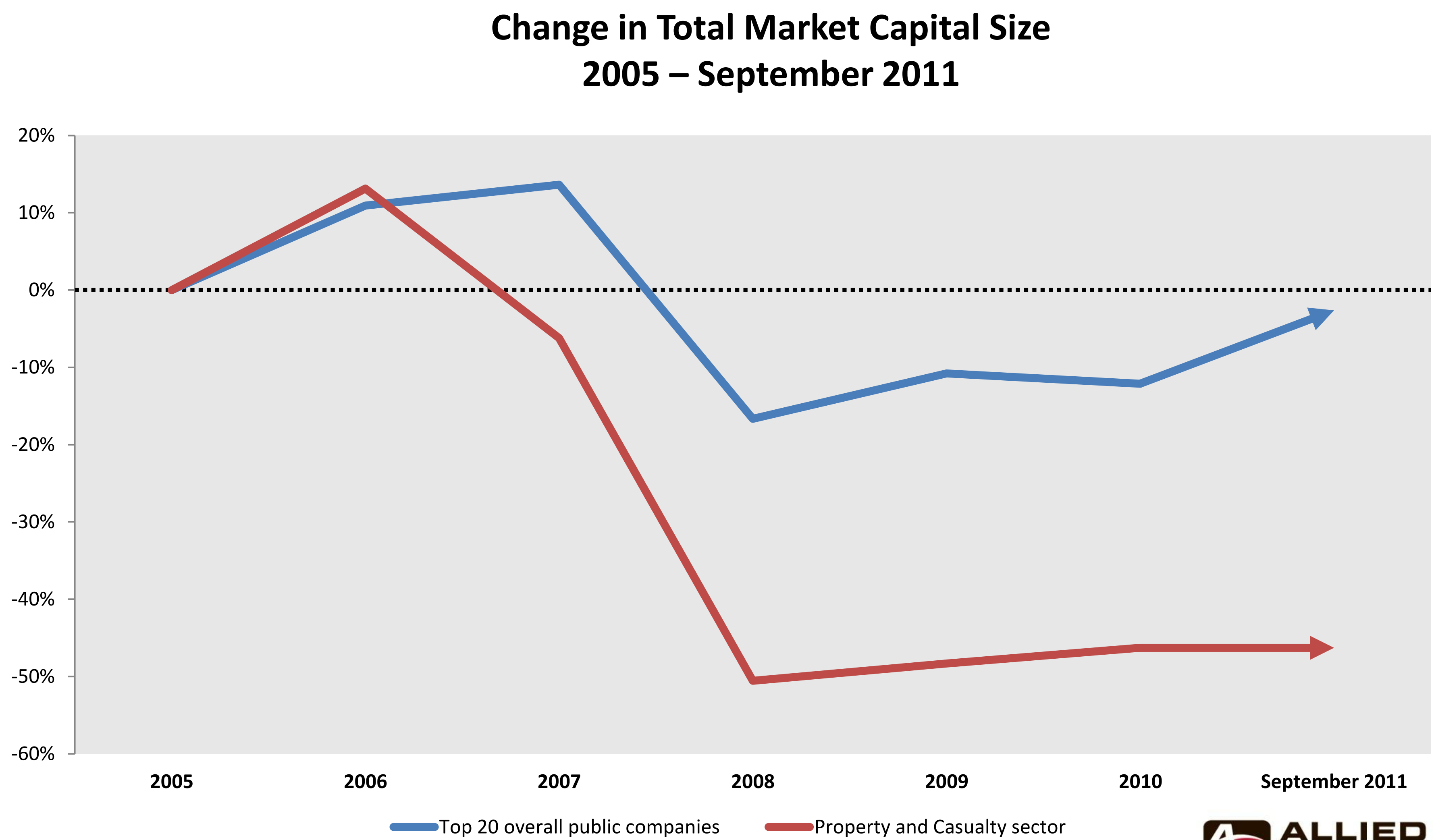
