

ALLIED WORLD ASSURANCE CO HOLDINGS LTD

Form DEF 14A

March 21, 2008

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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.

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(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):

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- (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
27 Richmond Road
Pembroke HM 08, Bermuda**

**NOTICE OF 2008 ANNUAL GENERAL MEETING
TO BE HELD ON MAY 8, 2008**

March 21, 2008

To Our Shareholders:

The 2008 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 8, 2008 at the Company s corporate headquarters, 27 Richmond Road, Pembroke HM 08, Bermuda, for the following purposes:

To elect two Class I Directors to hold office until the Company s Annual General Meeting in 2011 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. subsidiaries;

To approve the Allied World Assurance Company Holdings, Ltd Second Amended and Restated 2001 Employee Stock Option Plan;

To approve the Allied World Assurance Company Holdings, Ltd Second Amended and Restated 2004 Stock Incentive Plan;

To approve the Allied World Assurance Company Holdings, Ltd 2008 Employee Share Purchase Plan;

To approve and adopt the Second Amended and Restated Bye-laws of Allied World Assurance Company Holdings, Ltd;

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 2009; 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 12, 2008 are entitled to vote at the Annual General Meeting and at any adjournment or postponement thereof.

Please sign, date and return the enclosed proxy 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 2008 Annual General Meeting of the Company's shareholders to be held at 10:00 a.m., local time, on Thursday, May 8, 2008 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 21, 2008. A copy of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2007 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 12, 2008, 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 12, 2008, there were outstanding 46,555,926 Voting Shares and 13,960,578 Non-Voting Shares.

Q: What will I be voting on?

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

1. To elect two Class I directors to hold office until the Company's Annual General Meeting in 2011 or until their successors are duly elected and qualified or their office is otherwise vacated;

2. To approve certain individuals as eligible subsidiary directors of certain of the Company's non-U.S. subsidiaries;
3. To approve the Allied World Assurance Company Holdings, Ltd Second Amended and Restated 2001 Employee Stock Option Plan;
4. To approve the Allied World Assurance Company Holdings, Ltd Second Amended and Restated 2004 Stock Incentive Plan;
5. To approve the Allied World Assurance Company Holdings, Ltd 2008 Employee Share Purchase Plan;

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6. To approve and adopt the Second Amended and Restated Bye-laws of Allied World Assurance Company Holdings, Ltd; and

7. 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 2009.

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:

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

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

3. **FOR** approval of the Allied World Assurance Company Holdings, Ltd Second Amended and Restated 2001 Employee Stock Option Plan;

4. **FOR** approval of the Allied World Assurance Company Holdings, Ltd Second Amended and Restated 2004 Stock Incentive Plan;

5. **FOR** approval of the Allied World Assurance Company Holdings, Ltd 2008 Employee Share Purchase Plan;

6. **FOR** approval and adoption of the Second Amended and Restated Bye-laws of Allied World Assurance Company Holdings, Ltd; and

7. **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 instructions form with this Proxy Statement that you may use to instruct 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 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 brokerage and other custodians, nominees and fiduciaries forward solicitation materials to the beneficial owners of Voting Shares and will reimburse the 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, sign and return each proxy card you receive.

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Q: What happens if I do not indicate how to vote by proxy?

A: If no instructions are provided in an executed proxy, 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; *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 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 nominees for election as Class I 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.

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 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 outstanding Voting Shares, in the manner provided in the Company's 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

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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 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.

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, 2007.

Q: Who pays the costs of soliciting proxies?

A: The cost of 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 brokers, custodians, nominees and other parties, and the Company expects to reimburse such parties for their charges and expenses. D.F. King & Co., Inc. and W.F. Doring & Co., Inc. have been retained to assist the Company in the solicitation of proxies at a fee not expected to exceed \$6,500 and \$1,500, respectively, plus out-of-pocket expenses.

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, 2007, filed with the Securities and Exchange Commission (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 12, 2008, 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 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.

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(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. Two director nominees are being presented for election at the Annual General Meeting to serve as Class I Directors until the Annual General Meeting in 2011 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 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.

Mark R. Patterson (age 56) 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.

Samuel J. Weinhoff (age 57) 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 following individuals are the Company's continuing directors:

| Name | Position | Term Expires |
|-----------------------|--------------------|---------------------|
| Scott A. Carmilani | Class III Director | 2009 |
| James F. Duffy | Class III Director | 2009 |
| Bart Friedman | Class III Director | 2009 |
| Michael I.D. Morrison | Class II Director | 2010 |
| Scott Hunter | Class II Director | 2010 |

It is with deep regret that the Company reports the passing of Mr. Philip D. DeFeo. As a Board member of the Company, Mr. DeFeo provided invaluable guidance to the Company.

Scott A. Carmilani (age 43) was elected our President and Chief Executive Officer in January 2004 and became a director in September 2003. As of January 1, 2008, Mr. Carmilani was also appointed Chairman of the Board.

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.

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James F. Duffy (age 64) 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 63) was appointed to the Board in March 2006 and was elected Deputy Chairman of the Board effective in July 2006. As of January 1, 2008, Mr. Friedman was also appointed Lead Independent Director of the Board. 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.

Michael I.D. Morrison (age 78) has been one of our directors since November 2001 and served as Chairman of the Board from July 2006 through December 2007. He currently also serves as a consultant to the Company. Mr. Morrison was our Vice Chairman from January 2004 to October 2004. Prior to this, Mr. Morrison served as our President and Chief Executive Officer from the inception of our Company in November 2001. He also served as a consultant to AIG from July 1997 to November 2001. Before this, he held various positions with AIG or its subsidiaries, including Vice Chairman of American Home Assurance Company and Senior AIG Executive for broker relations. He also served as General Manager for American International Underwriters Overseas Association's China Division from July 1994 to June 1997, where he was based in Shanghai. He also served as Director of Domestic Branch Operations from 1983 to 1988, President of American Home Assurance Company from 1978 to 1983 and President of Commerce and Industry Insurance Company from 1976 to 1978. Mr. Morrison joined the property-underwriting department of American Home Assurance Company in 1964 and was appointed manager in 1969. He was a broker and an underwriter in the Lloyd's market from 1953 to 1959, and a New York broker from 1959 to 1963.

Scott Hunter (age 56) 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.

The Board has determined that Messrs. Duffy, Friedman, Hunter, Patterson and Weinhoff are independent under the listing standards of the New York Stock Exchange (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 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 was attached as an appendix to the Company's Proxy Statement filed with the SEC on October 19, 2006.

Meetings and Committees of the Board

During the year ended December 31, 2007, 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 Messrs. Patterson and Weinhoff. Our non-management directors meet separately from the other directors in an executive session at least quarterly.

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Mr. Carmilani, our President and Chief Executive Officer, was appointed Chairman of the Board in January 2008. Concurrent with this appointment, the Board appointed Mr. Friedman, our Deputy Chairman of the Board, to serve as its Lead Independent Director. 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;

servicing 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;

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.

Michael I.D. Morrison, our Chairman of the Board during 2007, served as the presiding director of the executive sessions of our non-management directors held in 2007. As Mr. Morrison is not an independent director, in accordance with NYSE Rule 303A.03, we held one executive session in 2007 with only our independent directors. During this executive session, Mr. Friedman, our Deputy Chairman of the Board, served as the presiding director.

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. During 2007, the Audit Committee held five meetings, the Compensation Committee held five meetings, the Nominating & Corporate Governance Committee held four meetings, the Executive Committee held no meetings and the Investment 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 under Corporate Governance Charters. 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 is available on our website at www.awac.com under Corporate Governance Guidelines and Corporate Governance Codes of Ethics. 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), 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 of Messrs. Hunter, Duffy and Weinhoff 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. Patterson (Chairman), Friedman and Hunter. 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.

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.

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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 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.

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 2009 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 2009 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, Company officers and others. 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.

Director Compensation

The following table provides information concerning the compensation of the Company's non-employee directors for fiscal year 2007.

Non-Employee Directors Compensation

| Name | Fees Earned or Paid in Cash | Stock Awards(1) | All Other Compensation | Total(4) |
|-----------------------|--|----------------------------|-----------------------------------|-----------------|
| Michael I.D. Morrison | \$ 59,000 | \$ 149,989 ⁽²⁾ | \$ 158,771 ⁽³⁾ | \$ 367,760 |
| Bart Friedman | \$ 74,000 | \$ 83,723 | | \$ 157,723 |

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| | | | |
|--------------------|-----------|-----------|------------|
| Philip D. DeFeo | \$ 64,500 | \$ 64,989 | \$ 129,489 |
| James F. Duffy | \$ 66,000 | \$ 81,241 | \$ 147,241 |
| Scott Hunter | \$ 94,500 | \$ 83,723 | \$ 178,223 |
| Mark R. Patterson | \$ 76,000 | \$ 83,723 | \$ 159,723 |
| Samuel J. Weinhoff | \$ 58,500 | \$ 81,241 | \$ 139,741 |

(1) As of December 31, 2007, an aggregate of 26,791 restricted stock units (RSUs) were outstanding and held by our non-employee directors as follows: Mr. Morrison holds an aggregate of 11,494 RSUs; Mr. Friedman holds an aggregate of 3,147 RSUs; Mr. Duffy holds an aggregate of 2,928 RSUs; Mr. Hunter holds an aggregate of

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3,147 RSUs; Mr. Patterson holds an aggregate of 3,147 RSUs; and Mr. Weinhoff holds an aggregate of 2,928 RSUs. All of Mr. DeFeo's 1,494 RSUs vested upon his death in November 2007 in accordance with the terms of the Allied World Assurance Company Holdings, Ltd Amended and Restated 2004 Stock Incentive Plan (the "Stock Incentive Plan"). In March 2006, Messrs. Friedman, Hunter and Patterson each received 2,204 RSUs and in July 2006, Messrs. Duffy and Weinhoff each received 1,912 RSUs. The RSUs issued in March 2006 to Messrs. Friedman, Hunter and Patterson were revalued in July 2006 as a result of a modification to the Stock Incentive Plan combined with the initial public offering of our Common Shares (the "IPO"). The revised grant date fair value of each of these RSUs was based on the IPO price of \$34.00 per share, and totaled \$74,936 for each of these directors. The RSUs issued to Messrs. Duffy and Weinhoff in July 2006 had a grant date fair value of \$34.00 per RSU for a fair value of \$65,000 for each of these directors. On January 3, 2007, Messrs. DeFeo, Duffy, Friedman, Hunter, Morrison, Patterson and Weinhoff each received 1,494 RSUs as part of their director compensation arrangement. The grant date fair value of each of these RSUs was \$43.50 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 9(b) of the Company's consolidated financial statements contained in the Form 10-K for the year ended December 31, 2007, as filed with the SEC.

- (2) Mr. Morrison received 10,000 RSUs in May 2004 when he was our Vice Chairman. To date, no portion of these RSU awards has vested. These RSUs were revalued in July 2006 as a result of a modification in the Stock Incentive Plan combined with the IPO. Their total fair value of \$340,000 is being expensed on a straight-line basis over the four-year vesting period from May 2004 in accordance with FAS 123(R). 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 FAS 123(R) and does not correspond to the actual value that may be recognized by this director.
- (3) In October 2004, we entered into a consulting agreement with Mr. Morrison, who presently serves on our Board, pursuant to which he receives \$150,000 annually. In 2007, we also paid health benefits on behalf of Mr. Morrison and his wife. These amounts are shown in the "All Other Compensation" column above.
- (4) In 2007, our non-employee directors received no non-equity incentive plan compensation. In addition, in 2007, we did not have any pension or deferred compensation plans for our non-employee directors. Accordingly, these columns are not included in the "Non-Employee Directors Compensation" table above.

Since March 1, 2006, directors who are not our employees have been paid the following aggregate fees for serving as directors of both the Company and Allied World Assurance Company, Ltd:

\$45,000 annually for serving as a director; and

\$1,500 per meeting attended by a director (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).

Additionally, we provide to all non-employee directors reimbursement of expenses incurred in connection with their service on the Board, including the reimbursement of director educational expenses. Commencing in January 2007, each non-employee director receives an annual equity award of RSUs of the Company worth \$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. The RSUs were, and will be, awarded to our

non-employee directors pursuant to the Stock Incentive Plan and were, and will be, granted on similar terms and conditions as those granted to our employees generally. On January 3, 2007, each of our non-employee directors received 1,494 RSUs. In 2008, 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 2007 year-end financial statements. Accordingly, on February 28, 2008, each of our non-employee directors received 1,502 RSUs.

The Compensation Committee recently approved an increase in the annual fee that the non-employee directors on the Board are entitled to receive. Commencing in 2008, each non-employee director will receive an aggregate

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annual retainer of \$55,000 for serving as a director of the Company and Allied World Assurance Company, Ltd. The meeting attendance fees and the dollar amount of RSU awards to be granted annually to the non-employee directors remain unchanged.

Committee Fees

An attendance fee of \$1,500 is paid to each committee member who is not an employee of the Company 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. The Chairman of the Audit Committee of both the Company and Allied World Assurance Company, Ltd received an annual retainer of \$15,000 in 2007. All other committee chairmen of both the Company and Allied World Assurance Company, Ltd receive an annual retainer of \$8,000.

The Compensation Committee recently approved changes to the annual retainers received by committee chairmen and other non-employee directors on the Board. Commencing in 2008, the Chairman of the Audit Committee of both the Company and Allied World Assurance Company, Ltd will receive an annual retainer of \$25,000, and each other member of the Audit Committee will receive an annual retainer of \$10,000. In addition, our Lead Independent Director will receive an annual retainer of \$15,000.

Stock Ownership Policy

In order to promote equity ownership and further align the interests of the Board with our shareholders, in 2007 the Board adopted a stock ownership policy for all non-employee directors. Under this policy, non-employee 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. 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. subsidiaries (excluding Allied World Assurance Company, Ltd) unless such person has been approved by the Company's shareholders. The individuals identified below have been nominated to serve as Eligible Subsidiary Directors for certain of our non-U.S. subsidiaries.

Your Board 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 Holdings (Ireland) Ltd

Scott A. Carmilani
John Clifford
Wesley D. Dupont

Hugh Governey
Michael I.D. Morrison
John T. Redmond

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Allied World Assurance Company (Europe) Limited

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

Allied World Assurance Company (Reinsurance) Limited

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

Newmarket Administrative Services (Bermuda), Ltd

Scott A. Carmilani
Joan H. Dillard
Wesley D. Dupont
Richard E. Jodoin

Newmarket Administrative Services (Ireland) Limited

Scott A. Carmilani
John Clifford
Hugh Governey
John T. Redmond

J. Michael Baldwin (age 66) 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.

John Clifford (age 58) has been 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.

Wesley D. Dupont (age 39) 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

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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.

Joan H. Dillard, CMA (age 56), 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.

Hugh Governey (age 65) 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 at 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.

Richard E. Jodoin (age 56) has been the President of Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company since July 2002. Prior to joining Allied World Assurance Company (U.S.) Inc., Mr. Jodoin was employed by Lexington Insurance Company in various positions for 17 years, and served as Executive Vice President from 1994 until July 2002.

Michael I.D. Morrison. Please see Mr. Morrison's biography under Election of Directors elsewhere in this Proxy Statement.

John T. Redmond (age 52) 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.

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**APPROVAL OF THE ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
SECOND AMENDED AND RESTATED 2001 EMPLOYEE STOCK OPTION PLAN
(Item C on Proxy Card)**

At the Annual General Meeting, the Company's shareholders will be asked to approve a second amendment to and restatement of the Allied World Assurance Company Holdings, Ltd Amended and Restated 2001 Employee Stock Option Plan. The Board unanimously approved the Second Amended and Restated 2001 Employee Stock Option Plan (which we refer to as the Amended Plan for purposes of this proposal only) on February 28, 2008 and recommends that the Company's shareholders approve and adopt the Amended Plan. The Amended Plan will become effective upon the approval of the Company's shareholders.

In 2001, the Company implemented the Allied World Assurance Holdings, Ltd 2001 Employee Warrant Plan (the Warrant Plan), under which up to 2,000,000 of our Common Shares could be issued. On June 9, 2006, the Company amended and restated the Warrant Plan and renamed it the Allied World Assurance Company Holdings, Ltd Amended and Restated 2001 Employee Stock Option Plan (which we refer to as the Current Plan for purposes of this proposal only). Among other things, the amendment and restatement on such date extended the term of the Current Plan to June 9, 2016, required that any repricing of awards under the Current Plan be approved by our shareholders and provided the Compensation Committee additional flexibility with respect to awards in certain corporate events. The warrants that were granted under the Warrant Plan were converted to options under the Current Plan as part of our IPO.

Your Board recommends approval of the Amended Plan to:

Increase by 2,000,000 Common Shares (from 2,000,000 to 4,000,000) the total number of our Common Shares that may be issued;

Prohibit our Common Shares from becoming available for issuance under the Amended Plan once they are surrendered or withheld in connection with:

satisfying an option holder's income tax withholding obligations, or

paying the exercise price of the option;

Prohibit the Company from adversely affecting an option holder's rights with respect to an outstanding option without such option holder's consent;

Extend the termination date from June 9, 2016 to May 8, 2018, after which date no awards may be granted.

As compared to the Current Plan, additional changes under the Amended Plan include increasing limits on the maximum number of our Common Shares as to which options may be granted to any one person in any one year; eliminating restrictions prohibiting the granting of options to any one person with respect to which the number of our Common Shares underlying options granted to such person exceeds, in the aggregate, 9% of our Common Shares authorized for issuance; and making a technical correction to the determination of fair market value of our Common Shares from the average high and low bid prices on the date of grant to the closing price of the Common Shares on the date of grant.

The following summary of the Amended Plan is qualified in its entirety by express reference to the text of the Amended Plan, a copy of which is attached as *Appendix A* to this Proxy Statement. For more information about our Current Plan, our Stock Incentive Plan and our Amended and Restated Long-Term Incentive Plan (the LTIP), please see Executive Compensation Narrative Disclosure Regarding Equity Plans and Employment Agreements elsewhere in this Proxy Statement.

General

The purposes of the Amended Plan are to provide certain officers, directors, employees, prospective employees, consultants and others who perform services for the Company with the opportunity to acquire a proprietary interest in the success of the Company, to enhance the long-term performance of the Company and to attract to the Company and its subsidiaries and affiliates people with superior training, experience and ability. The Board believes that the Amended Plan furthers these purposes by making available sufficient shares to permit future

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awards by the Compensation Committee as a part of the Company's compensation program and believes that the Amended Plan is important to the success of the Company.

As of February 29, 2008, approximately 300 individuals would be eligible to participate in the Amended Plan. The closing price of the Common Shares on the NYSE on February 29, 2008 was \$43.55 per share.

Administration

As with the Current Plan, the Amended Plan will be administered by the Compensation Committee, which will have the authority to establish rules and regulations for the administration of the Amended Plan; to take any action in connection with the Amended Plan that it deems necessary or advisable; to determine who shall receive awards and under what terms; to determine whether, to what extent, and under what circumstances and methods awards may be settled, canceled, forfeited or suspended; to determine whether awards may be settled in Common Shares or cash or other property; and to determine whether amounts payable under an award may be deferred. The determination of the Compensation Committee on all matters relating to the Amended Plan will be final and binding.

Awards; Adjustments

The Amended Plan provides for the grants of options to purchase Common Shares. The terms and conditions of options granted under the Amended Plan are set out in option agreements between the Company and the individuals receiving such options, including vesting conditions, exercise price and the expiration date of the options, as well as the treatment of such options upon a termination of employment or service with the Company. All options granted under the Amended Plan are non-qualified stock options which are not intended to qualify as incentive stock options subject to favorable tax treatment under Section 422 of the Code. The exercise price of an option may not be less than the fair market value of our Common Shares on the date the award is granted. Options may be granted with an exercise period lasting not more than ten years from the date of grant. Except as otherwise provided in an option agreement, no option may be exercised after the holder's termination of employment or service with the Company, except that (i) if such termination of employment or service is on or after the holder's 65th birthday or is due to such holder's death or disability, the entire option may be exercised by the holder or his beneficiary at any time within the original term of the option, whether or not such option was exercisable at the time of such termination; and (ii) if such termination of employment or service is prior to the holder's 65th birthday or not due to such holder's death or disability, only that portion of such holder's options that were exercisable as of the date of such termination may be exercised after the date of such termination, and only during the 90-day period following such termination.

As with the Current Plan, under the Amended Plan the Compensation Committee will have the authority to make appropriate adjustments to the exercise price and other terms of any outstanding options in the event of changes to the Common Shares by reason of capital adjustments, such as stock splits and recapitalizations. In the event of a merger, amalgamation, consolidation, reorganization, liquidation or sale of a majority of the Company's securities, 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.

Shares Subject to the Amended Plan

Subject to the requisite affirmative shareholder vote at the Annual General Meeting, the total number of Common Shares reserved for issuance under the Amended Plan is 4,000,000. During any time that the Company is subject to Section 162(m) of the Code, the maximum number of Common Shares with respect to which awards may be granted to any individual in any one year shall not exceed the maximum number of Common Shares available for issue under the Amended Plan. Common Shares granted pursuant to the Amended Plan may be authorized but unissued Common

Shares or authorized and issued Common Shares held by the Company or acquired by the Company for the purposes of the Amended Plan.

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Amendment and Termination

Except as otherwise provided in an option agreement, the Board retains the right to amend, suspend or terminate the Amended Plan, and the Compensation Committee may amend the terms of any option provided that such amendment may not adversely affect an option holder's rights with respect to an outstanding option without his or her consent. In addition, no award may be amended if such amendment would constitute a repricing or similar event unless first approved by our shareholders.

Nonassignability; No Hedging

As with the Current Plan, no award to any person under the Amended Plan may be assigned, transferred or hedged in any manner (except as expressly approved by the Compensation Committee), other than by will or by the laws of descent and distribution, and all such awards shall be exercisable during the life of the option grantee only by the grantee or the grantee's legal representative. Any assignment or transfer in violation of the applicable provisions of the Amended Plan shall be null and void and any award that is hedged in any manner shall immediately be forfeited.

U.S. Federal Income Tax Consequences

The following is a brief discussion of the U.S. federal income tax consequences of transactions with respect to options granted under the Amended Plan based on the Code, as in effect as of the date of this summary. This discussion is not intended to be exhaustive and does not describe any foreign, state or local tax consequences. Holders of options under the Amended Plan should consult with their own tax advisors.