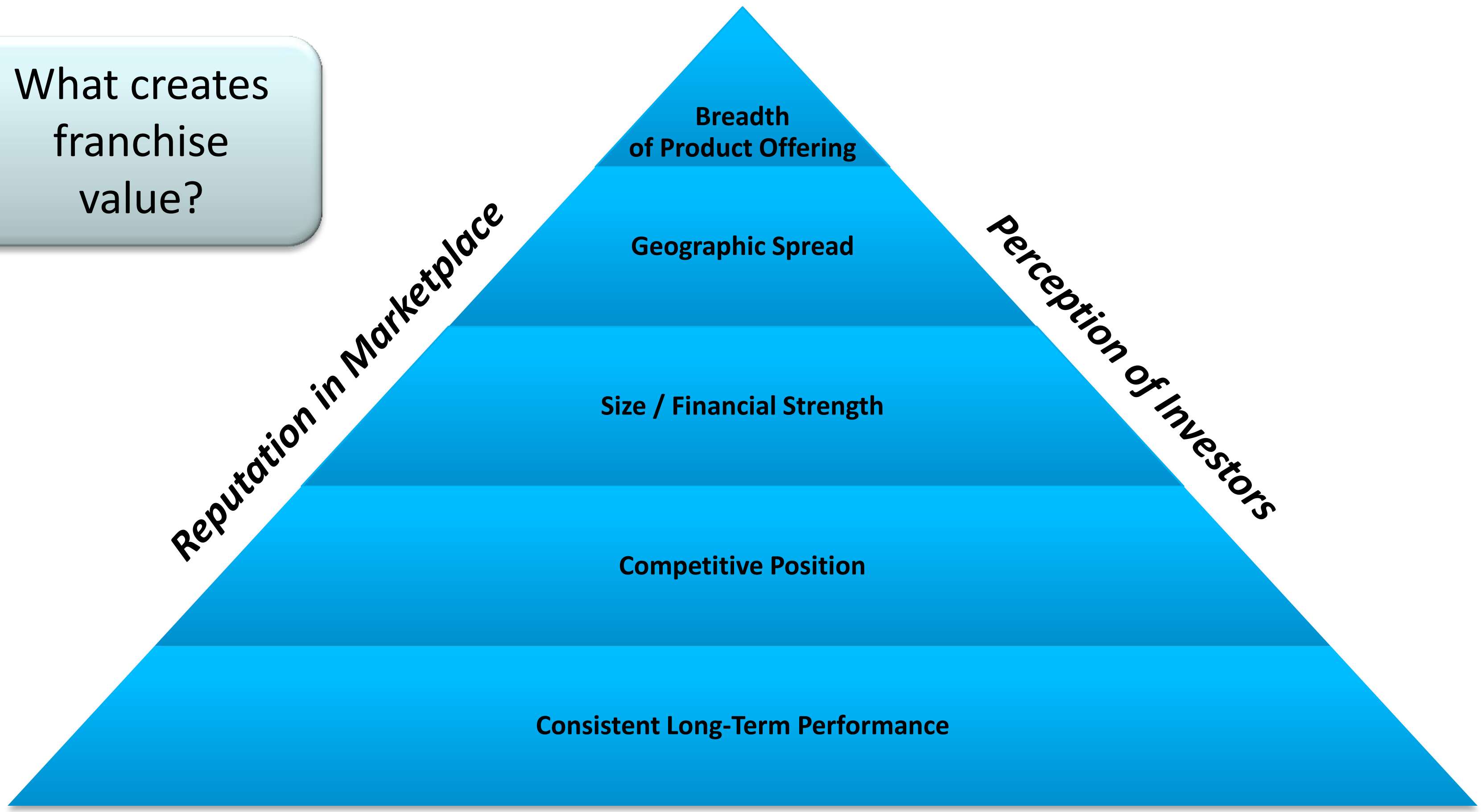
Source: AON Benfield, with permission

3. If you Spend Enough Time in the Basement, the 2nd floor Starts to Look Like the Penthouse

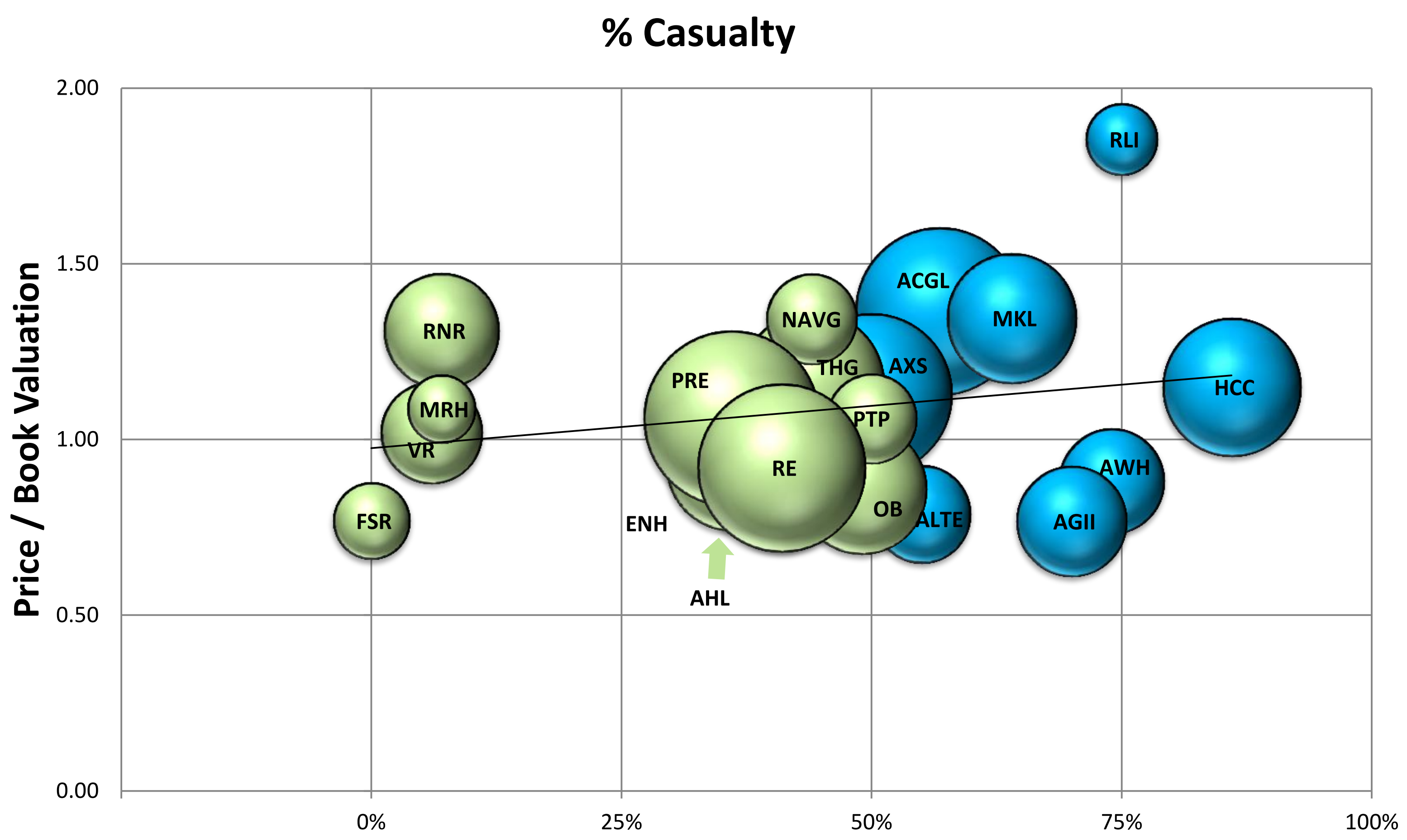


2. There are Too Many Commodity Companies and not Enough Franchises

What creates franchise value?