No income is realized by an optionee at the time an option is granted. Generally, at exercise, ordinary income is realized by the optionee in an amount equal to the excess, if any, of the fair market value of the Common Shares subject to such option on such date over the exercise price, and the Company is generally entitled to a tax deduction in the same amount, subject to applicable tax withholding requirements. Upon a sale of Common Shares acquired due to the exercise of an option, appreciation (or depreciation) after the date of exercise is treated as either short-term or long-term capital gain (or loss) depending on how long the Common Shares have been held.

New Plan Benefits

The grant of options under the Amended Plan is entirely within the discretion of the Compensation Committee and we cannot forecast the extent to which such grants will be made in the future. Therefore, we have omitted the tabular disclosure of the benefits or amounts allocated under the Amended Plan.

Your Board recommends a vote FOR the approval of the Allied World Assurance Company Holdings, Ltd Second Amended and Restated 2001 Employee Stock Option Plan.

APPROVAL OF THE ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD SECOND AMENDED AND RESTATED 2004 STOCK INCENTIVE PLAN (Item D on Proxy Card)

At the Annual General Meeting, the Company's shareholders will be asked to approve a second amendment to and restatement of the Allied World Assurance Company Holdings, Ltd Amended and Restated 2004 Stock Incentive Plan. The Board unanimously approved the Second Amended and Restated 2004 Stock Incentive Plan (which we refer to as the Amended Stock Incentive Plan for purposes of this proposal only) on February 28, 2008 and recommends that the Company's shareholders approve and adopt the Amended Stock Incentive Plan. The Amended Stock Incentive Plan will become effective upon the approval of the Company's shareholders.

On June 9, 2006, the Company amended and restated the Allied World Assurance Holdings, Ltd 2004 Stock Incentive Plan and renamed it the Allied World Assurance Company Holdings, Ltd Amended and Restated 2004 Stock Incentive Plan (which we refer to as the Current Stock Incentive Plan for purposes of this proposal only).

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Your Board recommends approval of the Amended Stock Incentive Plan to:

Increase the limits on the maximum number of our Common Shares as to which awards may be granted to any one person in any one year, provided that the maximum number of shares that may be issued under the Plan will not change; and

Extend the termination date from May 27, 2014 to May 8, 2018, after which date no awards may be granted.

The following summary of the Amended Stock Incentive Plan is qualified in its entirety by express reference to the text of the Amended Stock Incentive Plan, a copy of which has been marked to indicate changes from the Current Stock Incentive Plan and is attached as *Appendix B* to this Proxy Statement. For more information about our Current Stock Incentive Plan, our Amended and Restated 2001 Employee Stock Option Plan and our LTIP, please see Executive Compensation Narrative Disclosure Regarding Equity Plans and Employment Agreements elsewhere in this Proxy Statement.

The changes discussed above are the only changes being proposed to the Current Stock Incentive Plan.

General

The purposes of the Amended Stock Incentive Plan are to attract, retain and motivate officers, directors, employees (including prospective employees), consultants and others who may perform services for the Company, to compensate them for their contributions to the long-term growth and profits of the Company, and to encourage them to acquire a proprietary interest in the success of the Company. The Board believes that the Amended Stock Incentive Plan furthers these purposes by removing limits on the maximum number of our Common Shares that the Compensation Committee may award to a participant under this plan as a part of the Company's compensation program and believes that the Amended Stock Incentive Plan is important to the success of the Company.

As of February 29, 2008, approximately 300 individuals would be eligible to participate in the Amended Stock Incentive Plan. The closing price of the Common Shares on the NYSE on February 29, 2008 was \$43.55 per share.

Administration

As with the Current Stock Incentive Plan, the Amended Stock Incentive Plan will be administered by the Compensation Committee, which will have the authority to establish rules and regulations for the administration of the Amended Stock Incentive Plan; to take any action in connection with the Amended Stock Incentive Plan that it deems necessary or advisable; to determine who shall receive awards and under what terms; to amend any outstanding awards; to determine whether, to what extent, and under what circumstances and methods awards may be settled, cancelled, forfeited or suspended; to determine whether awards may be settled in Common Shares or cash or other property; and to determine whether amounts payable under an award may be deferred. The determination of the Compensation Committee on all matters relating to the Amended Stock Incentive Plan will be final and binding.

Awards; Adjustments

As with the Current Stock Incentive Plan, the Amended Stock Incentive Plan provides for the grant of restricted Common Shares, RSUs, dividend equivalent rights and other equity-based or equity-related awards. The terms and conditions of any such awards granted under the Amended Stock Incentive Plan are set out in award agreements between the Company and the individuals receiving such awards. No options to purchase Common Shares may be granted under the Amended Stock Incentive Plan. Only RSUs have been granted under the Current Stock Incentive Plan.

As with the Current Stock Incentive Plan, under the Amended Stock Incentive Plan, the Compensation Committee will have the authority to make appropriate adjustments to the number of Common Shares authorized for issuance under the Amended Stock Incentive Plan, the number of Common Shares covered by each outstanding award and the type of property to which an award is subject, in each case in such manner as it deems appropriate to preserve the benefits intended to be made available to grantees of awards for any changes to the Common Shares by reason of capital adjustments, such as stock splits and recapitalizations. In the event of a merger, amalgamation,

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consolidation, reorganization, liquidation or sale of a majority of the Company's securities, 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.

Shares Subject to the Amended Stock Incentive Plan

The total number of Common Shares reserved for issuance under the Amended Stock Incentive Plan is 2,000,000, which is unchanged from the Current Stock Incentive Plan. During any time that the Company is subject to Section 162(m) of the Code, the maximum number of Common Shares with respect to which awards may be granted to any individual in any one year shall not exceed the maximum number of Common Shares available for issue under the Amended Stock Incentive Plan. Common Shares granted pursuant to the Amended Stock Incentive Plan may be authorized but unissued Common Shares or authorized and issued Common Shares acquired by the Company for the purposes of the Amended Stock Incentive Plan.

Amendment and Termination

Except as otherwise provided in an award agreement, the Board retains the right to suspend, discontinue, revise or amend the Amended Stock Incentive Plan without any grantee's consent, including in any manner that may adversely affect a grantee's rights with respect to an outstanding award.

Nonassignability; No Hedging

As with the Current Stock Incentive Plan, no award to any person under the Amended Stock Incentive Plan may be assigned, transferred or hedged in any manner (except as expressly approved by the Compensation Committee), other than by will or by the laws of descent and distribution, and all such awards shall be exercisable during the life of the grantee only by the grantee or the grantee's legal representative. Any assignment or transfer in violation of the applicable provisions of the Amended Stock Incentive Plan shall be null and void, and any award that is hedged in any manner shall immediately be forfeited.

New Plan Benefits

The grant of awards under the Amended Stock Incentive Plan is entirely within the discretion of the Compensation Committee and we cannot forecast the extent to which such grants will be made in the future. Therefore, we have omitted the tabular disclosure of the benefits or amounts allocated under the Amended Stock Incentive Plan.

Your Board recommends a vote FOR the approval of the Allied World Assurance Company Holdings, Ltd Second Amended and Restated 2004 Stock Incentive Plan.

APPROVAL OF THE ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD 2008 EMPLOYEE SHARE PURCHASE PLAN (Item E on Proxy Card)

At the Annual General Meeting, the Company's shareholders will be asked to approve the Company's 2008 Employee Share Purchase Plan (the "Share Purchase Plan"). The Board unanimously approved the Company's Share Purchase Plan on February 28, 2008 and recommends that the Company's shareholders approve and adopt the Share Purchase Plan. The Share Purchase Plan will become effective upon the approval of the Company's shareholders.

The Company is seeking shareholder approval of the Share Purchase Plan in order to comply with the requirements of Section 423 of the Code and in order that the Share Purchase Plan qualify as an employee share purchase plan thereunder. In the event that the Company's shareholders do not approve the Share Purchase Plan, it will not qualify as an employee share purchase plan under Section 423 of the Code, and no offerings will be made. The Company has reserved for issuance under the Share Purchase Plan 1,000,000 Common Shares.

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The following summary of the Share Purchase Plan is qualified in its entirety by express reference to the text of the Share Purchase Plan, a copy of which is attached as *Appendix C* to this Proxy Statement.

Eligibility and Participation

All employees of the Company and its subsidiaries are eligible to participate if they are employed by the Company or its subsidiaries for more than 20 hours per week and for more than five months in any calendar year. However, no employee is eligible to participate who, after the grant of options under the Share Purchase Plan, would own (including all Common Shares which may be purchased under any outstanding options under the Share Purchase Plan) 5% or more of the total Voting Shares issued and outstanding. The purposes of the Share Purchase Plan 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 Share Purchase Plan provides for consecutive six-month offering periods (or other offering periods of not more than 27 months as determined by the Compensation Committee) under which participating employees can elect to have amounts withheld from their total compensation during the offering period and applied to purchase our Common Shares at the end of such offering period (each, an exercise date). An eligible employee may become a participant in the Share Purchase Plan for an offering period by completing a subscription agreement authorizing payroll deductions and filing it with the Company at least 15 business days prior to the first day of such offering period.

Payroll Deductions

A participating employee may authorize after-tax payroll deductions of a specific whole percentage of his or her compensation between 1% and 10%, subject to the limitation that no employee may purchase more than \$25,000 of the Common Shares in any one calendar year.

Payroll deductions will commence on the first payroll date on or following the commencement of an offering period and will end on the last payroll date in the offering period to which such subscription agreement applies, unless terminated sooner by the participating employee. Deductions are accumulated in the participating employee's account during the applicable offering period. In the event that any participating employee's payroll deductions exceed the limits under the Code, his or her payroll deductions will automatically be decreased until such limits are satisfied.

A participating employee may discontinue participation in the Share Purchase Plan at any time during the offering period prior to the exercise date. Once an offering period has begun, a participating employee may increase or decrease the rate of payroll deductions for that offering period by completing a new subscription agreement. The Compensation Committee may limit the number of rate changes that a participating employee may elect during any offering period.

Grant and Exercise of Option

The Company will grant to each participating employee an option, effective on each enrollment date, to purchase on the exercise date the number of full Common Shares that may be purchased with the accumulated payroll deductions in his or her account. Unless otherwise determined by the Compensation Committee before an offering period, the purchase price for each offering period will be 85% of the fair market value of the Common Shares on the exercise date. Unless a participant withdraws from the Share Purchase Plan, his or her option for the purchase of Common Shares will be exercised automatically on the exercise date.

Delivery; Transfer Restrictions

The Common Shares will be purchased by a participating employee directly from the Company and will be deemed to have been issued and sold at the close of business on the exercise date. As promptly as practicable after each exercise date on which a purchase of shares occurs, the Company will arrange for the full Common Shares purchased to be issued to each participant and the Company may arrange for the deposit of such Common Shares

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into each such participant's account with any broker designated by the Company to administer the Share Purchase Plan; *provided, however*, that no Participant shall be permitted to dispose of or transfer any Common Shares purchased pursuant to an option under the Share Purchase Plan prior to the date that is 12 months following the date upon which such Common Shares were so purchased, in which case the Compensation Committee may provide, in its sole discretion, that the Common Shares so purchased shall be held in book entry form, rather than delivered to the Participant, through the expiration of such 12-month period. If certificates representing the Common Shares are registered in the name of the Participant, the Compensation Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Common Shares and that the Company retain physical possession of the certificates.

Withdrawal; Termination of Employment

At any time prior to the exercise date, a participant may give written notice to the Company to withdraw payroll deductions credited to his or her account and not yet used to exercise his or her option. Once a participant withdraws, such participant's account balance will be distributed to him or her as soon as practicable, and no Common Shares will be purchased for such participant. Upon a participant's ceasing to be an employee of the Company or its subsidiaries for any reason, he or she will be deemed to have elected to withdraw from the Share Purchase Plan, and such participant's account balance will be distributed to him or her as soon as practicable, and no Common Shares will be purchased for such participant.

Administration

The Share Purchase Plan will be administered by the Compensation Committee of the Board. Subject to the provisions of the Share Purchase Plan, the Compensation Committee will have the authority to adopt rules and regulations for the interpretation and administration of the Share Purchase Plan. In addition, the Compensation Committee may adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Share Purchase Plan by employees who are foreign nationals or employed outside of the United States and to accommodate the specific requirements of the local laws and procedures of the relevant jurisdiction.

Adjustment Relating to Shares

The Compensation Committee will have the authority to adjust the number of Common Shares authorized for issuance under the Share Purchase Plan, the maximum number of Common Shares each participant may purchase in each offering period, and the price per Common Share and the number of Common Shares covered by each unexercised option for increases or decreases in the number of issued Common Shares resulting from a stock split, reverse stock split, stock dividend, recapitalization, combination or reclassification of the Common Shares, or any other event that the Compensation Committee determines affects our capitalization, other than regular cash dividends.

In the event the Company proposes to merge or amalgamate with or into another corporation or proposes to sell all or substantially all of its assets, each option under the Share Purchase Plan shall be assumed, or an equivalent option shall be substituted by the successor or amalgamated corporation. In the event that these options are not assumed or substituted, or in the event of the proposed dissolution or liquidation of the Company, the Compensation Committee may shorten the offering period then in progress and set a new exercise date to occur no later than immediately prior to the effective date of the applicable merger, amalgamation, sale, dissolution or liquidation.

Amendment and Termination of the Share Purchase Plan

The Board may at any time and for any reason terminate or amend the Share Purchase Plan. Amendments may be made without regard as to whether any participant's rights are adversely affected and without shareholder approval.

except as required to satisfy Section 423 of the Code. Except as provided above in Adjustments Relating to Shares , no termination may adversely affect options previously granted; provided, that an offering period may be terminated by the Board on any exercise date if it determines that the termination of the Share Purchase Plan is in the best interests of the Company and its shareholders.

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Term

The Share Purchase Plan became effective upon its adoption by the Board on February 28, 2008. Subject to approval by the shareholders of the Company, the Share Purchase Plan will continue in effect for a term of ten years thereafter unless all Common Shares authorized to be issued under it have been exhausted or the plan is otherwise terminated sooner.

U.S. Federal Income Tax Consequences

The following is a brief discussion of the U.S. federal income tax consequences of transactions under the Share Purchase Plan based on the Code, as in effect as of the date of this summary. The Share Purchase Plan is not qualified under Section 401(a) of the Code. This discussion does not address all aspects of U.S. federal income taxation and does not describe foreign, state, or local tax consequences. Participants in the Share Purchase Plan should consult with their own tax advisors.

Under Section 423(a) of the Code, the transfer to a participating employee of Common Shares pursuant to the Share Purchase Plan is entitled to the benefits of Section 421(a) of the Code. Under that section of the Code, a participant will not be required to recognize income at the time the option is granted or at the time the option is exercised. Section 423(c) of the Code requires that, provided the holding periods described below are met, when the Common Shares acquired during an offering period pursuant to the Share Purchase Plan are sold or otherwise disposed of in a taxable transaction (or in the event of the death of the participant while owning such shares whether or not the holding period requirements are met), the participant will recognize income subject to U.S. federal income tax as ordinary income for the taxable year in which disposition or death occurs in an amount equal to the lesser of (i) the excess of the fair market value of the Common Shares at the time of such disposition or death over the purchase price and (ii) the excess of the fair market value of the Common Shares on the enrollment date of the applicable offering period over the purchase price, determined on the enrollment date. Such recognition of income upon disposition shall have the effect of increasing the taxable basis of the shares in the participant's possession by an amount equal to the income subject to U.S. federal income tax. Any additional gain or loss resulting from the disposition, provided it is not a disqualifying disposition (as defined below), measured by the difference between the amount paid for the shares and the amount realized (less the amount recognized as income as described above), will be recognized by the participant as long-term capital gain or loss. No portion of the amount received pursuant to such a disposition will be subject to withholding for U.S. federal income taxes or subject to withholding under the U.S. Federal Insurance Contribution Act (FICA) or the U.S. Federal Unemployment Tax Act (FUTA).

The Company will not be entitled to any deduction in the determination of its taxable income with respect to the Share Purchase Plan, except in connection with a disqualifying disposition as discussed below.

In order for a participant to receive the favorable tax treatment provided in Section 421(a) of the Code, Section 423(a) of the Code requires that the participant make no disposition of the shares acquired during an offering period within two years from the enrollment date of an applicable offering period, or within one year from the exercise date of such offering period. If a participant disposes of Common Shares acquired pursuant to the Share Purchase Plan before the expiration of these holding period requirements, it will be deemed a disqualifying disposition and the participant will realize, at the time of disposition, ordinary income to the extent the fair market value of the Common Shares on the exercise date exceeds the purchase price. The difference between the fair market value of the Common Shares on the exercise date and the amount realized on disposition is treated as long-term or short-term capital gain or loss, depending on the participant's holding period in the Common Shares. The amount treated as ordinary income will not be subject to the income tax or FICA or FUTA withholding requirements of the Code.

New Plan Benefits

Because participation in the Share Purchase Plan is entirely within the discretion of the eligible employees of the Company and its subsidiaries, the Company cannot forecast the extent of participation in the future. Accordingly, the Company has omitted the tabular disclosure of the benefits or amounts allocated under the Share Purchase Plan.

Your Board recommends a vote FOR the approval and adoption of the Allied World Assurance Company Holdings, Ltd 2008 Employee Share Purchase Plan.

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**APPROVAL OF THE SECOND AMENDED AND RESTATED BYE-LAWS
OF ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
(Item F on Proxy Card)**

At the Annual General Meeting, the Company's shareholders will be asked to approve and adopt the Company's Second Amended and Restated Bye-Laws. Pursuant to Section 13(5) of the Companies Act 1981 of Bermuda, as amended (the Companies Act) and the Company's current Bye-Laws, any amendment to the Company's Bye-Laws must receive shareholder approval. The Board unanimously approved the Company's Second Amended and Restated Bye-Laws on February 28, 2008 and recommends that the Company's shareholders approve and adopt the Second Amended and Restated Bye-Laws. The Second Amended and Restated Bye-Laws will become effective upon the approval of the Company's shareholders.

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 Second Amended and Restated Bye-Laws, a copy of which has been marked to indicate changes from the Company's current Bye-Laws and is attached as *Appendix D* to this Proxy Statement.

Proposed Changes

The proposed Second Amended and Restated Bye-Laws provide greater flexibility to the Company to purchase its shares for cancellation because they allow such repurchases to be done only in a manner that the Board, in its sole and absolute discretion, reasonably believes would not result in, or materially increase the risk of, a material adverse regulatory or tax treatment of the Company, any subsidiary thereof or any shareholder in any jurisdiction. To provide for this ability, the proposed Second Amended and Restated Bye-Laws modify Bye-Law 11 and add a new Bye-Law 64(13) which clarifies that the transfer provisions in Bye-Law 64 shall not apply to purchases of shares by the Company pursuant to Bye-Law 11.

Additionally, the proposed Second Amended and Restated Bye-Laws revise the director and bye-law requirements relating to the Company's subsidiaries as set forth in Bye-Laws 90, 91, 92 and 93 of the Company's current Bye-Laws. These changes will make it easier for the Company to acquire and form any new insurance subsidiaries in the future. The proposed Second Amended and Restated Bye-Laws also make certain conforming and definitional changes to reflect the foregoing.

It is no longer a mandatory requirement of the Companies Act that deeds or other documents be executed under seal in order to be effective as a matter of Bermuda law. The requirements for issuing share certificates under seal have also been modernized to provide increased flexibility. The proposed Second Amended and Restated Bye-Laws amend Bye-Laws 86 and 87 of the Company's current Bye-Laws to provide the Company greater flexibility in terms of the use or non-use of its corporate seal.

Finally, the proposed Second Amended and Restated Bye-Laws also provide for certain technical amendments, specifically to Bye-law 51(4), and revise Bye-law 64 to give the Board sole and absolute discretion to decline to register a share transfer in certain circumstances, particularly if there is reason to believe that such transfer may expose, or materially increase the risk of, a material adverse regulatory or tax treatment of the Company, any subsidiary thereof or any shareholder in any jurisdiction.

Your Board recommends a vote FOR the approval and adoption of the Second Amended and Restated Bye-Laws of Allied World Assurance Company Holdings, Ltd.

APPOINTMENT OF INDEPENDENT AUDITORS
(Item G 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

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your Board has recommended the appointment of Deloitte & Touche as our independent auditors for the fiscal year ending December 31, 2008.

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 2009 for such compensation as the Audit Committee of your Board shall determine.

Fees to Independent Registered Public Accountants for Fiscal 2007 and 2006

The following table shows information about fees billed to us by Deloitte & Touche for services rendered for the fiscal years ended December 31, 2007 and 2006.

| | 2007 | 2006 |
|-----------------------|--------------|--------------|
| Audit Fees | \$ 3,307,800 | \$ 1,860,746 |
| Audit-Related Fees(1) | \$ | |
| Tax Fees(2) | \$ 2,699 | \$ 90,088 |
| All Other Fees(3) | \$ 233,577 | |

- (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 2006, Tax Fees are for work performed in the preparation of tax returns, tax planning and tax consulting for the Company's subsidiaries in the United States and Europe. In 2007, Tax Fees related to the transition to another firm of certain tax compliance services.
- (3) All Other Fees are fees related to technical consultations and services provided in relation to security 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 2007 and 2006.

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

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, 2007, 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, certain affiliates of The Goldman Sachs Group, Inc. (the Goldman Sachs Funds) and Securitas Allied Holdings, Ltd, an affiliate of Swiss Reinsurance Company. These investors purchased Common Shares and the shareholders listed below 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

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adjustment with respect to certain dilution events. The following table shows the ownership of warrants as of February 29, 2008:

| Holder | Warrants to Acquire Common Shares |
|--|--|
| American International Group, Inc. | 2,000,000 |
| The Chubb Corporation | 2,000,000 |
| GS Capital Partners 2000, L.P. | 848,113 |
| GS Capital Partners 2000 Offshore, L.P. | 308,172 |
| GS Capital Partners 2000 Employee Fund, L.P. | 269,305 |
| GS Capital Partners 2000, GmbH & Co. Beteiligungs KG | 35,449 |
| Stone Street Fund 2000, L.P. | 25,974 |
| Bridge Street Special Opportunities Fund 2000, L.P. | 12,987 |

Certain Business Relationships

We have assumed, and continue to assume, premiums from, and have paid, and continue to pay, production fees to affiliates of some of our shareholders. We also have ceded and assumed and will continue to cede and assume reinsurance to and from affiliates of some of our principal shareholders.