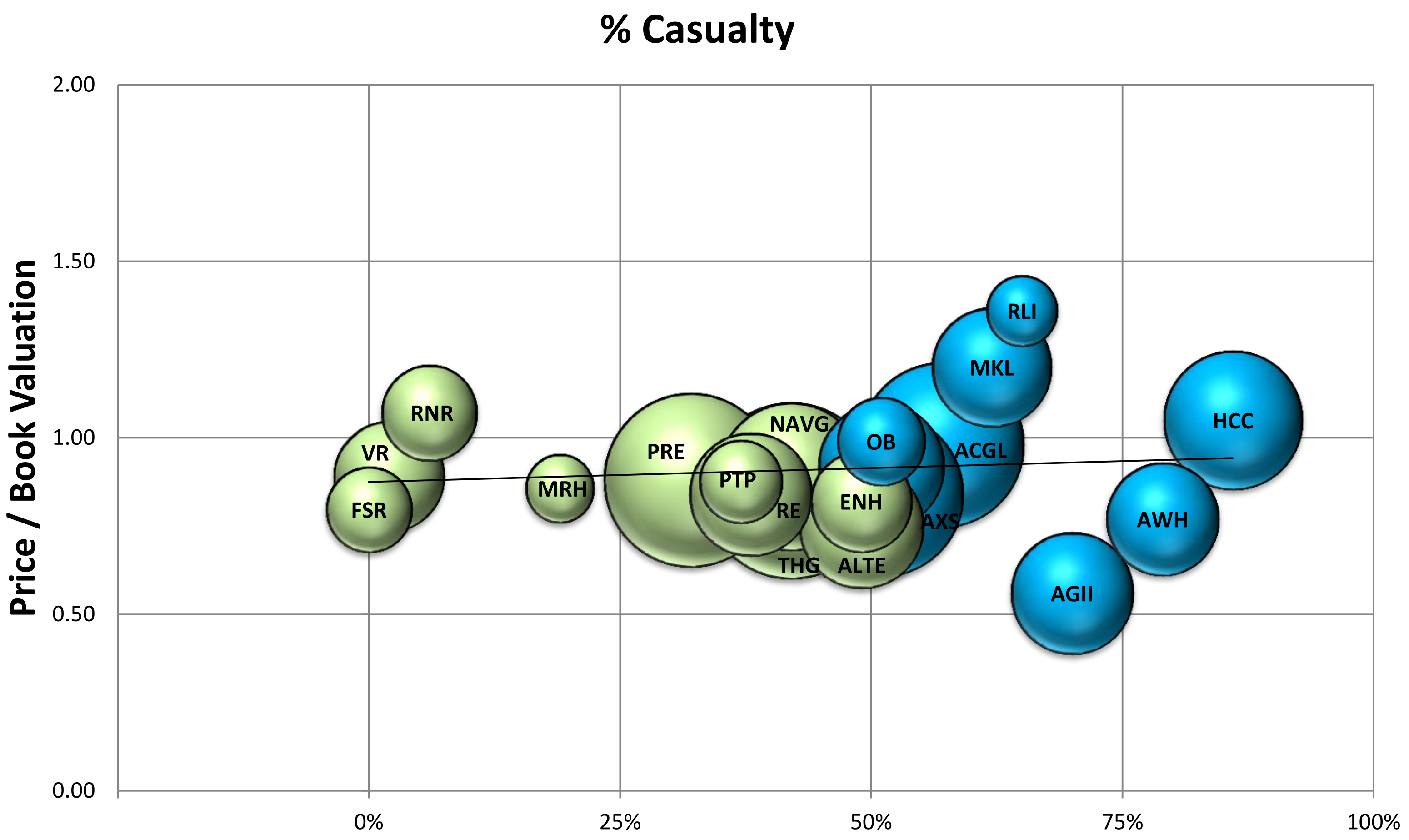


1. Relative Valuations are Good
Property vs. Casualty and Valuation - 2008



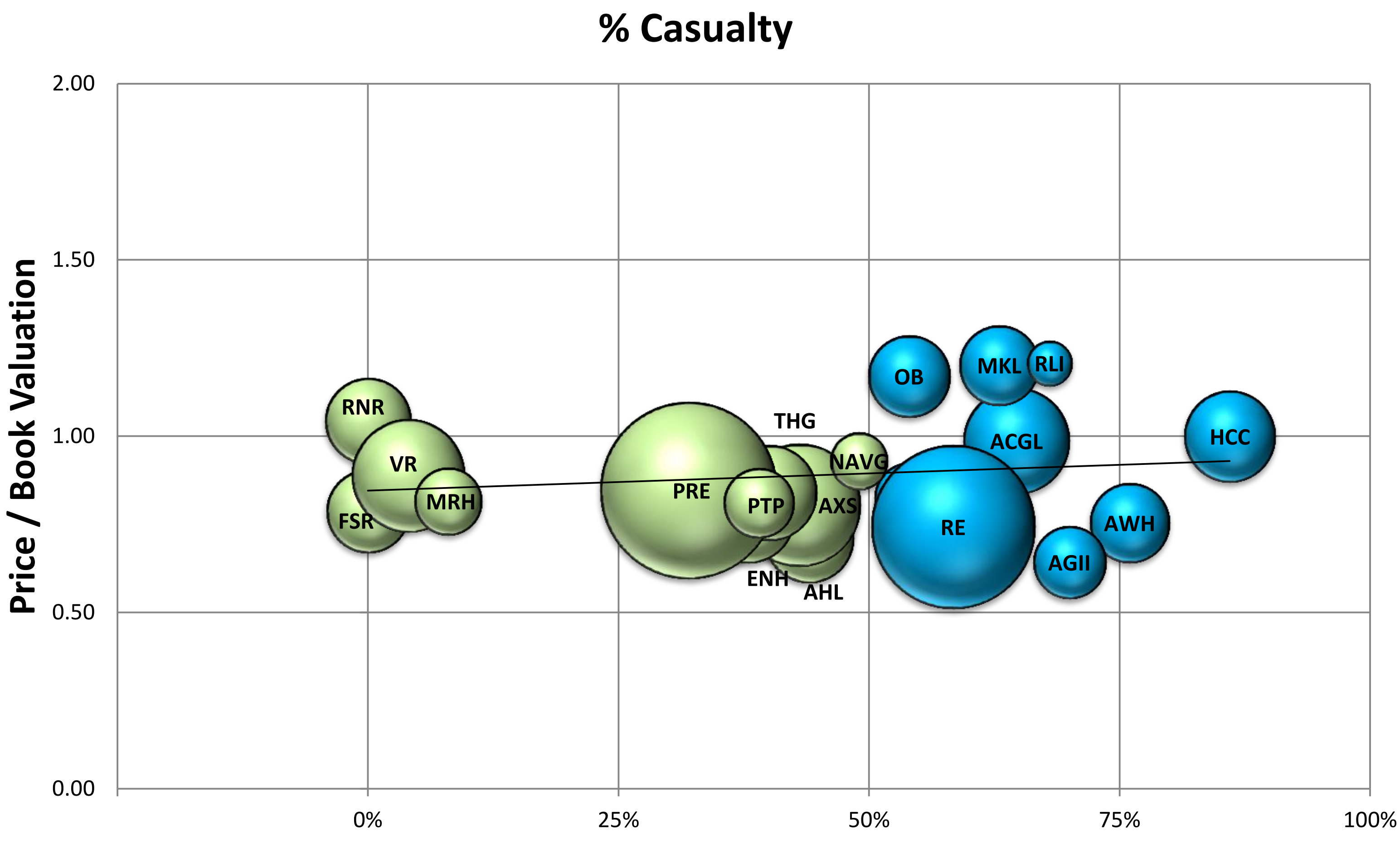
Size of bubbles based on GPW

1. Relative Valuations are Good
Property vs. Casualty and Valuation - 2009