Transactions with Affiliates of American International Group, Inc.***Stock Purchase Agreement***

On December 14, 2007, we entered into a stock purchase agreement with AIG pursuant to which we purchased an AIG subsidiary whose sole asset was its holding of 11,693,333 Common Shares. These shares equated to approximately 19.4% of the Common Shares outstanding as of November 30, 2007. The purchase price per share was \$48.19 for an aggregate price of \$563.4 million and was based on and reflected a 0.5% discount from the volume-weighted average trading price of the Common Shares during the ten consecutive trading day period leading up to December 14, 2007.

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.

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

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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 aggregate fees for the year ended December 31, 2007 were \$1.0 million.

Deferred Compensation Plan

Scott A. Carmilani, President and Chief Executive Officer of the Company; W. Gordon Knight, President, U.S. Operations, Distribution and Marketing; and Richard E. Jodoin, President of Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company (formerly known as Newmarket Underwriters Insurance Company), participated in the Starr International Company, Inc. Deferred Compensation Profit Participation Plan in connection with services previously rendered to AIG prior to joining us.

Transactions with AIG in the Ordinary Course of Business

Our company either accepts or rejects 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 \$106.7 million for the year ended December 31, 2007, and we ceded premiums to subsidiaries of AIG during the same period of approximately \$13.3 million.

Transactions with Affiliates of the Goldman Sachs Funds

Investment Management Services

Certain affiliates of the Goldman Sachs Funds provide us with investment management services pursuant to several investment management agreements. Pursuant to these agreements, affiliates of the Goldman Sachs Funds manage substantially all of our investment portfolio. The investment management agreements are generally in force for an initial three-year term with subsequent one-year period renewals, during which they may be terminated by either party upon 60 days prior written notice. Each investment management agreement prohibits the investment manager from executing trades with or through itself or any of its affiliates acting as agent or principal. However, each investment management agreement does allow the investment manager to invest a portion of the portfolio in funds for which the investment manager or any of its affiliates serves as investment adviser, provided that these investments are made in

money market sweep or similar funds for the management of short-term cash balances in the account. We must pay all fees associated with these investments; however, these fees will be offset against the fee to be paid by us pursuant to the investment management agreements. With respect to Allied World Assurance Company, Ltd, the investment manager may also invest up to \$150 million in the Goldman Sachs Global High Yield Portfolio of the Goldman Sachs Funds SICAV and the restrictions and limits of our investment guidelines shall not apply to this investment. Mutual fund fees that will be deducted on both a monthly and quarterly basis will vary by fund and will include investment management fees, sales and distribution fees and operational expense fees. The aggregate fees for our investment in the Goldman Sachs Global High Yield Portfolio for the fiscal year ended

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December 31, 2007 were \$0.4 million. The investment manager is also authorized to effect cross transactions between our account and other accounts managed by the investment manager and its affiliates.

We pay affiliates of the Goldman Sachs Funds an annual fee of 0.12% on the first \$1 billion of our aggregate funds under management, 0.10% on the next \$1 billion of our aggregate funds under management and 0.08% on all of our aggregate funds managed greater than \$2 billion. A pro rata portion of these annual fees is payable quarterly. The total advisory fee for investment management services provided by affiliates of the Goldman Sachs Funds with respect to the investment management agreements totaled \$5.2 million for the year ended December 31, 2007. Our Investment Committee periodically reviews the performance of the investment managers under these investment management agreements.

Hedge Funds

Allied World Assurance Company, Ltd invested a total of \$57 million in shares of the Goldman Sachs Global Alpha Hedge Fund, plc (the Alpha Fund) in December 2004. The Alpha Fund is an Irish open-ended investment company registered under the Companies Act, 1990 of Ireland. The Alpha Fund's investment objective is to seek attractive long-term, risk-adjusted returns across a variety of market environments with volatility and correlations that are lower than those of the broad equity markets. The investment manager of the Alpha Fund is Goldman Sachs Asset Management, L.P., an affiliate of the Goldman Sachs Funds. The Alpha Fund pays the investment manager both a management fee and an incentive fee. The management fee is an annual asset-based fee of 2.0%, payable quarterly, and a 20% incentive fee is paid to the investment manager on the net capital appreciation of our shares. The aggregate fees for the year ended December 31, 2007 were \$0.9 million. On December 31, 2007, Allied World Assurance Company, Ltd sold its shares in the Alpha Fund.

Effective February 1, 2005, Allied World Assurance Company, Ltd invested \$62 million in shares of the Goldman Sachs Multi-Strategy Portfolio VI, Ltd. (the Portfolio VI Fund). Allied World Assurance Company, Ltd is the sole investor in the Portfolio VI Fund. The Portfolio VI Fund is a fund of hedge funds and is an exempted limited company incorporated under the laws of the Cayman Islands. The Portfolio VI Fund's investment objective is to seek attractive long-term, risk-adjusted absolute returns in U.S. dollars with volatility lower than, and minimal correlation to, the broad equity markets. The investment manager of the Portfolio VI Fund is Goldman Sachs Hedge Fund Strategies LLC, an affiliate of the Goldman Sachs Funds. Allied World Assurance Company, Ltd may request a redemption of all or some of its shares at any time or from time to time by giving notice; *provided, however*, that the aggregate net asset value of the remaining shares held by the redeeming shareholders is not less than \$30 million. The Portfolio VI Fund pays the investment manager both a management fee and an incentive fee. The management fee is an annual asset-based fee of 1.0%, 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. The aggregate fees for the year ended December 31, 2007 were \$1.2 million.

Allied World Assurance Company, Ltd invested a total of \$45 million in shares of the Goldman Sachs Liquid Trading Opportunities Fund Offshore, Ltd. (the Opportunity Fund) in December 2004. The Opportunity Fund is an exempted limited company incorporated under the laws of the Cayman Islands. The Opportunity Fund's investment objective is to seek attractive total returns through both capital appreciation and current return from a portfolio of investments mainly in currencies, publicly traded securities and derivative instruments, primarily in the fixed income and currency markets. The investment manager of the Opportunity Fund is Goldman Sachs Asset Management, an affiliate of the Goldman Sachs Funds. The Opportunity Fund pays the investment manager both a management fee and an incentive fee. The management fee is an annual asset-based fee of 1.0%, payable quarterly, and a 20% incentive fee is paid to the investment manager on the net capital appreciation of our shares. The aggregate fees for the year ended December 31, 2007 were \$0.4 million. On June 30, 2007, Allied World Assurance Company, Ltd sold its shares in the Opportunity Fund.

On August 20, 2007, Allied World Assurance Company, Ltd invested \$50 million in the Goldman Sachs Global Equity Opportunities Fund, plc (the Global Equity Fund). The Global Equity Fund is an open-ended investment company incorporated in Ireland as a public limited company. The fund seeks to achieve attractive total returns through both capital appreciation and current returns in the global equity market. The investment manager of the Global Equity Fund is Goldman Sachs Asset Management, L.P., an affiliate of the Goldman Sachs Funds. The Global Equity Fund allows for monthly liquidity with a 15-day notification period, after a six month initial lock-up. The fund pays the investment manager both a management fee and an incentive fee. The management fee is an

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annual asset-based fee of 1.5%, payable monthly, and a 20% incentive fee is paid to the investment manager on the net capital appreciation of our shares. The aggregate fees for the year ended December 31, 2007 were \$0.3 million. On February 29, 2008, Allied World Assurance Company, Ltd sold its shares in the Global Equity Fund.

Investment Banking Services

Pursuant to the Placement Agency Agreement, dated October 25, 2001, among the Company, AIG, Chubb and GS Capital Partners 2000, L.P., in the event we determine to undertake any transaction in connection with which we will utilize investment banking or financial advisory services, we have agreed to offer Goldman, Sachs & Co. (Goldman Sachs) directly or to one of its affiliates the right to act in such transaction as sole lead manager or agent in the case of any offering or placement of securities, lead arranger, underwriter and syndication agent in the case of any syndicated bank loan, or as sole advisors or dealer managers, as applicable in the case of any other transaction. If Goldman Sachs or any of its affiliates agrees to act in any such capacity, we will enter into an appropriate agreement with Goldman Sachs or its affiliate, as applicable, which will contain customary terms and conditions. These investment banking rights of Goldman Sachs shall terminate upon the earlier of (a) the sale, transfer or other disposition of our capital stock to one party, other than AIG, Chubb or GS Capital Partners 2000, L.P. or their respective affiliates, if as a result of such sale, transfer or other disposition such party holds more than 50% of our outstanding voting capital stock; (b) GS Capital Partners 2000, L.P., together with related investment funds, ceasing to retain in the aggregate ownership of at least 25% of its original shareholding in Allied World Assurance Company Holdings, Ltd (including any shares that may be issued upon the exercise of warrants); or (c) the second anniversary of our IPO. This arrangement may be terminated by us with cause, or without cause upon a change of control of Goldman Sachs. There were no fees incurred under this Placement Agency Agreement for the year ended December 31, 2007.

Transactions with Affiliates of The Chubb Corporation

Surplus Lines Agreement

Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company (formerly known as Newmarket Underwriters Insurance Company) are each party to a surplus lines agreement, effective June 11, 2002, with Chubb Custom Market, Inc., an affiliate of Chubb. Under these two agreements, Chubb Custom Market, Inc. underwrites surplus lines insurance on behalf of Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company, subject to underwriting guidelines provided by our U.S. subsidiaries. Under these agreements, Chubb Custom Market, Inc., on behalf of our U.S. subsidiaries, also processes applications, collects and remits premiums, issues quotes, policies and other insurance documentation, keeps records, secures and maintains insurance licenses and provides and trains employees to perform these services. Total fees and commissions incurred under these agreements for the year ended December 31, 2007 were \$0.4 million. The amount of premiums placed through these surplus lines agreements for the year ended December 31, 2007 totaled \$1.7 million. These agreements were terminated effective as of June 2007.

Transactions with Chubb in the Ordinary Course of Business

Our company either accepts or rejects 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 \$10.7 million for the year ended December 31, 2007, and we ceded premiums to subsidiaries of Chubb during the same period of approximately \$8.2 million.

Registration Rights

We executed a Registration Rights Agreement upon the closing of our IPO that provided AIG, Chubb, the Goldman Sachs Funds or 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

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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 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 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 2007. 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, 2008 regarding the beneficial ownership of our Common Shares by:

each person known by us to beneficially own more than 5% of our outstanding Common 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 2007 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) | | 3.3% |
| The Chubb Corporation 15 Mountain View Road Warren, NJ 07059 | 1,266,995 | 8,369,936(3) | 15.8% |
| GS Capital Partners 2000, L.P.(4) 85 Broad Street New York, NY 10004 | | 4,745,198(5) | 7.8% |
| GS Capital Partners 2000 Offshore, L.P.(4) 85 Broad Street New York, NY 10004 | | 1,721,770(6) | 2.8% |
| GS Capital Partners 2000 Employee Fund, L.P.(4) 85 Broad Street New York, NY 10004 | | 1,504,476(7) | 2.5% |
| GS Capital Partners 2000, GmbH & Co. Beteiligungs KG(4) 85 Broad Street New York, NY 10004 | | 197,924(8) | * |
| Stone Street Fund 2000, L.P.(4) 85 Broad Street New York, NY 10004 | | 145,018(9) | * |
| Bridge Street Special Opportunities Fund 2000, L.P.(4) 85 Broad Street New York, NY 10004 | | 72,506(10) | * |
| Wellington Management Company, LLP(11) | 3,810,227 | | 6.3% |

| | | |
|--|-------------|---|
| 75 State Street | | |
| Boston, MA 02109 | | |
| Scott A. Carmilani | 117,333(12) | * |
| Bart Friedman | 4,596 | * |
| James F. Duffy | 2,972 | * |
| Scott Hunter | 2,596 | * |
| Michael I.D. Morrison | 118,161(13) | * |
| Mark R. Patterson | 31,596 | * |
| Samuel J. Weinhoff | 2,972 | * |
| Joan H. Dillard | 26,582(14) | * |
| Wesley D. Dupont | 16,916(15) | * |
| Marshall J. Grossack | 10,698(16) | * |
| Richard E. Jodoin | 31,042(17) | * |
| All directors and executive officers as a group (13 persons) | 368,922(18) | * |

* Less than 1%.

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- (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, including any right to acquire through the exercise of any option, warrant or right. As of March 3, 2008, we had 60,512,869 Common Shares issued and outstanding, this figure includes 11,693,333 Common Shares held by a wholly-owned subsidiary of the Company. As of March 3, 2008, 43,166,291 Voting Shares and 17,346,578 Non-Voting Shares were issued and outstanding.
- (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 14, 2008, and information we received from our transfer agent. Of the aggregate amount of 9,636,931 Common Shares shown as beneficially owned by Chubb in the table above, (i) 1,266,995 shares are Voting Shares, (ii) 8,078,005 shares are Non-Voting Shares and (iii) 291,931 shares are Non-Voting Shares issuable upon exercise of a warrant held by Chubb. A total of 2,000,000 Common Shares are issuable upon exercise of this warrant, but the warrant 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, the number of Common Shares with respect to which Chubb may currently exercise the warrant, other than for purposes of the contemporaneous sale of Common Shares, is 291,931 Common Shares.
- (4) The Goldman Sachs Funds have converted all of the Voting Shares they owned prior to the IPO to Non-Voting Shares. The warrants held by each of the Goldman Sachs Funds were amended so that they may only be exercised into Non-Voting Shares. In addition, under our Bye-Laws, all Voting Shares held by the Goldman Sachs Funds and their affiliates automatically convert to Non-Voting Shares.

Based on previously received information, we believe that: (i) affiliates of The Goldman Sachs Group, Inc. (the Goldman Sachs Group) and Goldman Sachs, which is a broker-dealer, are the general partner, managing general partner or managing limited partner of the Goldman Sachs Funds; and (ii) Goldman Sachs is the investment manager for certain of the Goldman Sachs Funds. Each of the Goldman Sachs Group and Goldman Sachs has previously disclaimed beneficial ownership of the Common Shares owned by the Goldman Sachs Funds, except to the extent of the Goldman Sachs Group's and Goldman Sachs' pecuniary interest therein, if any. Based on previously received information, we also believe that the Goldman Sachs Group, Goldman Sachs and the Goldman Sachs Funds share voting power and investment power with certain of their respective affiliates and Goldman Sachs is a direct and indirect, wholly-owned subsidiary of the Goldman Sachs Group.

Each of the Goldman Sachs Funds owns warrants that are exercisable into Non-Voting Shares. The number of warrants held by each Goldman Sachs Fund is reported in Certain Relationships and Related Transactions Founding Shareholders. Each Goldman Sachs Fund may exercise its respective warrant, in whole or in part, only (1) in connection with a contemporaneous sale by such Goldman Sachs Fund of Common Shares or (2) to avoid a reduction of such Goldman Sachs Fund's equity ownership percentage as of the date the Company completed the IPO. Based upon the percentage of currently outstanding Common Shares, the number of

Common Shares with respect to which each Goldman Sachs Fund may currently exercise its respective warrant, other than for purposes of the contemporaneous sale of Common Shares, is reflected in footnotes 5 through 10 below.

- (5) Includes warrants currently exercisable to purchase up to approximately 131,579 Non-Voting Shares.
- (6) Includes warrants currently exercisable to purchase up to approximately 45,359 Non-Voting Shares.
- (7) Includes warrants currently exercisable to purchase up to approximately 39,493 Non-Voting Shares.
- (8) Includes warrants currently exercisable to purchase up to approximately 5,086 Non-Voting Shares.

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- (9) Includes warrants currently exercisable to purchase up to approximately 3,723 Non-Voting Shares.
- (10) Includes warrants currently exercisable to purchase up to approximately 1,859 Non-Voting Shares.
- (11) Based on information reported on Schedule 13G, as filed by Wellington Asset Management, LLP, an investment advisor (Wellington), with the SEC on February 14, 2008, Wellington is the beneficial owner of 3,810,227 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 Asset Management, LLP had the following dispositive powers with respect to the Voting Shares: (a) sole voting power: none; (b) shared voting power: 3,263,817; (c) sole dispositive power: none; and (d) shared dispositive power: 3,810,227.
- (12) Includes stock options exercisable to purchase 103,333 Voting Shares.
- (13) Includes stock options exercisable to purchase 116,667 Voting Shares.
- (14) Includes stock options exercisable to purchase 16,666 Voting Shares.
- (15) Includes stock options exercisable to purchase 12,500 Voting Shares.
- (16) Includes stock options exercisable to purchase 7,915 Voting Shares.
- (17) Includes stock options exercisable to purchase 28,542 Voting Shares.
- (18) Includes stock options exercisable to purchase 302,081 Voting Shares.

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.

| Name | Age | Position |
|-----------------------|------------|--|
| Scott A. Carmilani(1) | 43 | President, Chief Executive Officer and Chairman of the Board |
| Joan H. Dillard(2) | 56 | Senior Vice President and Chief Financial Officer |
| Wesley D. Dupont(2) | 39 | Senior Vice President, General Counsel and Secretary |
| Marshall J. Grossack | 48 | Senior Vice President Chief Corporate Actuary |
| Richard E. Jodoin(2) | 56 | President, Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company |
| W. Gordon Knight | 49 | President, U.S. Operations, Distribution and Marketing, Allied World National Assurance Company |
| John T. Redmond(2) | 52 | 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 the biographies of Ms. Dillard and Messrs. Dupont, Jodoin and Redmond under "Approval of Eligible Subsidiary Directors" elsewhere in this Proxy Statement.

Marshall J. Grossack has been our Senior Vice President – 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.

W. Gordon Knight joined Allied World National Assurance Company as President, U.S. Operations, Distribution and Marketing in January 2008. Prior to joining our Company, Mr. Knight held various global management and underwriting positions for AIG and its subsidiaries since 1982, most recently as President of Sales &

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Marketing for AIG Domestic Brokerage Group from 2005 to January 2008. Mr. Knight began his career as a casualty underwriter at Hartford Insurance Company in 1981.

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 anticipation of its IPO, the Company reconstituted the Board and appointed five new independent board members, three of whom serve on the current Compensation Committee in accordance with the rules of the NYSE. The Board also 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.

2007 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 2007, 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, with actual pay delivered dependent on Company and individual performance. The Compensation Committee believes that setting total cash compensation at approximately the 50th percentile of our Bermuda Peer Group enables the Company to remain competitive with our Bermuda Peer Group in attracting and retaining employees. Setting total direct compensation at approximately the 75th percentile of our Bermuda Peer Group means that a substantial portion of each NEO's compensation is in the form of long-term equity awards, much of which is at risk with vesting dependent on the Company achieving certain performance targets that should benefit shareholders as well. The Compensation Committee believes that by having a substantial portion of NEO compensation in the form of these long-term equity awards, the Company pays for performance and the interests of the NEOs and the Company's shareholders are better aligned.

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

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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 engagement of 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 2007, 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 current market conditions in the insurance industry, which include increased competition, decreasing rates for new and renewal business and, for the casualty segment of the Company's business, pressure on insurance policy 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 also assessed in light of current market conditions in the insurance industry. In 2007, 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 2008 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 NEO's 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 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 2007, the Company's NEOs met with and made many 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.

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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 is 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 50th percentile and total direct compensation (both cash and equity-based compensation) at approximately the 75th percentile among the Bermuda Peer Group. 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, 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 2007, the Compensation Committee reviewed a summary report or tallysheet prepared by the Company for each NEO as well as other senior officers. The purpose of a tallysheet is to show the aggregate dollar value of each officer's total 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 2007, 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 a cost of living allowance for the Company's senior officers residing in Bermuda; and

Retirement, health and welfare benefits.

Table of Contents**Cash Compensation*****Base Salary***

Overview. Base salary is the guaranteed element of the 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 2007, the Compensation Committee wanted to reward the NEOs and our other senior officers for their and the Company's strong performance in 2006. 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 approximately the 50th percentile of the Bermuda Peer Group. The base salaries of the NEOs were increased effective retroactive to January 1, 2007 and are reflected in the Summary Compensation Table below.

Based on the market comparison data and survey data reviewed by the Compensation Committee, our NEOs were relatively close to the 50th percentile for base salaries, other than Mr. Carmilani whose base salary was significantly below the median. The Compensation Committee decided to raise Mr. Carmilani's salary to be closer to the median, to compensate him for his greater level of responsibilities compared to the other NEOs, to recognize his leadership role in developing, and executing on, the Company's business plan and to help ensure his retention with the Company. For 2006 and 2007, the annualized base salary rates for the NEOs are summarized below:

| Name | Fiscal Year 2006 | Fiscal Year 2007 | Annualized Percent Increase |
|----------------------|---------------------|---------------------|-----------------------------------|
| Scott A. Carmilani | \$ 550,000 | \$ 900,000 | 63.6% |
| Joan H. Dillard | \$ 300,000 | \$ 320,000 | 6.7% |
| Wesley D. Dupont | \$ 265,000 | \$ 276,500 | 4.3% |
| Marshall J. Grossack | \$ 258,000 | \$ 275,000 | 6.6% |
| Richard E. Jodoin | \$ 300,000 | \$ 315,000 | 5.0% |

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 2007 appear in the Summary Compensation Table under 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 2007. Each officer's 2007 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. These bonus targets below were established so that total cash compensation (base salaries and annual cash bonuses) of each NEO was at approximately the 50th percentile of the Bermuda Peer Group. Our NEOs were eligible to receive an annual cash bonus based on a percentage of their annual base salary as follows:

| Name | Bonus Target Percentage |
|----------------------|--------------------------------|
| Scott A. Carmilani | 100% |
| Joan H. Dillard | 75% |
| Wesley D. Dupont | 50% |
| Marshall J. Grossack | 50% |
| Richard E. Jodoin | 50% |

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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 50% of the cash bonus pool funding, and the discretionary element makes up the other 50% 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 2007 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. 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, the annual cash bonus pool is 100% funded. The Maximum Target occurs when the Company equals or exceeds 120% of its EBIT goal and the cash bonus pool is 150% funded.

For 2007, the following EBIT amounts and annual cash bonus pool funding were approved:

| Performance Versus Goal | Minimum Target | Target | Maximum Target |
|------------------------------------|---------------------------|---------------|---------------------------|
| EBIT | \$282 million | \$353 million | \$424 million |
| EBIT as a Percentage Goal | 80% | 100% | 120% |
| Bonus Pool Funding | 50% | 100% | 150% |

Why use EBIT as the financial metric? The Compensation Committee selected the EBIT financial metric for the 2007 fiscal year because they 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 2007, EBIT was derived as follows (based on approximate totals): \$469.2 million of net income, plus \$37.8 million of interest expense, plus \$1.1 million of income tax expense equals \$508.1 million of EBIT. Based on the \$424 million Maximum Target reflected in the table above, the Company exceeded the maximum target by approximately \$84.1 million, or 19.8%.

How were the targets determined? The targets for 2007 for the annual cash bonus pool were the same targets established in 2006, which was a record year for the Company. Given the significant increase in competition and reduced insurance rates in some lines of business, the Compensation Committee did not adjust the 2007 targets from the prior year. The factors that primarily contributed to the Company exceeding the maximum target in 2007 included the benign level of catastrophe activity in the United States during the year, favorable releases of reserves from prior loss years and increased investment income due to interest rate movements. For 2008, the target is based on budgeted EBIT for the Company, which budgeted amount is an increase over 2007.

The Discretionary Element. As stated above, the discretionary portion of the award is intended to give the Compensation Committee flexibility in light of the cyclical and volatility of the insurance and reinsurance industry. The Compensation Committee first funds the annual cash bonus pool based on EBIT and then funds 50% of the annual cash bonus pool based on various discretionary considerations. 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 assessment of individual performance.

The Compensation Committee sought to reward the NEOs for their performance and achievements in 2007, including:

Acquiring approximately 11.7 million Common Shares held by AIG, one of our founding shareholders;

Posting by the Company of a strong annualized net income return on average equity of 21.7%;

Expanding the Company's business in the United States;

Commencing a U.S. reinsurance platform;

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Entering into two credit facilities during the year, consisting of (1) a collateralized \$750 million amended letter of credit facility with Citibank Europe plc; and (2) a five-year \$800 million senior credit facility consisting of a \$400 million unsecured facility and a \$400 million secured facility, with Bank of America, N.A., acting as syndication agent and Wachovia Bank, National Association, acting as administrative agent, fronting bank and letter of credit agent;

Filing with the SEC a universal shelf registration statement on Form S-3 pursuant to which the Company registered various securities that it may issue to raise capital in the future; and

Settling for \$2.1 million all matters relating to the investigation of the Company by the Antitrust and Civil Medicaid Fraud Division of the Office of the Attorney General of Texas.

Based on the EBIT calculations above, the annual cash bonus pool was funded at 150% of the Target column in the table above. The annual cash bonus earned for 2007 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 | 150.0% | 150.0% |
| Joan H. Dillard | 112.5% | 150.0% |
| Wesley D. Dupont | 75.9% | 151.9% |
| Marshall J. Grossack | 74.5% | 149.1% |
| Richard E. Jodoin | 74.6% | 149.2% |

Equity Compensation

For the NEOs in 2007, 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, burn rates and comparisons to the equity compensation programs of the Bermuda Peer Group.

RSU Awards. An RSU gives a holder the right to receive a specified number of Common Shares at no cost if the holder remains employed at the Company through 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, prior to the IPO. The Compensation Committee wanted to ensure the long-term retention of our senior officers, including the NEOs. The objectives of these RSU awards primarily were to motivate and retain senior officers, including the NEOs, by increasing their unvested equity stakes, and to ensure continuity of management as the Company approached its IPO. The 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.

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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 2007 and 2008 to date:

| Name | RSUs Granted in 2007 for 2006 Performance | RSUs Granted in 2008 for 2007 Performance |
|----------------------|---|---|
| Scott A. Carmilani | 12,000 | 16,667 |
| Joan H. Dillard | 5,000 | 5,000 |
| Wesley D. Dupont | 3,000 | 4,000 |
| Marshall J. Grossack | 3,000 | 3,000 |
| Richard E. Jodoin | 4,000 | 4,000 |

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 2007 will vest after the fiscal year ending December 31, 2009 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 2007 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.

For 2007, 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:

| Performance Versus Goal | Below Threshold | Threshold | Target | Maximum |
|---|------------------------|------------------------------|-------------------------------|-------------------------------|
| 2007-2009 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, 2009 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 performing well. LTIPs were first awarded in 2006 and again in 2007. None of these LTIP awards have vested because the performance metric is not measured until after the completion of the third year.

In 2007, each of the Company's NEOs received an award of performance shares as follows:

| Name | Target Shares |
|----------------------|----------------------|
| Scott A. Carmilani | 50,000 |
| Joan H. Dillard | 30,000 |
| Wesley D. Dupont | 17,500 |
| Marshall J. Grossack | 17,500 |
| Richard E. Jodoin | 15,000 |

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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 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. In 2007, performance-based awards and RSUs were granted in an aggregate amount to each of our NEOs so that his or her total direct compensation (including both cash compensation and equity-based compensation) was at approximately the 75th percentile of our Bermuda Peer Group.

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 these employees. 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 Bermuda. Some of the NEOs have not received one or more of the benefits or perquisites in 2007. Mr. Jodoin was not eligible to receive the benefits and perquisites described below because he is a U.S. citizen based out of the Company's Boston office.

Perquisites. Our NEOs receive various perquisites paid by the Company. In 2007, these perquisites included a housing allowance, cost of living allowance (COLA), club membership and return flights to their home country for executives and their family members who are 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. The Company's 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 allowances on available rental market information and the Company's knowledge of the housing rental market in general. Each housing 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.

COLA. In addition to the base salary, the NEOs and other senior officers who work on the island also receive a monthly COLA based upon the amount of base salary that would have been spent on a basket of goods and services had such individual not relocated to Bermuda versus the cost of the same basket of goods and services in Bermuda. Factors in determining COLA also include the level of base salary (capped at \$300,000) and the size of the senior officer's family living in Bermuda. The Compensation Committee recently reviewed this benefit and decided to eliminate in 2008 the COLA as a separate benefit and instead combine the amount of COLA each senior officer was receiving with his or her annual base salary.

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

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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.

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 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.

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 employees that 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 2007, certain of 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 2007, certain of our NEOs did use 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 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.

We have established the Allied World Assurance Company (U.S.) Inc. Supplemental Executive Retirement Plan (the SERP), effective as of January 1, 2005, 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. Under the SERP, the Company or its subsidiaries will make a contribution equal to 10% of a participant's annual salary, and participants may voluntarily contribute up to 25% of their annual salary (for these purposes annual salary is currently capped at \$200,000). Participant contributions to the SERP vest immediately. 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 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

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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:

| Title | Multiple of Base Salary |
|--|------------------------------------|
| Chief Executive Officer | 5 times |
| Executive Vice President, Senior Vice President or Presidents Vice President | 2 times 1 time |

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). These transactions are characterized by short sales, buying or selling publicly traded options, swaps, collars or similar derivative transactions.

Employment Agreements/Severance Arrangements

The Company has entered into employment agreements with each of Messrs. Carmilani, Dupont and Grossack and Ms. Dillard – the four NEOs who reside in Bermuda. Apart from name, title, base salary and housing allowance, the employment agreements of these NEOs are identical to each other as well as to other senior officers. The Company believes that entering into these employment agreements supports its compensation objectives of attracting and retaining talented and highly-skilled employees and remaining competitive with other insurance and reinsurance companies in Bermuda that offer similar benefits.

Generally, these employment agreements provide each NEO with two years' base salary and annual bonus, among other things, should he or she be terminated by the Company without cause or should he or she terminate the employment agreement with good reason. Should an NEO's employment be terminated for these reasons, in order to receive this payout they are subject to two year non-compete and non-solicitation provisions, which serve to protect the Company and its business objectives.

The two-year period for base salary and annual bonus increases to three should such termination occur within 12 months of a change in control. The Company believes that the change in control provisions are appropriate for certain of the NEOs to further align their interests and shareholders' interests when considering corporate transactions that may be in the best interests of the shareholders without causing undue concern over whether the transaction may jeopardize the NEO's own employment.

In addition, all equity-based awards shall fully vest immediately prior to such change in control, regardless of whether or not the NEO is terminated. The Board approved the acceleration of vesting of equity awards in the event of a change in control to permit the NEOs to participate in the transaction in the same manner that all other shareholders will be participating, without being exposed to continuing vesting risk. As the full vesting of equity awards does not occur until immediately prior to the change in control, the acceleration provision also has a retention element in that it helps to ensure that the NEOs will remain with the Company through the entire transaction process. The increase in the Severance Multiplier (from two to three) upon a qualified termination within 12 months of a change in control also provides a greater incentive for the NEO to remain with the Company through the change in control regardless of potential redundancies in executive personnel. Please see Narrative Disclosure Regarding Equity Plans and Employment Agreements – Employment Agreements for more information.

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

| Name and Principal Position | Year | Salary (\$) | Stock Awards (\$)(2) | Option Awards (\$)(3) | Non-Equity Incentive | | Total (\$) |
|---|------|-------------|----------------------|-----------------------|---------------------------|--------------------------------|--------------|
| | | | | | Plan Compensation (\$)(4) | All Other Compensation (\$)(5) | |
| Scott A. Carmilani(1) <i>President, Chief Executive Officer and Chairman of the Board</i> | 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> | 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> | 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(6) <i>Senior Vice President Chief Corporate Actuary</i> | 2007 | \$ 275,000 | \$ 541,806 | \$ 29,044 | \$ 205,000 | \$ 291,859 | \$ 1,342,709 |
| Richard E. Jodoin <i>President, Allied World Assurance Company (U.S.) Inc. and Allied World National Assurance Company</i> | 2007 | \$ 315,000 | \$ 749,117 | \$ 13,246 | \$ 235,000 | \$ 34,580 | \$ 1,346,943 |
| | 2006 | \$ 300,000 | \$ 322,481 | \$ 58,385 | \$ 225,000 | \$ 37,075 | \$ 942,941 |

(1) Mr. Carmilani receives no additional compensation for serving as one of our directors.

(2) 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 RSUs and LTIP awards issued in 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 9(b) and (c) of the Company's consolidated financial statements contained in the Form 10-K for the year ended December 31, 2007, 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 2007, please see the Grants of Plan-Based Awards table below.

- (3) 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 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 9(a) of the Company's consolidated financial statements contained in the Form 10-K for the year ended December 31, 2007, 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 2007, please see the Grants of Plan-Based Awards table below.
- (4) The amounts shown in the Non-Equity Incentive Plan Compensation column represent cash bonuses earned under our 2007 and 2006 cash bonus plans and were paid in February 2008 and 2007, respectively. For a description of our annual cash bonus plan, see Compensation Discussion and Analysis Cash Compensation Annual Cash Bonus.

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- (5) 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)/ Company Contributions | SERP Company Contributions | Perquisites(a) | Tax Gross- Ups (b) | Aggregate All Other Compensation |
|----------------------|------|-------------------------------------|----------------------------------|----------------|--------------------------|---|
| Scott A. Carmilani | 2007 | \$ 11,250 | \$ 20,000 | \$ 321,282 | \$ 94,585 | \$ 447,117 |
| Joan H. Dillard | 2007 | \$ 11,250 | \$ 20,000 | \$ 181,353 | \$ 40,869 | \$ 253,472 |
| Wesley D. Dupont | 2007 | \$ 11,250 | \$ 20,000 | \$ 211,995 | \$ 54,855 | \$ 298,100 |
| Marshall J. Grossack | 2007 | \$ 11,250 | \$ 20,000 | \$ 204,231 | \$ 56,378 | \$ 291,859 |
| Richard E. Jodoin | 2007 | \$ 11,250 | \$ 20,000 | \$ 3,330 | | \$ 34,580 |

- (a) Perquisites in 2007 for the NEOs include reimbursements for amounts for certain home leave travel expenses, housing allowances, utilities, club dues, life insurance premiums, tax preparation, parking, storage expenses, company-leased or fractionally-owned airplane usage and cost of living allowances. Not all of these perquisites are applicable to all of our NEOs. For 2007, Mr. Carmilani received a housing allowance of \$192,000 and a cost of living allowance of \$63,171; Ms. Dillard received a housing allowance of \$98,600 and a cost of living allowance of \$59,548; Mr. Dupont received a housing allowance of \$119,100 and a cost of living allowance of \$63,178; and Mr. Grossack received a housing allowance of \$120,000 and a cost of living allowance of \$63,178. 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 2007, Mr. Carmilani used the aircraft on three occasions for personal use, the incremental cost of which was \$42,307. The incremental costs of such uses are included in the aggregate amount of perquisites he received in 2007. For more information on personal benefits and perquisites, please see **Compensation Discussion and Analysis – Benefits and Perquisites**.
- (b) We agreed to **gross-up** our employees residing in Bermuda who are U.S. taxpayers for additional tax obligations incurred in 2007 as a result of the Tax Act. The amounts provided in the table above for Tax Gross-Ups 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**.
- (6) Mr. Grossack was not one of our NEOs in 2006 and, in accordance with SEC requirements, compensation information is being provided for him only for 2007.

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Grants of Plan-Based Awards

The following table provides information concerning grants of share-based awards made to our NEOs in fiscal year 2007.

| | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) | | | Equity Incentive Plan Awards(2) | | | Stock or Underlying Awards (\$/Sh) | All Other Awards: Number of Shares of Security | All Other Awards: Base Price of Option | Grant Date | Value of Stock and Options |
|-----------------|------------|--|------------|--------------|---------------------------------|------------|-------------|------------------------------------|--|--|------------|----------------------------|
| | | Threshold (\$) | Target | Maximum (\$) | Threshold (#) | Target (#) | Maximum (#) | | | | | |
| A. Carmilani | 2/26/2007 | \$ 450,000 | \$ 900,000 | | | | | | | | | |
| | 2/26/2007 | | | | 25,000 | 50,000 | 75,000 | | | | | \$ 3,255 |
| | 2/28/2007 | | | | | | | 12,000(3) | | | | \$ 500 |
| I. Dillard | 2/26/2007 | \$ 120,000 | \$ 240,000 | | | | | | | | | |
| | 2/26/2007 | | | | 15,000 | 30,000 | 45,000 | | | | | \$ 1,953 |
| | 2/28/2007 | | | | | | | 5,000(3) | | | | \$ 208 |
| y D. Dupont | 2/26/2007 | \$ 69,125 | \$ 138,250 | | | | | | | | | |
| | 2/26/2007 | | | | 8,750 | 17,500 | 26,250 | | | | | \$ 1,139 |
| | 2/28/2007 | | | | | | | 3,000(3) | | | | \$ 123 |
| all J. Grossack | 2/26/2007 | \$ 68,750 | \$ 137,500 | | | | | | | | | |
| | 2/26/2007 | | | | 8,750 | 17,500 | 26,250 | | | | | \$ 1,139 |
| | 2/28/2007 | | | | | | | 3,000(3) | | | | \$ 123 |
| d E. Jodoin | 2/26/2007 | \$ 78,750 | \$ 157,500 | | | | | | | | | |
| | 2/26/2007 | | | | 7,500 | 15,000 | 22,500 | | | | | \$ 976 |
| | 2/28/2007 | | | | | | | 4,000(3) | | | | \$ 160 |

(1) The Company's 2007 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 | 75% | 37.5% |
| Wesley D. Dupont | 50% | 25.0% |
| Marshall J. Grossack | 50% | 25.0% |
| Richard E. Jodoin | 50% | 25.0% |

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. Individual bonuses under the 2007 cash bonus plan are not capped or subject to any maximums. Accordingly, no information appears in the applicable column above.

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- (2) 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 26, 2007 (\$43.40). In calculating the grant date value, it was assumed that the maximum performance target regarding such awards will be attained, and accordingly, the grant date value has been increased to 150% of the value based on the target performance-based awards issued.
- (3) Represents each NEO's annual grant of RSUs on February 28, 2007. 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 (\$41.69) multiplied by the number of RSUs granted to the NEO.

Narrative Disclosure Regarding Equity Plans and Employment Agreements

Stock Option Plan

The following description of the Stock Option Plan does not include any of the proposed changes to this plan as set forth in the Company's Second Amended and Restated 2001 Employee Stock Option Plan, which is attached as *Appendix A* to this Proxy Statement and which is also described under the proposal Approval of the Allied World Assurance Company Holdings, Ltd Second Amended and Restated 2001 Employee Stock Option Plan elsewhere in this Proxy Statement. We implemented the Stock Option Plan, under which up to 2,000,000 Common Shares may be issued, subject to adjustment as described below. Of that amount, 590,656 Common Shares remained available for issuance as of December 31, 2007. During 2007, the Company granted stock options to purchase 261,650 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 the tenth anniversary of the approval of its amendment and restatement.

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, if Common Shares are surrendered or withheld from any award to satisfy a grantee's income tax or other withholding obligations or if Common Shares owned by a grantee are tendered to pay the exercise price of stock option awards, then such shares will again become available under the Stock Option Plan. Generally, the maximum number of Common Shares with respect to which options may be granted to an individual grantee in any one year is 16,667 (subject to the adjustment described below) and any one grantee may not be granted options, in the aggregate, relating to more than 9% of the Common Shares authorized for issuance under the Stock Option Plan. Our Compensation Committee has the authority to adjust the terms of any outstanding awards and the number of Common Shares issuable under the Stock Option Plan for any increase or decrease in the number of issued Common Shares resulting from a stock split, reverse stock split, stock dividend, recapitalization, combination or reclassification of the Common Shares, or any other event that the Compensation Committee determines affects our capitalization, other than regular cash dividends. In the event of a merger, amalgamation, consolidation, reorganization, liquidation or sale of a majority of the Company's securities, 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

The following description of the Stock Incentive Plan does not include any proposed changes to this plan as set forth in the Company's Second Amended and Restated 2004 Stock Incentive Plan, which is attached as *Appendix B* to this Proxy Statement and which is also described under the proposal Approval of the Allied World Assurance

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Company Holdings, Ltd Second Amended and Restated 2004 Stock Incentive Plan elsewhere in this Proxy Statement. 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, 1,141,393 Common Shares remained available for issuance as of December 31, 2007. During 2007, the Company granted 196,158 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 27, 2014.

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. Generally, the maximum number of Common Shares with respect to which awards may be granted to an individual grantee in any one year is 16,667 and any one grantee may not be granted stock appreciation rights with respect to more than 16,667 Common Shares in any calendar year. Our Compensation Committee has the authority to adjust the terms of any outstanding awards as it deems appropriate and the number of Common Shares issuable under the Stock Incentive Plan for any increase or decrease in the number of issued Common Shares resulting from a stock split, stock dividend, recapitalization, 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, consolidation, reorganization, liquidation or a sale of a majority of the Company's securities, 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, 1,379,166 Common Shares remained available for issuance as of December 31, 2007. Participation in the LTIP is limited to employees who are selected by the Compensation Committee. During 2007, the Company granted 392,500 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.

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 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

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for issuance under the LTIP. The Compensation Committee has the authority to adjust the terms of any outstanding awards, as it deems appropriate, and the number of Common Shares issuable under awards for any increase or decrease in the number of issued Common Shares resulting from a stock split, stock dividend, recapitalization, combination or exchange of the Common Shares, merger, consolidation or reorganization, or any other change in the capital structure or Common Shares.

Equity Compensation Plan Information

The following table presents information concerning our equity compensation plans as of December 31, 2007.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column) |
|---|---|--|--|
| Equity compensation plans approved by shareholders | 1,223,875 | \$ 31.03 | 1,732,049 ⁽²⁾ |
| Equity compensation plans not approved by shareholders(3) | | | 1,379,166 |
| Total | 1,223,875 | \$ 31.03 | 3,111,215 |

(1) Represents stock options granted under the Stock Option Plan, which have a weighted average remaining contractual life of 6.65 years.

(2) Includes 590,656 Common Shares available for issuance pursuant to stock options granted under the Stock Option Plan, with the remaining Common Shares available for issuance pursuant to RSUs awarded under the Stock Incentive Plan.

(3) Represents Common Shares available for issuance under the LTIP.

Employment Agreements

Effective as of November 1, 2006, the Company entered into employment agreements with Messrs. Carmilani and Dupont and Ms. Dillard. Effective as of December 1, 2006, the Company entered into an employment agreement with Mr. Grossack. Mr. Jodoin does not have an employment agreement. Apart from name, title, base salary and housing allowance, the employment agreements for Messrs. Carmilani, Dupont, Grossack and Ms. Dillard are identical. Under their respective employment agreements, each NEO receives an enumerated base salary that may be increased only upon approval of the Board. In addition, each NEO is eligible for a discretionary annual cash bonus.

The employment agreements provide for a cost of living allowance in addition to base salary, financial and tax planning, expense reimbursement for housing, 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 the Company as approved from time to time by the Board. As discussed above under Compensation Discussion and Analysis Benefits and Perquisites, these types of perquisites are standard in the compensation packages of executives among the Company's Bermuda Peer Group and other Bermuda companies.

Under the employment agreements, 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's 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

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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 the Company shall generally indemnify the NEO to the fullest extent permitted by Bermuda law, 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 the Company with cause, ending on the date of such termination; (ii) in the case of a NEO's termination of employment by the Company 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, the Company may elect to extend the Non-Compete Period up to an additional 12 months following the date of such termination, during which period the Company will be required to continue to pay the NEO his or her base salary and provide coverage under the Company's health and insurance plans (or the economic equivalent of such coverage, including its cash value).