Size of bubbles based on GPW

1. Relative Valuations are Good
Property vs. Casualty and Valuation - 2010



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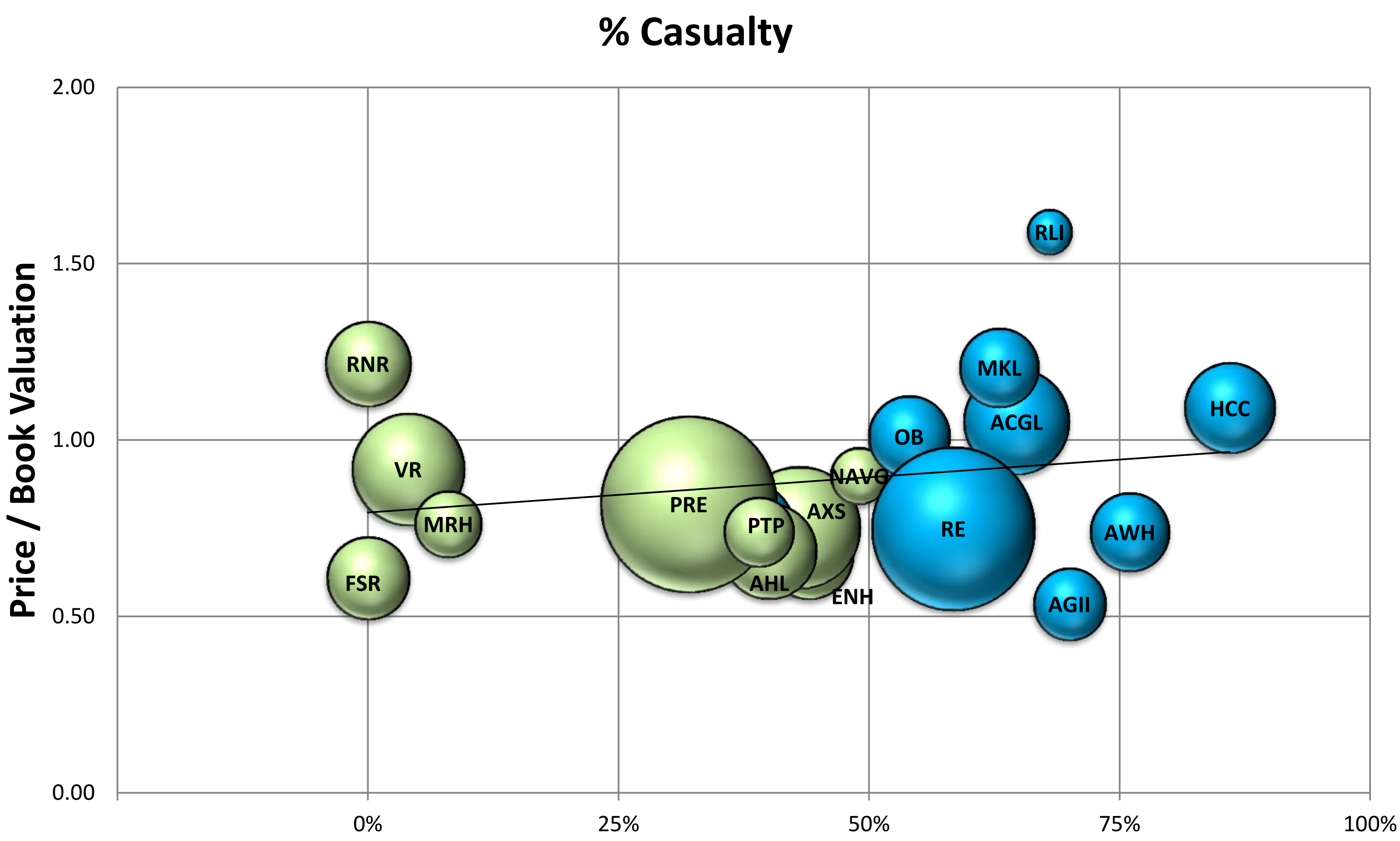
1. Relative Valuations are Good
Property vs. Casualty and Valuation – June 2011