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 the Company 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 the Company 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 the Company for any reason, including a termination by the 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 the Company 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 (as defined below) 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 the Company's 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. 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. The Company 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 the Company 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 at December 31, 2007.

| 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 (#) | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price(1)(\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | 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 (#)(8) | |
| Scott A. Carmilani | 61,667 | | \$ 24.27 | 11/21/2011 | 16,667(2) | \$ 836,183 | 60,000(9) | \$ 3,010,200 |
| | 13,333 | | \$ 23.61 | 01/02/2013 | 8,333(3) | \$ 418,067 | 50,000(10) | \$ 2,508,500 |
| | 13,333 | | \$ 29.52 | 12/31/2013 | 50,000(4) | \$ 2,508,500 | | |
| | 10,000 | 10,000 | \$ 32.70 | 01/03/2015 | 12,000(5) | \$ 602,040 | | |
| Joan H. Dillard | 16,666 | 16,667 | \$ 28.32 | 12/01/2015 | 1,667(6) | \$ 83,633 | 13,333(9) | \$ 668,917 |
| | | | | | 20,000(4) | \$ 1,003,400 | 30,000(10) | \$ 1,505,100 |
| | | | | | 5,000(5) | \$ 250,850 | | |
| Wesley D. Dupont | 12,500 | 12,500 | \$ 28.32 | 12/01/2015 | 1,667(6) | \$ 83,633 | 10,000(9) | \$ 501,700 |
| | | | | | 30,000(4) | \$ 1,505,100 | 17,500(10) | \$ 877,975 |
| | | | | | 3,000(5) | \$ 150,510 | | |
| Marshall J. Grossack | 3,750 | 1,250 | \$ 31.77 | 07/01/2014 | 833(3) | \$ 41,792 | 17,500(10) | \$ 877,975 |
| | 1,666 | 1,667 | \$ 32.70 | 01/03/2015 | 1,251(7) | \$ 62,763 | | |
| | 833 | 2,500 | \$ 28.32 | 01/03/2016 | 15,000(4) | \$ 752,550 | | |
| | | | | | 3,000(5) | \$ 150,510 | | |
| Richard E. Jodoin | 22,500 | | \$ 24.27 | 11/21/2011 | 1,667(2) | \$ 83,633 | 13,333(9) | \$ 668,917 |
| | 1,667 | | \$ 23.61 | 01/02/2013 | 1,667(3) | \$ 83,633 | 15,000(10) | \$ 752,550 |
| | 2,500 | | \$ 29.52 | 12/31/2013 | 17,500(4) | \$ 877,975 | | |
| | 1,250 | 1,250 | \$ 32.70 | 01/03/2015 | 4,000(5) | \$ 200,680 | | |

(1) The table below shows the vesting dates of each stock option:

| Stock Option Exercise Price | Vesting Dates |
|--|---|
| \$24.27 | Fully vested |
| \$23.61 | Fully vested |
| \$29.52 | Fully vested |
| \$32.70 | Pro rata on January 3, 2008 and 2009 |
| \$28.32 | Pro rata on December 1, 2008 and 2009 (Pro rata on January 3, 2008, 2009 and 2010 for Mr. Grossack only) |
| \$31.77 | July 1, 2008 |

(2) These RSUs vest on May 27, 2008.

(3) These RSUs vest on January 3, 2009.

(4) These RSUs vest as follows: 50% on July 11, 2010 and 50% on July 11, 2011.

(5) These RSUs vest pro rata on February 28, 2008, 2009, 2010 and 2011.

(6) These RSUs vest pro rata on December 1, 2008 and 2009.

(7) These RSUs vest pro rata on January 3, 2008, 2009 and 2010.

(8) Assumes a price of \$50.17 per Common Share, the closing price as of December 31, 2007.

(9) These performance-based equity awards, or LTIP Awards, are not eligible to vest until after December 31, 2008. These performance-based awards vest upon the achievement of established performance criteria during an applicable three-year period. The share amounts reflected in the table above represent the target performance goals. For additional information regarding LTIP Awards, see Compensation Discussion and Analysis Equity Compensation.

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- (10) These performance-based equity awards, or LTIP awards, are not eligible to vest until after December 31, 2009. These performance-based awards vest upon the achievement of established performance criteria during an applicable three-year period. The share amounts reflected in the table above represent the target performance goals. For additional information regarding LTIP Awards, see Compensation Discussion and Analysis Equity Compensation.

Option Exercises and Stock Vested

The following table summarizes information underlying each exercise of stock options or vesting of RSUs for each NEO in 2007.

| Name | Option Awards | | Stock Awards | |
|----------------------|---|---------------------------------|--|--------------------------------|
| | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$) |
| Scott A. Carmilani | 5,000 | \$ 111,650(1) | | |
| Joan H. Dillard | | | 833 | \$ 38,551(2) |
| Wesley D. Dupont | | | 833 | \$ 38,551(2) |
| Marshall J. Grossack | | | 416 | \$ 18,096(3) |
| Richard E. Jodoin | 27,500 | \$ 526,625(4) | | |

- (1) Assumes a price of \$46.60 per Common Share, the closing price on November 5, 2007, the date of exercise.
- (2) Assumes a price of \$46.28 per Common Share, the closing price on November 30, 2007, the last trading date before vesting.
- (3) Assumes a price of \$43.50 per Common Share, the closing price on January 3, 2007, the vesting date.
- (4) Assumes a price of \$43.42 per Common Share, the closing price on February 9, 2007, the date of exercise.

Non-Qualified Deferred Compensation

The following table summarizes information regarding each NEO's participation in the SERP in 2007.

| Name | Executive Contributions in Last Fiscal Year (\$)(1) | Registrant Contributions in Last Fiscal Year (\$)(2) | Aggregate Earnings in Last Fiscal Year (\$)(3) | Aggregate Withdrawals/Distributions (\$) | Aggregate Balance at Last Fiscal Year-End (\$) |
|--------------------|---|--|--|--|--|
| Scott A. Carmilani | \$ 50,000 | \$ 20,000 | \$ 5,300 | | \$ 241,991 |
| Joan H. Dillard | \$ 48,000 | \$ 20,000 | \$ 1,192 | | \$ 116,272 |
| Wesley D. Dupont | | \$ 20,000 | \$ 235 | | \$ 41,112 |

| | | | | | | |
|----------------------|----|--------|----|--------|----|---------|
| Marshall J. Grossack | \$ | 20,000 | \$ | 7,172 | \$ | 85,401 |
| Richard E. Jodoin | \$ | 20,000 | \$ | 11,502 | \$ | 129,070 |

- (1) Reflects amount of base salary deferred by the NEO under the SERP in 2007.
- (2) Reflects amounts contributed by us on behalf of the NEO. All amounts that we contributed on behalf of the NEO have been reported in the Summary Compensation Table.
- (3) Represents capital gains and dividends on and earnings from the investments made in one or more mutual funds selected by the NEO, less any losses incurred from one or more selected mutual funds during 2007.

Provisions of the SERP. Under the SERP, we will make a contribution equal to 10% of the NEO's annual salary and the NEO may voluntarily contribute up to 25% of his or her annual salary (for these purposes annual salary is currently capped at \$200,000). NEO contributions to the SERP vest immediately. There is a five-year cumulative vesting period for all contributions we make on behalf of the NEO, so that upon completion of five years of service, an NEO will be 100% vested in all prior and future contributions made on his or her behalf. Contributions we make on behalf of the NEO shall also fully vest upon an NEO retiring after attaining the age of 65, the

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termination of employment on account of the NEO's death or disability, the termination of the SERP or a change in control of the Company. These events are deemed distribution events under the SERP, and all contributions made on behalf of the NEO may be distributed to him or her upon the occurrence of any such event. The SERP complies with Section 409(A) of the Code.

Investment Alternatives Under the SERP. Under the SERP, each NEO has the option to select a variety of mutual funds that are used to determine the additional amounts to be credited to his or her account. These mutual funds are the same as those offered under our 401(k) plan. Each NEO is permitted to change, on a monthly basis, the mutual funds to be used to determine the additional amounts to be credited to his or her account.

Payouts and Withdrawals. Each NEO may elect to receive at retirement amounts deferred and contributions credited to his account in either a lump sum or in annual installments over a period of up to ten years. For more information regarding the SERP, please see Compensation Discussion and Analysis Retirement, Health and Welfare Benefits.

Potential Payments Upon a Termination or Change in Control

The table below reflects the amount of compensation and benefits payable to each NEO in the event of (i) a termination by the NEO without good reason (a voluntary termination), (ii) a termination without cause or with good reason (involuntary termination), (iii) a change in control, (iv) a termination due to death and (v) a termination due to disability. The amounts shown assume that the applicable triggering event occurred on December 31, 2007, and therefore are estimates of the amounts that would be paid to the applicable NEO upon the occurrence of such triggering event, assuming a price of \$50.17 per Common Share, the closing price as of December 31, 2007.

| Name | Type of Payment | Voluntary Termination(1) | Involuntary Termination(2) | Change in Control(3) | Death(4) | Disability(5) |
|--------------------|----------------------|--------------------------|----------------------------|----------------------|--------------|---------------|
| Scott A. Carmilani | Cash Severance: | \$ 900,000 | \$ 3,600,000 | \$ 5,400,000 | \$ 900,000 | \$ 1,800,000 |
| | Continued Benefits: | \$ 16,995 | \$ 33,990 | \$ 50,985 | \$ 700,000 | \$ 16,995 |
| | Equity Acceleration: | \$ | \$ 7,248,607 | \$ 10,058,190 | \$ 8,176,815 | \$ 4,798,718 |
| | TOTAL: | \$ 916,995 | \$ 10,882,597 | \$ 15,509,175 | \$ 9,776,815 | \$ 6,615,713 |
| Joan H. Dillard | Cash Severance: | \$ 320,000 | \$ 1,300,000 | \$ 1,950,000 | \$ 330,000 | \$ 650,000 |
| | Continued Benefits: | \$ 12,915 | \$ 25,830 | \$ 38,745 | \$ 640,000 | \$ 12,915 |
| | Equity Acceleration: | \$ | \$ 2,747,249 | \$ 3,876,074 | \$ 2,747,249 | \$ 1,513,870 |
| | TOTAL: | \$ 332,915 | \$ 4,073,079 | \$ 5,864,819 | \$ 3,717,249 | \$ 2,176,785 |
| Wesley D. Dupont | Cash Severance: | \$ 276,500 | \$ 863,000 | \$ 1,294,500 | \$ 155,000 | \$ 431,500 |
| | Continued Benefits: | \$ 15,780 | \$ 31,560 | \$ 47,340 | \$ 500,000 | \$ 15,780 |
| | Equity Acceleration: | \$ | \$ 1,811,638 | \$ 3,392,043 | \$ 2,733,561 | \$ 1,073,738 |
| | TOTAL: | \$ 292,280 | \$ 2,706,198 | \$ 4,733,883 | \$ 3,388,561 | \$ 1,521,018 |
| | Cash Severance: | \$ 275,000 | \$ 920,000 | \$ 1,380,000 | \$ 185,000 | \$ 460,000 |

Marshall J.
Grossack

| | | | | | |
|----------------------|------------|--------------|--------------|--------------|------------|
| Continued Benefits: | \$ 15,763 | \$ 31,526 | \$ 47,289 | \$ 500,000 | \$ 15,763 |
| Equity Acceleration: | \$ | \$ 1,146,259 | \$ 2,013,207 | \$ 1,354,726 | \$ 384,789 |
| TOTAL: | \$ 290,763 | \$ 2,097,785 | \$ 3,440,496 | \$ 2,039,726 | \$ 860,552 |

Richard E.
Jodoin

| | | | | | |
|----------------------|----|----|----|--------------|------------|
| Cash Severance: | \$ | \$ | \$ | \$ | \$ |
| Continued Benefits: | \$ | \$ | \$ | \$ 500,000 | \$ |
| Equity Acceleration: | \$ | \$ | \$ | \$ 1,790,381 | \$ 544,459 |
| TOTAL: | \$ | \$ | \$ | \$ 2,290,381 | \$ 544,459 |

(1) Under the employment agreements by and between the Company and each NEO (other than Mr. Jodoin, who has no employment agreement), in the case of a termination of employment by the NEO without good reason,

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the NEO is entitled only to the prior accrued obligations. However, for purposes of precluding the NEO from joining an organization that competes with the Company, the Company may elect to extend a non-compete period for up to 12 months from the date employment is terminated by the NEO without good reason. The amounts included in the voluntary termination column above under Cash Severance represent the NEO's 2007 base salary (the amount to which the NEO would be entitled for the non-compete period) and the amounts included under Continued Benefits represent participation in the Company's health and insurance plans, based on current health and insurance premiums for the NEO projected over the applicable period, and such amounts assume that the Company has elected to extend the non-compete period for the full 12 months. Please see

Narrative Disclosure Regarding Equity Plans and Employment Agreements Employment Agreements for more information on the employment agreements.

- (2) Under the employment agreements executed by and between the Company and each NEO, involuntary terminations consist of terminations of employment by the Company without cause and by the NEO with good reason. In such circumstances, the NEO is entitled to: (i) his or her base salary and the highest annual cash bonus paid or payable for the two immediately prior fiscal years multiplied by two, (ii) participation in the Company's health and insurance plans (or the economic equivalent of such participation) for a period of two years from the date of such termination and (iii) vesting in the number of equity awards held by the NEO that otherwise would have vested during the two-year period from the date of such termination. The dollar value reflected under the Involuntary Termination column above for Equity Acceleration assumes all equity awards vested, were exercised and sold as of December 31, 2007.
- (3) Under the employment agreements executed by and between the Company and each NEO, upon the occurrence of a change in control of the Company all equity awards held by the NEO shall fully vest immediately prior to such change in control. If within 12 months of a change in control the NEO is terminated by the Company without cause or the NEO terminates his or her employment with good reason, the NEO is entitled to: (i) his or her base salary and the highest annual cash bonus paid or payable for the two immediately prior fiscal years multiplied by three and (ii) participation in the Company's health and insurance plans (or the economic equivalent of such participation) for a period of three years from the date of such termination. The dollar value reflected under the Change in Control column above for Equity Acceleration assumes all equity awards vested, were exercised and sold as of December 31, 2007.
- (4) The amounts included under the Death column above for Cash Severance represent the highest cash bonus paid or payable for the two immediately prior fiscal years to which the NEO would be entitled under his or her employment agreement and which would be received by the NEO's estate or beneficiary. Under the employment agreement, upon the NEO's death, the NEO's estate or beneficiary is also entitled to receive a pro rata annual bonus for that portion of the year that the NEO worked.

Each employee of the Company has life insurance paid by the Company for the benefit of his or her estate or beneficiaries. Assuming the death of each NEO as of December 31, 2007, the estate or beneficiaries of such NEO would be entitled to the amounts reflected under the Death column above for Continued Benefits for the NEOs.

Under the employment agreements, as of the date of the NEO's death, his or her estate or beneficiaries would also be entitled to the number of equity awards held by the NEO that otherwise would have vested during the one-year period following such date. In addition, the Stock Option Plan and the Stock Incentive Plan provide for the accelerated vesting of all stock options and RSUs, respectively, held by the NEO in the event of his or her death. The LTIP provides for vesting on a proportional basis depending on the date of death in relation to the three-year performance period. If the NEO were to die in the first fiscal year of the three-year performance period, the NEO would be entitled to 25% of the award; in the second fiscal year of the three-year performance

period, the NEO would be entitled to 50% of the award; and in the third fiscal year of the three-year performance period, the NEO would be entitled to 75% of the award. The dollar value reflected under the Death column above for Equity Acceleration assumes all equity awards vested, were exercised and sold as of December 31, 2007.

- (5) Under the employment agreements by and between the Company and each NEO, in the case of a termination of employment as a result of the NEO's disability, the NEO is entitled to: (i) his or her highest annual cash bonus paid or payable for the two immediately prior fiscal years and (ii) the number of equity awards held by the NEO

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that otherwise would have vested during the one-year period following the date of disability. For purposes of precluding the NEO from joining an organization that competes with the Company, the Company may elect to extend a non-compete period for up to 12 months from the date the NEO's employment is terminated as a result of a disability. The amounts included in the disability column above under Cash Severance represent the NEO's 2007 base salary and the highest annual cash bonus paid or payable for the two immediately prior fiscal years and Continued Benefits represent participation in the Company's health and insurance plans (or the economic equivalent of such participation) and assumes that the Company has elected to extend the Non-Compete Period for the full 12 months. The Company pays on behalf of our employees, including the NEOs, short-term and long-term disability insurance. Under this insurance, if the NEO (other than Mr. Jodoin) is considered disabled, he or she will be entitled to 100% of his or her base salary for the first 90 days after a disability and thereafter he or she will be entitled to 75% of his or her base salary up to a maximum of \$15,000 per month until the age of 65. Mr. Jodoin will be entitled to \$2,000 per week for the first 26 weeks after a disability and thereafter he will be entitled to \$10,000 per month until the age of 65.

The Stock Option Plan provides for the accelerated vesting of all stock options held by the NEO in the event of his or her disability. Under the Stock Incentive Plan, there is no acceleration of vesting of the RSUs; however, the NEO would not forfeit his or her RSUs upon being disabled and the RSUs will vest according to the schedule established on the date of grant. The LTIP provides for vesting on a proportional basis depending on the date of disability in relation to the three-year performance period. If the NEO were to be disabled in the first year of the three-year performance period, the NEO would be entitled to 25% of the award; in the second fiscal year of the three-year performance period, the NEO would be entitled to 50% of the award; and in the third fiscal year of the three-year performance period, the NEO would be entitled to 75% of the award. The dollar value reflected under the Disability column above for Equity Acceleration assumes all equity awards vested, were exercised and sold as of December 31, 2007.

Under the employment agreements, if the NEO is terminated for cause, he or she is entitled only to the prior accrued obligations. Under the employment agreements, the NEO is subject to certain restrictive covenants, including non-compete, non-interference, confidentiality and assignment of inventions provisions. In the case where the NEO is terminated by the Company without cause or by the NEO with good reason, should the NEO breach these restrictive covenants, the payments and benefits described above (other than the vesting of equity awards) would cease immediately.

Under the RSU Award Agreement to the Stock Incentive Plan, each employee agrees that the Company may terminate the NEO's right to any RSU he or she holds (whether or not vested) upon the occurrence of: (i) any event that constitutes cause; (ii) the NEO violating the non-solicitation provision set forth in the RSU Award Agreement; or (iii) the NEO interfering with a relationship between the Company and one of its clients.

Under the Stock Option Plan, a participant retiring after attaining the age of 65 is entitled to accelerated vesting of all stock options held by them. Under the Stock Incentive Plan, there is no acceleration of vesting of the RSUs; however, a participant would not forfeit his or her RSUs upon retirement after attaining the age of 65 and these RSUs will vest according to the schedule established on the date of grant. Under the employment agreements, there are no additional compensation provisions for retirement. None of our NEOs was 65 as of December 31, 2007. Accordingly, if any of our NEOs had retired as of December 31, 2007, he or she would not have been entitled to the acceleration of vesting of equity awards or any additional compensation.

In addition to the payments and benefits described above, upon the NEO's retirement at or after age 65, termination of employment (other than with cause), change in control or death or disability of the NEO, the NEO (or his or her estate or beneficiaries) would be entitled to the distribution of the vested contributions we made to the SERP on his or her behalf. The NEO would also be entitled to receive his or her own contributions to the SERP.

Compensation Committee Interlocks and Insider Participation

None of our directors or executive officers has a relationship with us or any other Company that the SEC defines as a compensation committee interlock or insider participation that should be disclosed to shareholders. Our Compensation Committee is comprised solely of independent directors.

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Compensation Committee Report on Executive Compensation

The following report of the Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act or the Exchange Act, except to the extent the Company specifically incorporates this report by reference therein.

We have reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K. Based on such review and discussion, we recommended to the Board that the Compensation Discussion and Analysis be included in the Proxy Statement.

Mark R. Patterson (Chairman)
Bart Friedman
Scott Hunter

Audit Committee Report

The following report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act or the Exchange Act, except to the extent the Company specifically incorporates this report by reference therein.

The Audit Committee is comprised of Messrs. Scott Hunter (Chairman), James F. Duffy and Samuel J. Weinhoff, each of whom has been determined by the Board to be independent under the rules of the NYSE, Section 10A(m)(3) of the Exchange Act and Rule 10A-3 promulgated under the Exchange Act. The Board adopted an Audit Committee Charter, which is available on our website at www.awac.com under Corporate Governance Charters.

The role of the Audit Committee is to assist the Board in its oversight of the Company's financial reporting process. The management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements, the Company's accounting and financial reporting principles and policies, and its internal controls and procedures. The independent auditors are responsible for auditing the Company's financial statements, reviewing the Company's quarterly financial statements, annually auditing management's assessment of the effectiveness of internal controls over financial reporting and other procedures. Members of the Audit Committee are entitled to rely without independent verification on the information provided to them and on the representations made by management and the independent auditors. The independent auditors have access to the Audit Committee to discuss any matters they deem appropriate.

As set forth in the Audit Committee Charter, in the performance of its oversight function, the Audit Committee reviews and discusses the Company's audited financial statements with management and the independent auditors. The Audit Committee also discusses with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees. Finally, the Audit Committee receives the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, considers whether the provision of non-audit services by the independent auditors to the Company is compatible with maintaining the auditors' independence and discusses with the auditors the auditors' independence.

Based upon the reviews and discussions described in this report, and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in the Audit Committee Charter, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 that was filed with the SEC.

Scott Hunter (Chairman)

James F. Duffy

Samuel J. Weinhoff

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SHAREHOLDER COMMUNICATION

Shareholders and other interested parties may communicate directly with the Board by sending written notice to the Company's General Counsel at the executive offices of the Company. The notice may specify whether the communication is directed to the entire Board, to a committee of the Board, to the non-management directors, to the presiding director of the non-management directors or to any other director. Except as provided below, if any written communication is received by the Company and addressed to the persons listed above (or addressed to the General Counsel of the Company with a request to be forwarded to the persons listed above), the General Counsel of the Company shall be responsible for promptly forwarding the correspondence to the appropriate persons. Obvious marketing materials or other general solicitations will not be forwarded. Directors will generally respond in writing, or cause the Company to respond, to *bona fide* shareholder and other interested party communications that express legitimate concerns or questions about us.

The Board does not have a formal policy regarding the attendance of directors at meetings of shareholders; however, it encourages all directors to attend the Annual General Meeting of Shareholders. Seven of the Company's directors attended the Annual General Meeting in 2007.

SHAREHOLDER PROPOSALS FOR 2009 ANNUAL GENERAL MEETING

If you wish to submit a proposal to be considered for inclusion in the proxy materials for the 2009 Annual General Meeting or propose a nominee for the Board, please send such proposal to the Secretary, Allied World Assurance Company Holdings, Ltd, 27 Richmond Road, Pembroke HM 08, Bermuda. Under the rules of the SEC, proposals must be received by no later than November 21, 2008 to be eligible for inclusion in the 2009 Annual General Meeting proxy statement. If a shareholder wishes to submit a proposal to the 2009 Annual General Meeting without including such proposal in the proxy statement for that meeting, that proposal will be considered untimely if the Company is not notified in writing of such proposal between January 8, 2009 and February 7, 2009. In that case, the proxies solicited by the Board will confer discretionary authority on the persons named in the accompanying form of proxy to vote on that proposal as they see fit.