Size of bubbles based on GPW

However, It is not all clear sailing for M&A…

With all appropriate credit to "flip-flopping politicians"…

Top 10 Reasons Why There May Not be More M&A in the Near Term

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10. Social Issues

"Being an insurance executive has been a pretty good gig for the last several years"

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9. It is Hard to do M&A
You Need to Sell the Deal 3 times!

1. Internal Management
2. The Other Party
3. Shareholders

8. P&L's Don't Show Opportunity cost

Very Few People get into Trouble for NOT Doing a Deal

7. Most Deals Fail

The basic rule of successful M&A –

The work starts **AFTER** you have negotiated the deal

6. People Fear Change More than their Current Prospects

Until results worsen, or shareholders get angry, There is likely not much pressure for deal flow to increase

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5. Announcing a Deal Potentially "Puts Both Parties in Play"

Bankers… start your engines!

4. Balance Sheets Likely Have More “Gas in the Tank”

Reserve Summary ($B)

Line	Estimated Reserves	Booked Reserves	Remaining Redundancy	Favorable / (Adverse) Development 2007	2008	2009	2010	Average	Years at Run Rate
Personal Lines	127.1	133.6	6.5	5.9	5.4	5.8	6.7	5.9	1.1
Commercial Property	40.5	41.9	1.5	1.7	2.6	2.4	2.7	2.3	0.6
Commercial Liability	227.0	236.8	9.9	1.0	5.2	3.8	2.4	3.1	3.2
Workers Compensation	111.2	117.7	6.5	1.0	1.1	(0.5)	(1.6)	0.0	N/A
Total Excl. Financial Guaranty	505.7	530.1	24.4	9.5	14.4	11.5	10.1	11.4	2.1
Financial Guaranty	32.6	30.2	(2.4)	(1.2)	(12.6)	7.0	0.4	(1.6)	N/A
Total	538.3	560.2	22.0	8.3	1.7	18.6	10.5	9.8	2.2

- P&C Industry undiscounted statutory reserves as of December 31, 2010 estimated to be USD22.0 Billion redundant
- USD10.5 Billion reserves released in calendar year 2010
- At the current average run rate, the redundancy will be eliminated in 2.2 years

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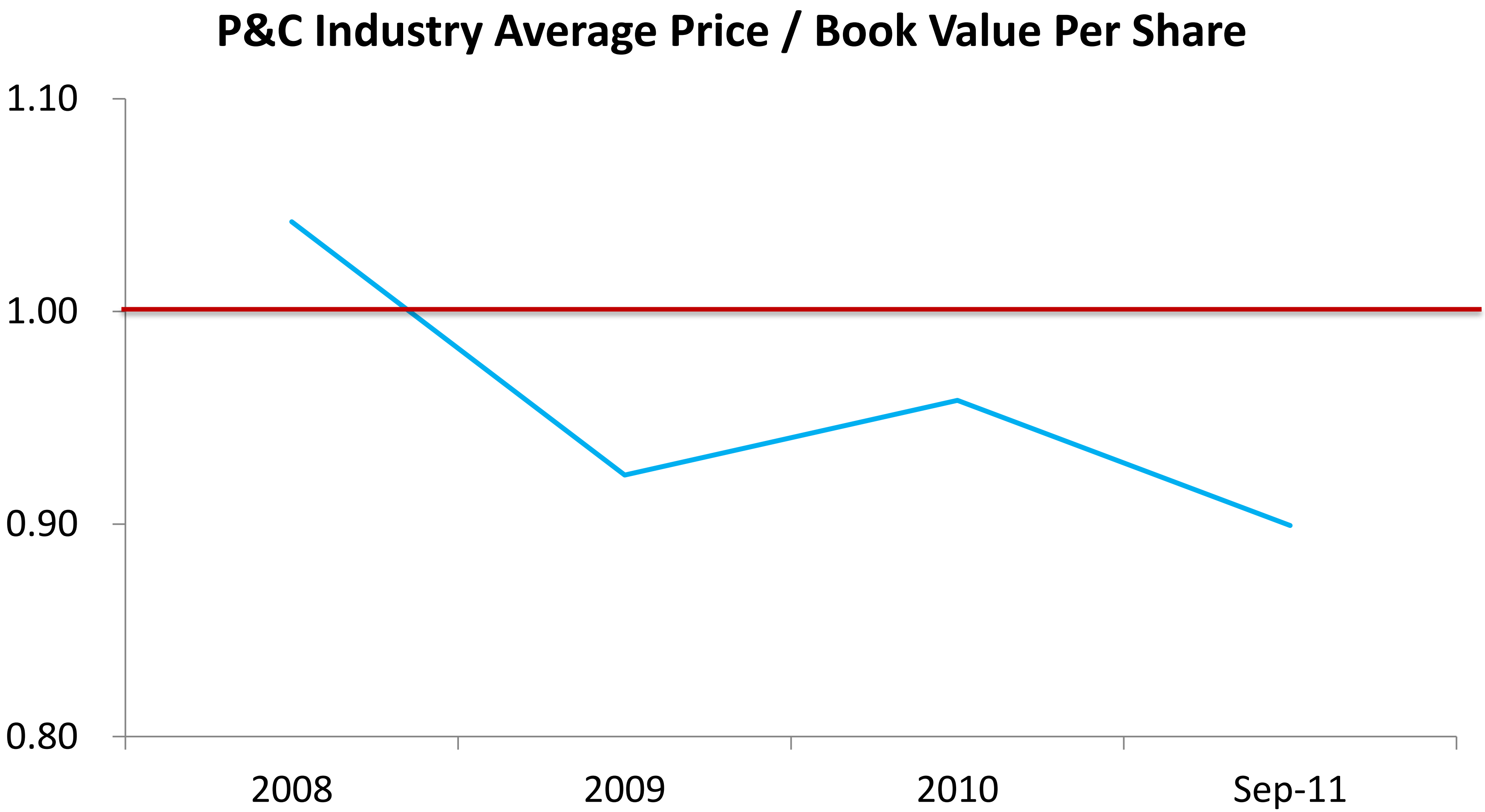
Source: AON Benfield, with permission

3. Teams of People are Available and they can be Much Cheaper than Deals

2. Valuations have Been Below Book for 3 Years - Not Sure you can do a MOE Below Book Value



1. Shareholders Just Want you to Buy Back Stock

- Current Price to Book –> 80%
- Discount to Book –> 20%
- Return on Buying your own Stock –> 20/80 = 25%

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1. Shareholders Just Want you to Buy Back Stock (continued)

Many investors believe that absent being able to demonstrate a potential return greater than the return on buying back stock, you should *only* buy back stock.

So What Does it Mean?

We will likely see some activity of "distressed" or "limited protect" companies until such time as we get some movement in valuations.

If valuations move up (or down) sharply, activity could increase.

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