OTHER MATTERS

Your Board does not know of any matters that may be presented at the Annual General Meeting other than those specifically set forth in the Notice of Annual General Meeting attached hereto. If matters other than those set forth in the Notice of Annual General Meeting come before the meeting and at any adjournment or postponement thereof, the persons named in the accompanying form of proxy and acting thereunder will vote in their discretion with respect to such matters.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership of, and transactions in, our equity securities with the SEC. Such directors, executive officers and shareholders are also required to furnish us with copies of all Section 16(a) reports they file. Purchases and sales of our equity securities by such persons are published on our website.

Based on a review of the copies of such reports, and on written representations from our reporting persons, we believe that all Section 16(a) filing requirements applicable to our directors, executive officers and shareholders were

complied with during the period such persons were subject to Section 16 of the Exchange Act.

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

Important Notice Regarding the Availability of Proxy Materials for the 2008 Annual General Meeting to be held on Thursday, May 8, 2008. The Proxy Statement and Annual Report are available at <http://www.awac.com/proxy.aspx>.

For the date, time and location of the Annual General Meeting, please see General Meeting Information. For information on how to attend and vote in person at the Annual General Meeting, an identification of the matters to be voted upon at the Annual General Meeting and the Board's recommendations regarding those matters, please also refer to General Meeting Information.

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APPENDIX A

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

SECOND AMENDED AND RESTATED 2001 EMPLOYEE STOCK OPTION PLAN

1. Purpose. As of May 8, 2008 (the Second Amendment and Restatement Effective Date), the Allied World Assurance Company Holdings, Ltd Amended and Restated 2001 Employee Stock Option Plan was amended and restated and renamed the Allied World Assurance Company Holdings, Ltd Second Amended and Restated 2001 Employee Stock Option Plan (the Plan). The purpose of the Plan is to advance the interest of Allied World Assurance Company Holdings, Ltd (Allied World) and its subsidiaries (collectively, the Company) by providing certain Key Persons (as defined below) with the opportunity to acquire a proprietary interest in the success of the Company, to enhance the long-term performance of the Company, as well as to attract people with training, experience and ability to the Company and its subsidiaries and affiliates.

2. Definitions of Certain Terms.

(i) Award means a stock option granted pursuant to the Plan, including Prior Grants. Stock options granted under the Plan are not intended to qualify as incentive stock options meeting the requirements of Section 422 of the Code.

(ii) Award Agreement means the written document by which each Award is evidenced.

(iii) Board means the Board of Directors of Allied World.

(iv) Code means the Internal Revenue Code of 1986, as amended from time to time, and the applicable rulings and regulations thereunder.

(v) Committee has the meaning set forth in Section 3.a.

(vi) Common Shares means the common shares of Allied World.

(vii) Covered Person has the meaning set forth in Section 3.c.

(viii) Fair Market Value means, with respect to a Common Share on any day, the fair market value as determined in accordance with a valuation methodology approved by the Committee and consistent with the requirements of Section 409A of the Code, or if there is a public market for the shares on such date, the closing price of the Common Shares on such stock exchange on which the shares are principally trading on the date in question, or, if there were no sales on such date, on the closest preceding date on which there were sales of shares.

(ix) Key Persons means officers, directors, employees (including prospective employees), consultants and others who may perform services for the Company. For purposes of the Plan, if a Key Person provides services to the Company in a non-employee capacity, references herein to employee shall instead refer to service provider and references herein to employment or similar terms shall instead refer to service or similar terms.

(x) Prior Grants means stock options and warrants granted prior to the Second Amendment and Restatement Effective Date under previous versions of the Plan.

3. Administration.

a. Except as otherwise provided herein, the Plan shall be administered by a committee (the Committee) of the Board to be drawn solely from members of the Board who are not and have not been officers of the Company. The Committee is authorized, subject to the provisions of the Plan, to establish such rules and regulations as it deems necessary for the proper administration of the Plan and to make such determinations and interpretations and to take such action in connection with the Plan and any Award granted hereunder as it deems necessary or advisable. All determinations and interpretations made by the Committee shall be final, binding and conclusive on all grantees and on their legal representatives and beneficiaries. The Committee shall have the authority, in its absolute discretion, to determine which Key Persons shall receive Awards, the time when Awards shall be issued, the terms of

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such Awards and the number of shares for which Awards shall be issued; *provided, however*, that the Board shall have the sole authority to make such determinations with respect to Awards, if any, to be issued to the members of the Committee. Unless otherwise expressly provided in the Plan or an Award Agreement, the Committee shall have the authority, in its absolute discretion, to (i) amend any outstanding Award Agreement in any respect, subject to the consent of any grantee where the rights of the grantee of such Award are adversely affected, including, without limitation, to accelerate the time or times at which the Award becomes vested, unrestricted or may be exercised, waive or amend any restrictions or conditions set forth in such Award Agreement, or impose new restrictions and conditions, or reflect a change in the grantee's circumstances; and (ii) determine whether, to what extent and under what circumstances and method or methods (A) Awards may be (1) settled in cash, Common Shares, other securities, other Awards or other property or (2) canceled, forfeited or suspended, (B) Common Shares, other securities, other Awards or other property, and other amounts payable with respect to an Award may be deferred either automatically or at the election of the grantee thereof or of the Committee and (C) Awards may be settled by the Company or any of its designees. Notwithstanding anything to the contrary contained herein, the Board may, in its sole discretion, at any time and from time to time, grant Awards (including grants to members of the Board who are not employees of the Company) or administer the Plan, in which case the Board shall have all of the authority and responsibility granted to the Committee herein.

b. Actions of the Committee may be taken by the vote of a majority of its members. The Committee may allocate among its members and delegate to any person who is not a member of the Committee any of its powers, responsibilities or duties in accordance with applicable law.

c. No member of the Board or the Committee or any employee of the Company (each such person a Covered Person) shall have any liability to any person (including any grantee) for any action taken or omitted to be taken or any determination made in good faith with respect to the Plan or any Award. Each Covered Person shall be indemnified and held harmless by Allied World against and from any loss, cost, liability or expense (including attorneys' fees) that may be imposed upon or incurred by such Covered Person in connection with or resulting from any action, suit or proceeding to which such Covered Person may be a party or in which such Covered Person may be involved by reason of any action taken or omitted to be taken under the Plan or any Award Agreement and against and from any and all amounts paid by such Covered Person, with Allied World's approval, in settlement thereof, or paid by such Covered Person in satisfaction of any judgment in any such action, suit or proceeding against such Covered Person, provided that Allied World shall have the right, at its own expense, to assume and defend any such action, suit or proceeding and, once Allied World gives notice of its intent to assume the defense, Allied World shall have sole control over such defense with counsel of Allied World's choice. The foregoing right of indemnification shall not be available to a Covered Person to the extent that a court of competent jurisdiction in a final judgment or other final adjudication, in either case, not subject to further appeal, determines that the acts or omissions of such Covered Person giving rise to the indemnification claim resulted from such Covered Person's fraud or dishonesty. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which Covered Persons may be entitled under Allied World's Memorandum of Association or Bye-laws, as a matter of law, or otherwise, or any other power that Allied World may have to indemnify such persons or hold them harmless.

4. Common Shares Available for Awards; Adjustments.

a. Common Shares Available for Awards. The total number of Common Shares that may be issued pursuant to Awards granted under the Plan shall not exceed four million (4,000,000) Common Shares (the Maximum Number) as adjusted pursuant to the provisions of Section 4.b. Common Shares issued upon exercise of Prior Grants shall count against the Maximum Number. Awards may be granted to Key Persons in such number and at such times during the term of this Plan as the Committee or the Board shall determine; *provided, however*, that during any time that the Company is subject to Section 162(m) of the Code, the maximum number of Common Shares with respect to which Awards may be granted to any individual in any one year shall not exceed the maximum number of Common Shares

available for issue hereunder, as such number may change from time to time. Shares granted pursuant to this Plan may be authorized but unissued Common Shares or authorized and issued Common Shares held by the Company or acquired by the Company for the purposes of the Plan. If any Award granted under this Plan or any Prior Grant is forfeited or otherwise terminates or is canceled without the delivery of Common Shares, then the Common Shares covered by such forfeited, terminated or canceled Award or Prior Grant shall again become available for transfer pursuant to Awards granted or to be granted under this Plan. Without

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affecting the number of Common Shares reserved or available hereunder, the Committee may authorize under the Plan the issuance of Awards or the assumption of awards granted under plans of other entities in connection with any amalgamation, merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate, and any other applicable laws or stock exchange rules.

b. Capitalization Adjustments. The aggregate number of Common Shares which may be granted or purchased pursuant to Awards granted hereunder, the number of Common Shares covered by each outstanding Award, and the price per share thereof in each such Award shall be equitably and proportionally adjusted or substituted, as determined by the Committee in good faith and in its sole discretion, as to the number, price or kind of Common Shares or other consideration subject to such Awards or as otherwise determined by the Committee in good faith to be fair and equitable (i) in the event of changes in the outstanding Common Shares or in the capital structure of the Company by reason of stock dividends, stock splits, reverse stock splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of grant of any such Award; (ii) in the event of any change in applicable laws or any change in circumstances which results in or would result in any substantial dilution or enlargement of the rights granted to, or available for, participants in the Plan; or (iii) for any other reason which the Committee determines, in its sole discretion and acting in good faith, to otherwise warrant equitable adjustment.

c. Corporate Events. Notwithstanding subsection (b) above, in the event of (i) a merger, amalgamation or consolidation involving the Company in which the Company is not the surviving corporation; (ii) a merger, amalgamation or consolidation involving the Company in which the Company is the surviving corporation but the holders of Common Shares receive securities of another corporation and/or other property, including cash; (iii) the sale of greater than fifty percent (50%) of the securities of the Company entitled to vote in the election of directors to the Board; or (iv) the reorganization or liquidation of the Company (each, a Corporate Event), in lieu of providing the adjustment set forth in subsection (b) above, the Committee may, in its discretion, provide that all outstanding Awards shall terminate as of the consummation of such Corporate Event, and either (x) accelerate the exercisability of, and cause all vesting restrictions to lapse on, all outstanding Awards to a date at least ten days prior to the date of such Corporate Event, such that holders may exercise all such Awards prior to the Corporate Event, or (y) provide that holders of Awards will receive a payment in respect of cancellation of their Awards based on the amount of the per share consideration being paid for the Common Shares in connection with such Corporate Event less the applicable exercise price. Payments to holders pursuant to the preceding sentence shall be made in cash, or, in the sole discretion of the Committee, in such other consideration necessary for a holder of an Award to receive property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to such transaction, the holder of the number of Common Shares covered by the Award at such time.

d. Fractional Shares. Any such adjustment may provide for the elimination of any fractional share which might otherwise become subject to an Award.

5. Eligibility. Awards under the Plan may be made to such Key Persons as the Committee may select in its discretion.

6. Grant of Awards. The Committee is authorized to grant Awards only in the form of stock options to purchase Common Shares from the Company, to such Key Persons, in such amounts and subject to such terms and conditions, as the Committee shall determine in its discretion.

7. Terms and Conditions of Award Agreements. Each Award granted under the Plan shall be evidenced by a written document which shall contain such provisions and conditions as the Committee deems appropriate. By accepting an Award pursuant to the Plan, a grantee thereby agrees that the Award shall be subject to all of the terms and provisions

of the Plan and the applicable Award Agreement. All Awards granted under the Plan shall be subject to the following terms and conditions:

a. Exercise Price. The exercise price per share with respect to each Award shall be determined by the Committee or the Board but shall not be less than 100% of the Fair Market Value of the Common Shares on the date the Award is granted.

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b. Term of Award. In no event shall any Award be exercisable after the expiration of 10 years from the date on which the Award is issued.

c. Termination of Employment. Except as otherwise provided by the Committee or the Board, no part of any Award issued to an employee (including an officer) may be exercised after the termination of his or her employment with the Company, except that:

(i) if such termination of employment is on or after the date the employee attains age sixty-five (65) or due to disability or death, any portion of an Award, whether or not exercisable at the time of such termination, may be exercised by the grantee (or in case of death by the person or persons to whom the grantee's rights under such Award are transferred by will or the laws of descent and distribution) at any time within the term of the Award; and

(ii) if such termination of employment is not at or after normal retirement age or due to disability or death, any portion of an Award may be exercised by the grantee within 90 days after such termination, but only to the extent such Award was exercisable at the time of such termination, and any portion of such Award that remains unvested at the time of such termination shall terminate and no longer be exercisable at any time.

8. Term of Plan. The Plan shall terminate on, and no Awards shall be issued pursuant to the Plan after, May 8, 2018; *provided, however*, that Awards granted theretofore may extend beyond such date and the terms and conditions of the Plan shall continue to apply thereto.

9. Termination or Amendment of Plan. The Board may at any time terminate the Plan with respect to any Common Shares of Allied World not at the time subject to an Award, and may from time to time alter or amend the Plan or any part thereof. Unless otherwise determined by the Board, shareholder approval of any suspension, discontinuance, revision or amendment shall be obtained only to the extent necessary to comply with any applicable law or stock exchange listing requirement; *provided, however*, that unless approved by the Company's shareholders or as otherwise specifically provided under Section 4(a) hereof, no adjustments or reduction of the exercise price of any outstanding Awards shall be made in the event of a decline in stock price, either by reducing the exercise price of outstanding Awards or through cancellation of outstanding Awards in connection with a re-granting of Awards at a lower price to the same individual.

10. Employment Status and Rights; Waiver of Claims. The granting of any Award does not alter the at-will nature of any grantee's employment with the Company. In addition, prior to being granted an Award, no employee of the Company has any right to any benefits hereunder. Accordingly, in consideration of a Key Person's selection to receive an Award under the Plan and by acceptance of the grant of such Award, such Key Person expressly waives any right to contest the number of Awards issued to him or her, the terms of the Plan or the Award Agreement, any determination, action or omission under the Plan or any Award Agreement by Allied World, the Board or the Committee, or any amendment to the Plan or any Award Agreement (other than an amendment to the Plan or an Award Agreement to which his or her consent is expressly required by the express terms of an Award Agreement).

11. Confidentiality. In consideration of the grantee's acceptance of any Award, the grantee hereby agrees to keep confidential the existence of, and any information concerning, any dispute arising in connection with any Award, the Plan and any related matters, except that the grantee may disclose information concerning such dispute to the court that is considering such dispute or to the grantee's legal counsel (provided that such counsel agrees not to disclose any such information other than as necessary to the prosecution or defense of the dispute).

12. Tax Withholding. As a condition to the delivery of any Common Shares pursuant to any Award, or in connection with any other event that gives rise to a federal or other governmental tax withholding obligation on the part of the Company relating to an Award (including, without limitation, FICA tax), (a) the Company may deduct or withhold (or

cause to be deducted or withheld) from any payment or distribution to a grantee whether or not pursuant to the Plan or (b) the Committee shall be entitled to require that the grantee remit cash to the Company (through payroll deduction or otherwise), in each case in an amount sufficient in the opinion of the Company to satisfy such withholding obligation.

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13. *Required Consents and Legends.*

a. If the Committee shall at any time determine that any consent (as hereinafter defined) is necessary or desirable as a condition of, or in connection with, the granting of any Award, the delivery of Common Shares or the delivery of any cash, securities or other property under the Plan, or the taking of any other action hereunder (each such action being hereinafter referred to as a Plan Action), then such Plan Action shall not be taken, in whole or in part, unless and until such consent shall have been effected or obtained to the full satisfaction of the Committee. The Committee may direct that any certificate evidencing shares delivered pursuant to the Plan shall bear a legend setting forth such restrictions on transferability as the Committee may determine to be necessary or desirable, and may advise the transfer agent to place a stop transfer order against any legended shares.

b. The term consent as used in this Section 13 with respect to any Plan Action includes (i) any and all listings, registrations or qualifications in respect thereof upon any securities exchange or under any federal, state or local law, or law, rule or regulation of a jurisdiction outside the United States; (ii) or any other matter, which the Committee may deem necessary or desirable to comply with the terms of any such listing, registration or qualification or to obtain an exemption from the requirement that any such listing, qualification or registration be made; (iii) any and all other consents, clearances and approvals in respect of a Plan Action by any governmental or other regulatory body or any stock exchange or self-regulatory agency; and (iv) any and all consents required by the Committee. Nothing herein shall require Allied World to list, register or qualify the Common Shares on any securities exchange.

14. *Nonassignability; No Hedging.* Except to the extent otherwise expressly provided in the applicable Award Agreement or determined by the Committee, no Award (or any rights and obligations thereunder) granted to any person under the Plan may be sold, exchanged, transferred, assigned, pledged, hypothecated or otherwise disposed of or hedged, in any manner (including through the use of any cash-settled instrument), whether voluntarily or involuntarily and whether by operation of law or otherwise, other than by will or by the laws of descent and distribution, and all such Awards (and any rights thereunder) shall be exercisable during the life of the grantee only by the grantee or the grantee's legal representative. Any sale, exchange, transfer, assignment, pledge, hypothecation or other disposition in violation of the provisions of this Section 14 shall be null and void and any Award which is hedged in any manner shall immediately be forfeited. All of the terms and conditions of this Plan and the Award Agreements shall be binding upon any permitted successors and assigns.

15. *Successor Entity.* Unless otherwise provided in the applicable Award Agreement and except as otherwise determined by the Committee, in the event of a merger, amalgamation, consolidation, mandatory share exchange or other similar business combination of Allied World with or into any other entity or any transaction in which another person or entity acquires all of the issued and outstanding Common Shares of Allied World, or all or substantially all of the assets of Allied World, outstanding Awards may be assumed or a substantially equivalent award may be substituted by such successor entity or a parent or subsidiary of such successor entity.

16. *Nature of Payments.*

a. Any and all grants of Awards and deliveries of Common Shares, cash, securities or other property under the Plan shall be in consideration of services performed or to be performed for the Company by the grantee. Awards under the Plan may, in the discretion of the Committee, be made in substitution in whole or in part for cash or other compensation otherwise payable to a grantee by the Company. Only whole Common Shares shall be delivered under the Plan. Awards shall, to the extent reasonably practicable, be aggregated in order to eliminate any fractional shares. Fractional shares shall be rounded down to the nearest whole share and any such fractional shares shall be forfeited.

b. All such grants and deliveries shall constitute a special discretionary incentive payment to the grantee and shall not be required to be taken into account in computing the amount of salary or compensation of the grantee for the purpose

of determining any contributions to or any benefits under any pension, retirement, profit-sharing, bonus, life insurance, severance or other benefit plan of the Company or under any agreement with the grantee, unless the Company specifically provides otherwise.

17. Non-Uniform Determinations. The Committee's determinations under the Plan and Award Agreements need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive,

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Awards under the Plan (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations under Award Agreements, and to enter into non-uniform and selective Award Agreements, as to (a) the persons to receive Awards, (b) the terms and provisions of Awards and (c) whether a grantee's employment has been terminated for purposes of the Plan.

18. *Other Payments or Awards.* Nothing contained in the Plan shall be deemed in any way to limit or restrict the Company from making any award or payment to any person under any other plan, arrangement or understanding, whether now existing or hereafter in effect.

19. *Plan Headings.* The headings in this Plan are for the purpose of convenience only and are not intended to define or limit the construction of the provisions hereof.

20. *Governing Law; Venue.* **THIS PLAN SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. IN CONSIDERATION OF THE GRANTEE'S ACCEPTANCE OF THE ISSUANCE OF ANY AWARD, THE GRANTEE HEREBY EXPRESSLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF AND VENUE IN THE COURTS OF BERMUDA WITH RESPECT TO ANY SUIT OR CLAIM INSTITUTED BY THE COMPANY OR THE GRANTEE RELATING TO THIS PLAN OR THE AWARD.**

21. *Severability; Entire Agreement.* If any of the provisions of this Plan or any Award Agreement is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining provisions shall not be affected thereby; provided, that if any of such provisions is finally held to be invalid, illegal, or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such provision shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder. The Plan and any Award Agreements contain the entire agreement of the parties with respect to the subject matter thereof and supersede all prior agreements, promises, covenants, arrangements, communications, representations and warranties between them, whether written or oral with respect to the subject matter thereof.

22. *No Third Party Beneficiaries.* Except as expressly provided therein, neither the Plan nor any Award Agreement shall confer on any person other than Allied World and the grantee of any Award any rights or remedies thereunder. The exculpation and indemnification provisions of Section 3.c shall inure to the benefit of a Covered Person's estate and beneficiaries and legatees.

23. *Successors and Assigns of Allied World.* The terms of this Plan shall be binding upon and inure to the benefit of Allied World and any successor entity contemplated by Section 15.

24. *Date of Adoption.* This Plan was adopted effective on February 28, 2008 by the Board, subject to approval by the shareholders of Allied World at a General Meeting of Shareholders on May 8, 2008.

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APPENDIX B

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

**SECOND
AMENDED AND RESTATED
2004 STOCK INCENTIVE PLAN**

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

**SECOND
AMENDED AND RESTATED**

2004 STOCK INCENTIVE PLAN

ARTICLE I

GENERAL

1.1 Purpose

The purpose of the Allied World Assurance Company Holdings, Ltd
Second

Amended and Restated 2004 Stock Incentive Plan is to attract, retain and motivate officers, directors, employees (including prospective employees), consultants and others who may perform services for the Company, to compensate them for their contributions to the long-term growth and profits of the Company, and to encourage them to acquire a proprietary interest in the success of the Company.

1.2 Definitions of Certain Terms

ALLIED WORLD means Allied World Assurance Company Holdings, Ltd or a successor entity contemplated by Section 3.6.

AWARD means an award made pursuant to the Plan.

AWARD AGREEMENT means the written document by which each Award is evidenced.

BOARD means the Board of Directors of Allied World.

CERTIFICATE means a share certificate (or other appropriate document or evidence of ownership) representing Common Shares of Allied World.

COMMITTEE has the meaning set forth in Section 1.3.1.

COMMON SHARES mean the common shares of Allied World.

COMPANY means Allied World and its subsidiaries.

COVERED PERSON has the meaning set forth in Section 1.3.3.

EMPLOYMENT means a grantee's performance of services for the Company, as determined by the Committee. The terms *employ* and *employed* shall have their correlative meanings.

EXCHANGE ACT means the Securities Exchange Act of 1934, as amended from time to time, and the applicable rules and regulations thereunder.

PLAN means the Allied World Assurance Company Holdings, Ltd

Second

Amended and Restated 2004 Stock Incentive Plan, as described herein and as hereafter amended from time to time.

1.3 Administration

1.3.1 Except, as otherwise provided herein, the Plan shall be administered by a committee (the Committee) of the Board to be drawn solely from members of the Board who are not and have not been officers of the Company. The Committee is authorized, subject to the provisions of the Plan, to establish such rules and regulations as it deems necessary for the proper administration of the Plan and to make such determinations and interpretations and to take such action in connection with the Plan and any Award granted thereunder as it deems necessary or advisable. All determinations and interpretations made by the Committee shall be final, binding and conclusive on all grantees and on their legal representatives and beneficiaries. The Committee shall have the authority, in its absolute discretion, to determine the persons who shall receive Awards, the time when Awards shall be granted, the terms of such Awards and the number of Common Shares, if any, which shall be subject to such Awards. Unless otherwise provided in an Award Agreement, the Committee shall have the authority, in its absolute discretion, to (i) amend any outstanding Award Agreement in any respect, whether or not the rights of the grantee of such Award

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are adversely affected, including, without limitation, to accelerate the time or times at which the Award becomes vested, unrestricted or may be exercised, waive or amend any goals, restrictions or conditions set forth in such Award Agreement, or impose new goals, restrictions and conditions, or reflect a change in the grantee's circumstances; and (ii) determine whether, to what extent and under what circumstances and method or methods (A) Awards may be (1) settled in cash, Common Shares, other securities, other Awards or other property or (2) canceled, forfeited or suspended, (B) Common Shares, other securities, other Awards or other property, and other amounts payable with respect to an Award may be deferred either automatically or at the election of the grantee thereof or of the Committee and (C) Awards may be settled by the Company or any of its designees. Notwithstanding anything to the contrary contained herein, the Board may, in its sole discretion, at any time and from time to time, grant Awards (including grants to members of the Board who are not employees of the Company) or administer the Plan, in which case the Board shall have all of the authority and responsibility granted to the Committee herein.

1.3.2 Actions of the Committee may be taken by the vote of a majority of its members. The Committee may allocate among its members and delegate to any person who is not a member of the Committee any of its powers, responsibilities or duties in accordance with applicable law.

1.3.3 No member of the Board or the Committee or any employee of the Company (each such person a Covered Person) shall have any liability to any person (including any grantee) for any action taken or omitted to be taken or any determination made in good faith with respect to the Plan or any Award. Each Covered Person shall be indemnified and held harmless by Allied World against and from any loss, cost, liability or expense (including attorneys' fees) that may be imposed upon or incurred by such Covered Person in connection with or resulting from any action, suit or proceeding to which such Covered Person may be a party or in which such Covered Person may be involved by reason of any action taken or omitted to be taken under the Plan or any Award Agreement and against and from any and all amounts paid by such Covered Person, with Allied World's approval, in settlement thereof, or paid by such Covered Person in satisfaction of any judgment in any such action, suit or proceeding against such Covered Person, provided that Allied World shall have the right, at its own expense, to assume and defend any such action, suit or proceeding and, once Allied World gives notice of its intent to assume the defense, Allied World shall have sole control over such defense with counsel of Allied World's choice. The foregoing right of indemnification shall not be available to a Covered Person to the extent that a court of competent jurisdiction in a final judgment or other final adjudication, in either case, not subject to further appeal, determines that the acts or omissions of such Covered Person giving rise to the indemnification claim resulted from such Covered Person's fraud or dishonesty. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which Covered Persons may be entitled under Allied World's Memorandum of Association or Bye-Laws, as a matter of law, or otherwise, or any other power that Allied World may have to indemnify such persons or hold them harmless.

1.4 Persons Eligible for Awards

Awards under the Plan may be made to such officers, directors, employees (including prospective employees), consultants and other individuals who may perform services for the Company, as the Committee may select.

1.5 Types of Awards Under Plan

Awards may be made under the Plan in the form of (a) restricted stock, (b) restricted stock units, (c) dividend equivalent rights and (d) other equity-based or equity-related Awards that the Committee determines to be consistent with the purposes of the Plan and the interests of the Company. Allied World, however, will not grant stock options pursuant to the Plan.

1.6 Common Shares Available for Awards

1.6.1 Subject to adjustment as provided in Section 1.6.2 hereof, the maximum number of shares that may be issued under the Plan is two million (2,000,000) Common Shares. Such Common Shares may, in the discretion of the Committee, be either authorized but unissued shares or shares previously issued and reacquired by Allied World. If any Award shall expire, terminate or otherwise lapse, in whole or in part, any Common Shares subject to such Award (or portion thereof) shall again be available for issuance under the Plan. Any Common Shares delivered by

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Allied World, any Common Shares with respect to which Awards are made by Allied World and any Common Shares with respect to which Allied World becomes obligated to make Awards, through the assumption of, or in substitution for, outstanding awards previously granted by an acquired entity, shall not be counted against the shares available for Awards under this Plan.

1.6.2 The Committee shall adjust the number of Common Shares authorized pursuant to Section 1.6.1 and the terms of any outstanding Awards (including, without limitation, the number of Common Shares covered by each outstanding Award, the type of property to which the Award is subject and the exercise or strike price of any Award), in such manner as it deems appropriate to preserve the benefits or potential benefits intended to be made available to grantees of Awards, for any increase or decrease in the number of issued Common Shares resulting from a recapitalization, stock split, stock dividend, combination or exchange of Common Shares, merger, amalgamation, consolidation, rights offering, separation, reorganization or liquidation, or any other change in the corporate structure or shares of Allied World. After any adjustment made pursuant to this Section 1.6.2, the number of Common Shares subject to each outstanding Award shall be rounded down to the nearest whole number. Notwithstanding the foregoing, in the event of (i) a merger, amalgamation or consolidation involving Allied World in which Allied World is not the surviving corporation; (ii) a merger, amalgamation or consolidation involving Allied World in which Allied World is the surviving corporation but the holders of shares of Common Shares receive securities of another corporation and/or other property, including cash; (iii) a the sale of greater than fifty percent (50%) of the securities of Allied World entitled to vote in the election of directors to the Board; or (iv) the reorganization or liquidation of Allied World (each a Corporate Event), in lieu of providing the adjustment set forth in subsection (b) above, the Committee may, in its discretion, provide that all outstanding Awards shall terminate as of the consummation of such Corporate Event, and either (x) accelerate the vesting of, and cause all vesting restrictions to lapse on, all outstanding Awards to a date at least ten days prior to the date of such Corporate Event, or (y) provide that holders of Awards will receive a payment in respect of cancellation of their Awards based on the amount of the per share consideration being paid for the Common Shares in connection with such Corporate Event. Payments to holders pursuant to the preceding sentence shall be made in cash, or, in the sole discretion of the Committee, in such other consideration necessary for a holder of an Award to receive property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to such transaction, the holder of the number of Common Shares covered by the Award at such time.

1.6.3 There shall be no limit on the amount of cash, securities (other than Common Shares as provided in this Section 1.6) or other property that may be delivered pursuant to the Plan or any Award; *provided, however*, that ~~Awards with respect to no more than 16,667 Common Shares may be granted to any one grantee in any calendar year, and provided further, that Awards of stock appreciation rights with respect to no more than 16,667 Common Shares may be granted to any one grantee in any calendar year~~ during any time that the Company is subject to Section 162(m) of the Code, the maximum number of Common Shares with respect to which Awards may be granted to any individual in any one year shall not exceed the maximum number of Common Shares available for issue hereunder, as such number may change from time to time.

ARTICLE II

AWARDS UNDER THE PLAN

2.1 Agreements Evidencing Awards

Each Award granted under the Plan shall be evidenced by a written document that shall contain such provisions and conditions as the Committee deems appropriate. The Committee may grant Awards in tandem with or in substitution for any other Award or Awards granted under this Plan or any award granted under any other plan of the Company. By accepting an Award pursuant to the Plan, a grantee thereby agrees that the Award shall be subject to all of the

terms and provisions of the Plan and the applicable Award Agreement.

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2.2 No Rights as a Shareholder

No grantee of an Award shall have any of the rights of a shareholder of Allied World with respect to Common Shares subject to such Award until the delivery of such shares. Except as otherwise provided in Section 1.6.2, no adjustments shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, Common Shares, other securities or other property) for which the record date is prior to the date such shares are delivered.

2.3 Grant of Restricted Common Shares

The Committee may grant or offer for sale restricted Common Shares in such amounts and subject to Section 2.7 and such terms and conditions as the Committee shall determine. Upon the delivery of such shares, the grantee shall have the rights of a shareholder with respect to the restricted stock, subject to Section 2.7 and any other restrictions and conditions as the Committee may include in the applicable Award Agreement. In the event that a Certificate is issued in respect of restricted Common Shares, such Certificate may be registered in the name of the grantee but may be held by Allied World or its designated agent until the time the restrictions lapse.

2.4 Grant of Restricted Stock Units

The Committee may grant Awards of restricted stock units in such amounts and subject to Section 2.7 and such terms and conditions as the Committee shall determine. A grantee of a restricted stock unit will have only the rights of a general unsecured creditor of Allied World until delivery of Common Shares, cash or other securities or property is made as specified in the applicable Award Agreement. On the delivery date specified in the Award Agreement, the grantee of each restricted stock unit not previously forfeited or terminated shall receive one Common Share, or cash, securities or other property equal in value to a Common Share or a combination thereof as specified by the Committee.

2.5 Grant of Dividend Equivalent Rights

The Committee may include in the Award Agreement with respect to any Award a dividend equivalent right entitling the grantee to receive amounts equal to all or any portion of the dividends that would be paid on the Common Shares covered by such Award if such shares had been delivered pursuant to such Award. The grantee of a dividend equivalent right will have only the rights of a general unsecured creditor of Allied World until payment of such amounts is made as specified in the applicable Award Agreement. In the event such a provision is included in an Award Agreement, the Committee shall determine whether such payments shall be made in cash, in Common Shares or in another form, whether they shall be conditioned upon the exercise of the Award to which they relate, the time or times at which they shall be made, and such other terms and conditions as the Committee shall deem appropriate.

2.6 Other Stock-Based Awards

The Committee may grant other types of equity-based or equity-related Awards (including the grant or offer for sale of unrestricted Common Shares) in such amounts and subject to such terms and conditions, as the Committee shall determine. Such Awards may entail the transfer of actual Common Shares to Award recipients, or payment in cash or otherwise of amounts based on the value of Common Shares, and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

2.7 Certain Restrictions

In the case of an Award in the form of restricted stock or restricted stock units, at least one year must elapse before the delivery or payment of Common Shares, cash or other property, except in the case of (i) termination of employment due to death, disability, retirement at or after age 65 or change of control; or (ii) an Award that the Committee determines is performance based, in which case at least one year must elapse.

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ARTICLE III

MISCELLANEOUS

3.1 Amendment of the Plan

3.1.1 Unless otherwise provided in an Award Agreement, the Board may from time to time suspend, discontinue, revise or amend the Plan in any respect whatsoever, including in any manner that adversely affects the rights, duties or obligations of any grantee of an Award.

3.1.2 Unless otherwise determined by the Board, shareholder approval of any suspension, discontinuance, revision or amendment shall be obtained only to the extent necessary to comply with any applicable law or stock exchange listing requirement.

3.2 Confidentiality

In consideration of the grantee's acceptance of any Award, the grantee hereby agrees to keep confidential the existence of, and any information concerning, any dispute arising in connection with any Award, the Plan and any related matters, except that the grantee may disclose information concerning such dispute to the court that is considering such dispute or to the grantee's legal counsel (provided that such counsel agrees not to disclose any such information other than as necessary to the prosecution or defense of the dispute).

3.3 Tax Withholding

As a condition to the delivery of any Common Shares pursuant to any Award or the lifting or lapse of restrictions on any Award, or in connection with any other event that gives rise to a federal or other governmental tax withholding obligation on the part of the Company relating to an Award (including, without limitation, FICA tax), (a) the Company may deduct or withhold (or cause to be deducted or withheld) from any payment or distribution to a grantee whether or not pursuant to the Plan or (b) the Committee shall be entitled to require that the grantee remit cash to the Company (through payroll deduction or otherwise), in each case in an amount sufficient in the opinion of the Company to satisfy such withholding obligation.

3.4 Required Consents and Legends

3.4.1 If the Committee shall at any time determine that any consent (as hereinafter defined) is necessary or desirable as a condition of, or in connection with, the granting of any Award, the delivery of Common Shares or the delivery of any cash, securities or other property under the Plan, or the taking of any other action thereunder (each such action being hereinafter referred to as a plan action), then such plan action shall not be taken, in whole or in part, unless and until such consent shall have been effected or obtained to the full satisfaction of the Committee. The Committee may direct that any Certificate evidencing shares delivered pursuant to the Plan shall bear a legend setting forth such restrictions on transferability as the Committee may determine to be necessary or desirable, and may advise the transfer agent to place a stop transfer order against any legended shares.

3.4.2 The term consent as used in this Section 3.4 with respect to any plan action includes (a) any and all listings, registrations or qualifications in respect thereof upon any securities exchange or under any federal, state or local law, or law, rule or regulation of a jurisdiction outside the United States; (b) or any other matter, which the Committee may deem necessary or desirable to comply with the terms of any such listing, registration or qualification or to obtain an exemption from the requirement that any such listing, qualification or registration be made; (c) any and all other consents, clearances and approvals in respect of a plan action by any governmental or other regulatory body or any

stock exchange or self-regulatory agency; and (d) any and all consents required by the Committee. Nothing herein shall require Allied World to list, register or qualify the Common Shares on any securities exchange.

3.5 Nonassignability; No Hedging

Except to the extent otherwise expressly provided in the applicable Award Agreement or determined by the Committee, no Award (or any rights and obligations thereunder) granted to any person under the Plan may be sold,

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exchanged, transferred, assigned, pledged, hypothecated or otherwise disposed of or hedged, in any manner (including through the use of any cash-settled instrument), whether voluntarily or involuntarily and whether by operation of law or otherwise, other than by will or by the laws of descent and distribution, and all such Awards (and any rights thereunder) shall be exercisable during the life of the grantee only by the grantee or the grantee's legal representative. Any sale, exchange, transfer, assignment, pledge, hypothecation or other disposition in violation of the provisions of this Section 3.5 shall be null and void and any Award which is hedged in any manner shall immediately be forfeited. All of the terms and conditions of this Plan and the Award Agreements shall be binding upon any permitted successors and assigns.

3.6 Successor Entity

Unless otherwise provided in the applicable Award Agreement and except as otherwise determined by the Committee, in the event of a merger, amalgamation, consolidation, mandatory share exchange or other similar business combination of Allied World with or into any other entity or any transaction in which another person or entity acquires all of the issued and outstanding Common Shares of Allied World, or all or substantially all of the assets of Allied World, outstanding Awards may be assumed or a substantially equivalent award may be substituted by such successor entity or a parent or subsidiary of such successor entity.

3.7 Right of Discharge Reserved

Nothing in the Plan or in any Award Agreement shall confer upon any grantee the right to continued Employment by the Company or affect any right that the Company may have to terminate such Employment.

3.8 Nature of Payments

3.8.1 Any and all grants of Awards and deliveries of Common Shares, cash, securities or other property under the Plan shall be in consideration of services performed or to be performed for the Company by the grantee. Awards under the Plan may, in the discretion of the Committee, be made in substitution in whole or in part for cash or other compensation otherwise payable to a grantee by the Company. Only whole Common Shares shall be delivered under the Plan. Awards shall, to the extent reasonably practicable, be aggregated in order to eliminate any fractional shares. Fractional shares shall be rounded down to the nearest whole share and any such fractional shares shall be forfeited.

3.8.2 All such grants and deliveries shall constitute a special discretionary incentive payment to the grantee and shall not be required to be taken into account in computing the amount of salary or compensation of the grantee for the purpose of determining any contributions to or any benefits under any pension, retirement, profit-sharing, bonus, life insurance, severance or other benefit plan of the Company or under any agreement with the grantee, unless the Company specifically provides otherwise.

3.9 Non-Uniform Determinations

The Committee's determinations under the Plan and Award Agreements need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, Awards under the Plan (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations under Award Agreements, and to enter into non-uniform and selective Award Agreements, as to (a) the persons to receive Awards, (b) the terms and provisions of Awards and (c) whether a grantee's Employment has been terminated for purposes of the Plan.

3.10 Other Payments or Awards

Nothing contained in the Plan shall be deemed in any way to limit or restrict the Company from making any award or payment to any person under any other plan, arrangement or understanding, whether now existing or hereafter in effect.

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3.11 Plan Headings

The headings in this Plan are for the purpose of convenience only and are not intended to define or limit the construction of the provisions hereof.

3.12 Termination of Plan

The Board reserves the right to terminate the Plan at any time; *provided, however*, that in any case, the Plan shall terminate on May ~~27, 2014~~,

8, 2018,

and provided further, that all Awards made under the Plan prior to its termination shall remain in effect until such Awards have been satisfied or terminated in accordance with the terms and provisions of the Plan and the applicable Award Agreements.

3.13 Governing Law; Venue

THIS PLAN SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. IN CONSIDERATION OF THE GRANTEE S ACCEPTANCE OF THE ISSUANCE OF ANY AWARD, THE GRANTEE HEREBY EXPRESSLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF AND VENUE IN THE COURTS OF BERMUDA WITH RESPECT TO ANY SUIT OR CLAIM INSTITUTED BY THE COMPANY OR THE GRANTEE RELATING TO THIS PLAN OR THE AWARD.

3.14 Severability; Entire Agreement

If any of the provisions of this Plan or any Award Agreement is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining provisions shall not be affected thereby; provided, that if any of such provisions is finally held to be invalid, illegal or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such provision shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder. The Plan and any Award Agreements contain the entire agreement of the parties with respect to the subject matter thereof and supersede all prior agreements, promises, covenants, arrangements, communications, representations and warranties between them, whether written or oral with respect to the subject matter thereof.

3.15 Waiver of Claims

Each grantee of an Award recognizes and agrees that prior to being selected by the Committee to receive an Award he or she has no right to any benefits hereunder. Accordingly, in consideration of the grantee s receipt of any Award hereunder, he or she expressly waives any right to contest the amount of any Award, the terms of any Award Agreement, any determination, action or omission hereunder or under any Award Agreement by the Committee, Allied World or the Board, or any amendment to the Plan or any Award Agreement (other than an amendment to this Plan or an Award Agreement to which his or her consent is expressly required by the express terms of an Award Agreement).

3.16 No Third Party Beneficiaries

Except as expressly provided therein, neither the Plan nor any Award Agreement shall confer on any person other than Allied World and the grantee of any Award any rights or remedies thereunder. The exculpation and indemnification

provisions of Section 1.3.3 shall inure to the benefit of a Covered Person's estate and beneficiaries and legatees.

3.17 Successors and Assigns of Allied World

The terms of this Plan shall be binding upon and inure to the benefit of Allied World and any successor entity contemplated by Section 3.6.

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3.18 Date of Adoption and Approval of Shareholders

The Plan was ~~originally~~ adopted effective on February ~~19, 2004~~ 28, 2008, by the Board ~~and approved~~, subject to approval by the shareholders of ~~Allied World at the 2004 Annual~~ the Company at a General Meeting of Shareholders, ~~and was amended and restated by the Board on May 22, 2006 and approved by the shareholders of Allied World at a Special General Meeting of Shareholders on June 9, 2006.~~ on May 8, 2008.

3.19 Section 409A

The Plan and all Awards granted hereunder are intended to be exempt from the provisions of Section 409A of the Internal Revenue Code of 1986, as amended (Section 409A). To the extent that any Awards, payments or benefits provided hereunder are considered deferred compensation subject to Section 409A, the Company intends for this Plan and all Awards to comply with the standards for nonqualified deferred compensation established by 409A (the 409A Standards). Notwithstanding anything herein to the contrary, to the extent that any terms of the Plan or any Award would subject recipient of an Award to gross income inclusion, interest or an additional tax pursuant to Section 409A, those terms are, to that extent, superseded by the 409A Standards. The Company reserves the right to amend Awards granted hereunder to cause such Awards to comply with or be exempt from Section 409A.

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APPENDIX C

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

2008 EMPLOYEE SHARE PURCHASE PLAN

Allied World Assurance Company Holdings, Ltd, hereby adopts the Allied World Assurance Company Holdings, Ltd 2008 Employee Share Purchase Plan (the Plan), effective as of February 28, 2008 (the Effective Date), subject to the approval of the shareholders of the Company.

1. Purpose. The purposes of the Plan are as follows:

- a. To assist Eligible Employees in acquiring an ownership interest in the Company pursuant to a plan that is intended to qualify as an employee stock purchase plan within the meaning of Section 423(b) of the Code; and
- b. To help such Eligible Employees provide for their future security and to encourage them to remain in the employment of the Company and its Subsidiaries.

2. Definitions.

(i) Administrator shall mean the Compensation Committee of the Board.

(ii) Board shall mean the Board of Directors of the Company.

(iii) Code shall mean the Internal Revenue Code of 1986, as amended, and the applicable rulings and regulations thereunder.

(iv) Common Shares shall mean the common shares of the Company, \$0.03 par value per share. Common Shares shall also include any other securities of the Company that may be substituted for Common Shares pursuant to Section 19 hereof.

(v) Company shall mean Allied World Assurance Company Holdings, Ltd, a Bermuda exempted company, or any successor corporation.

(vi) Compensation shall mean all base straight time gross earnings and commissions, exclusive of payments for overtime, shift premiums, incentive compensation, incentive payments, bonuses, expense reimbursements, fringe benefits and other compensation.

(vii) Eligible Employee shall mean an Employee of the Company or a Subsidiary (i) who would not, immediately after an option is granted to him hereunder, own shares possessing 5% or more of the total combined voting power or value of all classes of shares of the Company, a Parent, or a Subsidiary (as determined under Section 423(b)(3) of the Code); (ii) whose customary employment is for more than 20 hours per week; and (iii) whose customary employment is for more than five months in any calendar year. For purposes of clause (i) of this subsection (g), the rules of Section 424(d) of the Code with regard to the attribution of share ownership shall apply in determining the share ownership of an individual, and shares which an Employee may purchase under outstanding options shall be treated as shares owned by the Employee.

(viii) Employee shall mean any person who renders services to the Company or a Subsidiary in the status of an employee within the meaning of Code Section 3401(c). Employee shall not include any director of the Company or a

Subsidiary who does not render services to the Company or a Subsidiary in the status of an employee within the meaning of Code Section 3401(c). For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company or Subsidiary and meeting the requirements of Treasury Regulation Section 1.421-7(h)(2). Where the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

(ix) Employer shall mean, as to any particular Employee, the company or corporation which employs such Employee, whether it be the Company or a Subsidiary.

(x) Enrollment Date shall mean the first Trading Day of each Offering Period.

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- (xi) Exercise Date shall mean the last Trading Day of each Offering Period.
- (xii) Fair Market Value shall mean, as of any date, the value of a Common Share determined as follows:
- (i) If the Common Shares are traded on an exchange, Fair Market Value shall be the closing sales price for one Common Share as reported in The Wall Street Journal (or such other source as the Administrator may deem reliable for such purposes) for such date, or if no sale occurred on such date, the first Trading Day immediately prior to such date during which a sale occurred;
- (ii) If the Common Shares are not traded on an exchange but are quoted on a quotation system, Fair Market Value shall be the mean between the closing representative bid and asked prices for one Common Share on such date, or if no sale occurred on such date, the first date immediately prior to such date on which sales prices or bid and asked prices, as applicable, are reported by such quotation system; or
- (iii) In the absence of an established market for the Common Shares, Fair Market Value shall be determined in good faith by the Administrator.
- (xiii) Offering Period shall mean each period of approximately six months commencing on each January 1 and July 1 and terminating on the next occurring June 30 or December 31, as applicable. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan, but in no event may an Offering Period have a duration in excess of 27 months.
- (xiv) Parent means any corporation, other than the Company, in an unbroken chain of corporations ending with the Company if, at the time of the determination, each of the corporations other than the Company owns shares possessing 50% or more of the total combined voting power of all classes of shares in one of the other corporations in such chain.
- (xv) Participant means an Eligible Employee who participates in the Plan pursuant to Section 5 hereof.
- (xvi) Purchase Price shall mean 85% of the Fair Market Value of one Common Share on the Exercise Date; provided, however, that the Purchase Price may be adjusted by the Administrator pursuant to Section 19 hereof; provided, further, that the Purchase Price shall not be less than the par value of one Common Share.
- (xvii) Subsidiary shall mean any corporation, other than the Company, in an unbroken chain of corporations beginning with the Company if, at the time of the determination, each of the corporations other than the last corporation in an unbroken chain owns shares possessing 50% or more of the total combined voting power of all classes of shares in one of the other corporations in such chain.
- (xviii) Trading Day shall mean a day on which the principal exchange on which the Common Shares are traded is open for trading.

3. Eligibility.

- a. Any Employee who is an Eligible Employee on the Enrollment Date for an Offering Period shall be eligible to participate in the Plan during such Offering Period, subject to the requirements of Section 5 hereof and the limitations imposed by Section 423(b) of the Code.
- b. No Eligible Employee shall be granted an option under the Plan to purchase Common Shares, or under any other employee share purchase plan to purchase shares of the Company, any Parent, or any Subsidiary subject to Section 423 of the Code, to accrue at a rate which exceeds \$25,000 of the Fair Market Value of such shares

(determined at the time the option is granted) for each calendar year in which the option is outstanding at any time. For purposes of the limitation imposed by this subsection, the right to purchase shares under an option accrues when the option (or any portion thereof) first becomes exercisable during the calendar year, the right to purchase shares under an option accrues at the rate provided in the option, but in no case may such rate exceed \$25,000 of the Fair Market Value of such shares (determined at the time such option is granted) for any one calendar year, and a right to purchase shares which has accrued under an option may not be carried over to any other option. This limitation shall be applied in accordance with Section 423(b)(8) of the Code.

4. Offering Periods. Subject to approval by shareholders of the Company, the Plan shall be implemented by consecutive Offering Periods beginning on July 1, 2008, and shall continue until it expires or is terminated in

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accordance with Section 20 hereof. The Administrator shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without shareholder approval if such change is announced at least five days prior to the scheduled beginning of the first Offering Period to be affected thereafter; provided, however, that no Offering Period shall expire later than the date on which this Plan expires or is terminated in accordance with Section 20 hereof.

5. Participation.

a. Each Eligible Employee may become a Participant with respect to any Offering Period by completing a subscription agreement authorizing payroll deductions in a form acceptable to the Administrator and filing it with the Company (or its designated third-party share plan administrator) 15 business days (or a different number of days as may be determined by the Administrator, in its sole discretion) prior to the first day of such Offering Period. A Participant's completion of a subscription agreement with respect to any Offering Period will enroll such Participant in the Plan for each subsequent Offering Period on the terms contained therein until the Participant either submits a new subscription agreement, withdraws from participation under the Plan as provided in Section 10 hereof, or otherwise becomes ineligible to participate in the Plan.

b. Payroll deductions for a Participant shall commence on the first payday following the Enrollment Date and shall end on the last payday in the Offering Period with respect to which such authorization is applicable, unless sooner terminated by the Participant as provided in Section 10 hereof.

c. During a Participant's leave of absence approved by his Employer and meeting the requirements of Treasury Regulation Section 1.421-7(h)(2), such Participant may continue to participate in the Plan by making cash payments to the Company on each payday equal to the amount of the Participant's payroll deductions under the Plan for the payday immediately preceding the first day of such Participant's leave of absence. If a leave of absence is unapproved or fails to meet the requirements of Treasury Regulation Section 1.421-7(h)(2), the Participant will automatically cease to participate in the Plan and may not make any further contributions to the Plan hereunder. In such event, the Company will automatically cease to deduct the Participant's payroll under the Plan. The Company will pay to the Participant his total payroll deductions for the Offering Period, in cash in one lump sum (without interest), as soon as practicable after the Participant ceases to participate in the Plan.

d. The subscription agreement(s) used in connection with the Plan shall be in a form prescribed by the Administrator, and the Administrator may, in its sole discretion, determine whether such agreement shall be submitted in written or electronic form.

6. Payroll Deductions.

a. At the time a Participant files his subscription agreement, he shall elect to have payroll deductions made on each payday (such amount to be deducted after any applicable deduction for tax and other withholding) during the Offering Period in an amount from 1% to 10% of the Compensation which he receives on each pay day during the Offering Period.

b. All payroll deductions made for a Participant shall be credited to his account under the Plan and shall be withheld in whole percentages only. Except as described in Section 5(c) hereof, a Participant may not make any additional payments into such account.

c. A Participant may discontinue his participation in the Plan as provided in Section 10 hereof, or may increase or decrease the rate of his payroll deductions during the Offering Period by completing or filing with the Company (or its designated third-party share plan administrator) a new subscription agreement authorizing a change in payroll

deduction rate. The Administrator may, in its discretion, limit the number of participation rate changes per Participant during any Offering Period. The change in rate shall be effective with the first full payroll period following five business days (or a different number of days as may be determined by the Administrator, in its sole discretion) after the Company's (or its designated third-party share plan administrator's) receipt of the new subscription agreement.

d. Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a Participant's payroll deductions may be decreased to 0% at any time during an Offering Period.

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e. At the time an option is exercised, in whole or in part, or at the time some or all of the Common Shares issued under the Plan are disposed of, the Participant must make adequate provision for any federal, state or other tax obligations, if any, which arise upon the exercise of the option or the disposition of the Common Shares. At any time, the Company may, but shall not be obligated to, withhold from all of the Participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to the sale or early disposition of Common Shares by the Employee.

7. Grant of Option. On the Enrollment Date of each Offering Period, each Participant in such Offering Period shall be granted an option to purchase on the Exercise Date with respect to such Offering Period (at the applicable Purchase Price) up to a number of the Common Shares determined by dividing such Participant's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; *provided, however*, that such purchase shall be subject to the limitations set forth in Sections 3 and 13 hereof. Exercise of the option shall occur as provided in Section 8 hereof, unless the Participant has withdrawn from participation pursuant to Section 10 hereof or otherwise becomes ineligible to participate in the Plan. The option shall expire on the last day of the Offering Period.

8. Exercise of Option.

a. Unless a Participant withdraws from the Plan as provided in Section 10 hereof or otherwise becomes ineligible to participate in the Plan, such Participant's option for the purchase of Common Shares shall be exercised automatically on the Exercise Date, and the maximum number of full Common Shares subject to the option shall be purchased for such Participant at the applicable Purchase Price with the accumulated payroll deductions in his account. No fractional Common Shares shall be purchased, and any payroll deductions accumulated in a Participant's account which are not sufficient to purchase a full Common Share shall be retained in such Participant's account for the subsequent Offering Period. During a Participant's lifetime, a Participant's option to purchase Common Shares hereunder is exercisable only by him.

b. If the Administrator determines that, on a given Exercise Date, the number of Common Shares with respect to which options are to be exercised may exceed either (i) the number of Common Shares that were available for sale under the Plan on the Enrollment Date of the applicable Offering Period (notwithstanding any authorization of additional Common Shares for issuance under the Plan by the Company's shareholders subsequent to such Enrollment Date); or (ii) the number of Common Shares available for sale under the Plan on such Exercise Date, the Administrator shall provide that the Company (or its designated third-party share plan administrator) shall make a pro rata allocation of the Common Shares available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all Participants exercising options to purchase Common Shares on such Exercise Date, and shall decide, in its sole discretion, to either (x) continue all Offering Periods then in effect or (y) terminate any or all Offering Periods then in effect pursuant to Section 20 hereof. In the event of such a pro rata allocation of Common Shares pursuant to this Section 8(b), the balance of the amount credited to the account of each Participant that has not been applied to the purchase of Common Shares shall be paid to each such Participant in one lump sum in cash as soon as reasonably practicable after the Exercise Date, without any interest thereon.

9. Deposit of Common Shares. As promptly as practicable after each Exercise Date on which a purchase of Common Shares occurs, the Company may arrange for the deposit, into each Participant's account with any broker designated by the Company to administer this Plan, of the number of Common Shares purchased upon exercise of each such Participant's option.

10. Withdrawal.

a. At any time prior to the Exercise Date, a Participant, by giving written notice to the Company (or its designated third-party share plan administrator) in a form acceptable to the Administrator, may withdraw all but not less than all of the payroll deductions credited to his account and not yet used to exercise an option under the Plan. All of the Participant's payroll deductions credited to his account during the Offering Period, plus any balance retained in his account from a prior Offering Period, if any, shall be paid to such Participant as soon as reasonably practicable after receipt of notice of withdrawal, and such Participant's option for the Offering Period shall be

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automatically terminated, and no further payroll deductions for the purchase of Common Shares shall be made for such Offering Period. If a Participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of any subsequent Offering Period unless the Participant delivers to the Company (or its designated third-party share plan administrator) a new subscription agreement in accordance with the terms of Section 5(a) hereof.

b. A Participant's withdrawal from an Offering Period shall not have any effect upon his eligibility to participate in any similar plan which may hereafter be adopted by the Company or in Offering Periods which commence after the termination of the Offering Period from which the Participant withdraws.

11. *Termination of Employment.* Upon a Participant's ceasing to be an Eligible Employee, for any reason, such Participant shall be deemed to have elected to withdraw from the Plan, and the payroll deductions credited to such Participant's account during the Offering Period, plus any balance retained in his account from a prior Offering Period, if any, shall be paid to him, or in the case of his death, to the person or persons entitled thereto under Section 15 hereof, as soon as reasonably practicable, and such Participant's option for the Offering Period shall be automatically terminated.

12. *Interest.* No interest shall accrue on the payroll deductions or lump sum contributions of a Participant in the Plan.

13. *Shares Subject to Plan.*

a. Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, a maximum of 1,000,000 Common Shares shall be made available for sale under the Plan. If any option granted under the Plan shall for any reason terminate without having been exercised, the Common Shares not purchased under such option shall again become available for issuance under the Plan. The shares subject to the Plan may be unissued shares or reacquired shares bought on the market or otherwise.

b. Except as otherwise provided herein, with respect to Common Shares subject to an option granted under the Plan, a Participant shall not be deemed to be a shareholder of the Company, and the Participant shall not have any of the rights or privileges of a shareholder, until such Common Shares have been issued to the Participant or his nominee following exercise of the Participant's option. No adjustments shall be made for dividends (ordinary or extraordinary, whether in cash securities, or other property) or distributions or other rights for which the record date occurs prior to the date of such issuance, except as otherwise expressly provided herein.

14. *Administration.*

a. It shall be the duty of the Administrator to conduct the general administration of the Plan in accordance with the provisions of the Plan. The Administrator shall have the power to interpret the Plan and the terms of the options and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. The Administrator may adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by employees who are foreign nationals or employed outside the United States. The Administrator at its option may utilize the services of an agent to assist in the administration of the Plan, including establishing and maintaining an individual securities account under the Plan for each Participant. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Administrator under the Plan.

b. The Administrator may delegate to officers or employees of the Company or any of its affiliates, or committees thereof, the authority, subject to such terms as the Administrator shall determine, to perform such functions, including, but not limited to, administrative functions, as the Administrator may determine appropriate. The Administrator may

appoint agents to assist it in administering the Plan.

c. The Administrator may employ attorneys, consultants, accountants, appraisers, brokers or other persons in connection with its administration of the Plan. All expenses and liabilities incurred by the Administrator in connection with the administration of the Plan shall be borne by the Company. The Administrator, the Company, and its officers and directors shall be entitled to rely upon the advice, opinions and valuations of any such persons. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be final and binding upon all Participants, the Company and all other interested persons. No member of the Administrator or person to whom the powers of administration have been delegated hereunder, shall be personally liable for any

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action, determination or interpretation made in good faith with respect to the Plan or the options, and all members of the Administrator, and all persons to whom the powers of administration have been delegated, shall be fully protected by the Company in respect of any such action, determination or interpretation.

15. Designation of Beneficiary.

a. A Participant may file a written designation of a beneficiary who is to receive any Common Shares and cash, if any, from such Participant's account under the Plan in the event of such Participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such Participant of such Common Shares and cash. In addition, a Participant may file a written designation of a beneficiary who is to receive any cash from the Participant's account under the Plan in the event of such Participant's death prior to exercise of the option. To the extent required under applicable law, spousal consent shall be required for such designation to be effective if the Participant is married and the designated beneficiary is not the Participant's spouse.

b. Such beneficiary designation may be changed by the Participant at any time by written notice to the Company. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such Common Shares and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such Common Shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. Transferability. Neither payroll deductions credited to a Participant's account nor any rights with regard to the exercise of an option or to receive Common Shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way by the Participant (other than by will, the laws of descent and distribution, or as provided in Section 15 hereof). Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Reports. Individual accounts shall be maintained for each Participant in the Plan. Statements of account shall be given to Participants following each Offering Period, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of Common Shares purchased, and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization, Merger, Amalgamation, Asset Sale, Dissolution or Liquidation.

a. Changes in Capitalization. The number of Common Shares which have been authorized for issuance under the Plan but not yet placed under option, the maximum number of Common Shares each Participant may purchase in each Offering Period (pursuant to Section 7 hereof), as well as the price per Common Share and the number of Common Shares covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued Common Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Shares, or any other increase or decrease in the number of Common Shares effected without receipt of consideration by the Company; *provided, however*, that conversion of any convertible securities of the Company shall not be deemed to have been effected without receipt of consideration. Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive on all Participants and the Company. Except as expressly provided herein, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by

reason thereof shall be made with respect to, the number or price of Common Shares subject to an option.

b. Merger, Amalgamation, Asset Sale, Dissolution or Liquidation. In the event of a proposed merger or amalgamation of the Company with or into another corporation or a proposed sale of all or substantially all of the

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assets of the Company, each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation or a parent or subsidiary of the successor corporation refuses to assume or substitute for the option, or in the event of the proposed dissolution or liquidation of the Company, the Offering Period then in progress shall be shortened by the Administrator by setting a new Exercise Date (the New Exercise Date), which shall occur no later than immediately prior to the effective date of such proposed merger, amalgamation, sale, dissolution or liquidation, as applicable. The Company shall notify each Participant in writing, at least ten business days prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option shall be exercised automatically on the New Exercise Date, unless prior to such New Exercise Date the Participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. Amendment or Termination.

- a. The Board may at any time and for any reason terminate or amend the Plan. Except as provided in Section 19 hereof, no such termination shall affect options previously granted, provided that an Offering Period may be terminated by the Board if the Board determines that the termination of the Offering Period or the Plan is in the best interests of the Company and its shareholders. Except as provided in Section 19 hereof and this Section 20, no amendment may make any change in any option theretofore granted which adversely affects the rights of any Participant without the consent of such Participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company shall obtain shareholder approval of any amendment in such a manner and to such a degree as required.
- b. Without shareholder consent and without regard to whether any Participant's rights may be considered to have been adversely affected, the Administrator shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Shares for each Participant properly correspond with amounts withheld from the Participant's Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable which are consistent with the Plan.
- c. In the event the Board determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such financial accounting consequences, including, but not limited to:
- (i) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;
 - (ii) shortening any Offering Period so that the Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Administrator action; and
 - (iii) allocating shares.

Such modifications or amendments shall not require shareholder approval or the consent of any Participants.

21. Notices. All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions to Issuance of Shares.

a. The Company shall not be required to issue or deliver to a Participant any certificate or certificates for shares purchased upon the exercise of options prior to fulfillment of all the following conditions:

(i) The admission of such shares to listing on all stock exchanges, if any, on which the Common Shares are then listed;

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(ii) The obtaining of any approval or other clearance from any state or federal governmental agency which the Administrator shall, in its absolute discretion, determine to be necessary or advisable;

(iii) Such Participant's payment to the Company of all amounts which it is required to withhold under federal, state or local law upon exercise of the option; and

(iv) The lapse of such reasonable period of time following the exercise of the option as the Administrator may from time to time establish for reasons of administrative convenience.

b. The obligation of the Company to make a payment of Common Shares or otherwise shall be subject to all applicable laws, rules and regulations, and to such approvals by governmental agencies as may be required. Notwithstanding any terms or conditions of any option to the contrary, the Company shall be under no obligation to offer to sell or to sell and shall be prohibited from offering to sell or selling any Common Shares pursuant to an option unless such Common Shares have been properly registered for sale with the Securities and Exchange Commission pursuant to the Securities Act of 1933 or unless the Company has received an opinion of counsel, satisfactory to the Company, that such Common Shares may be offered or sold without such registration pursuant to an available exemption therefrom and the terms and conditions of such exemption have been fully complied with. The Company shall be under no obligation to register for sale or resale under the Securities Act of 1933 any of the Common Shares to be offered or sold under the Plan or any Common Shares issued upon exercise or settlement of options. If the Common Shares offered for sale or sold under the Plan are offered or sold pursuant to an exemption from registration under the Securities Act of 1933, the Company may restrict the transfer of such Common Shares and may legend the share certificates representing such Common Shares in such manner as it deems advisable to ensure the availability of any such exemption.

23. *Term of Plan.* The Plan shall become effective as of the Effective Date. The Plan shall be deemed to be approved by the Company's shareholders if it receives the affirmative vote of the Company's shareholders in accordance with the Bye-laws of the Company. Subject to approval by the shareholders of the Company in accordance with this Section 23, the Plan shall be in effect until the 10th anniversary of the date of the initial adoption of the Plan by the Board, unless sooner terminated under Section 20 hereof. In the event the Company's shareholders do not approve this Plan pursuant to this Section 23, neither this Plan nor any elections made hereunder shall be of any force or effect, any outstanding option shall be cancelled for no consideration, and all amounts deducted from each Participant's paycheck shall be repaid to such Participant as soon as practicable without interest.

24. *Equal Rights and Privileges.* All Eligible Employees of the Company (or of any Subsidiary) will have equal rights and privileges under this Plan so that this Plan qualifies as an employee stock purchase plan within the meaning of Section 423 of the Code. Any provision of this Plan that is inconsistent with this requirement to provide equal rights and privileges will, without further act or amendment by the Company, the Board or the Administrator, be reformed to comply with the equal rights and privileges requirement of Section 423 of the Code.

25. *Section 409A.* The options to purchase Common Shares under the Plan are not intended to constitute nonqualified deferred compensation within the meaning of Section 409A of the Code. However, if at any time the Administrator determines that the options may be subject to Section 409A of the Code, the Administrator shall have the right, in its sole discretion, to amend the Plan and any outstanding options as it may determine is necessary or desirable either to exempt the options from the application of Section 409A of the Code or to cause the options to comply with the requirements of Section 409A of the Code.

26. *No Employment Rights.* Nothing in the Plan shall be construed to give any person (including any Eligible Employee or Participant) the right to remain in the employ of the Company, a Parent or a Subsidiary, or to affect the right of the Company, any Parent or any Subsidiary to terminate the employment of any person (including any

Eligible Employee or Participant) at any time, with or without cause.

27. Notice of Disposition of Shares; Transfer Restrictions. If required by the Company, each Participant shall give prompt notice to the Company (at its local Human Resources office), or cause a designated third-party share administrator to give prompt notice to the Company, of any disposition or other transfer of any Common Shares purchased upon exercise of an option hereunder if such disposition or transfer is made either (a) within two years from the Enrollment Date of the Offering Period in which the Common Shares were purchased or (b) within

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one year after the Exercise Date on which such Common Shares were purchased. Such notice shall specify the date of such disposition or other transfer and the amount realized, in cash, other property, assumption of indebtedness, or other consideration, by the Participant in such disposition or other transfer. Notwithstanding anything herein to the contrary, no Participant shall be permitted to dispose of or transfer any Common Shares purchased pursuant to an option hereunder prior to the date that is 12 months following the date upon which such Common Shares were so purchased. The Administrator may provide, in its sole discretion, that the Common Shares purchased pursuant to an option hereunder shall be held in book entry form, rather than delivered to the Participant, through the expiration of such 12-month period. If certificates representing the Common Shares are registered in the name of the Participant, the Administrator may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Common Shares and that the Company retain physical possession of the certificates.

28. Governing Law. Subject to any applicable provisions of United States federal law (including, without limitation, Section 423(b) of the Code), the validity and enforceability of this Plan shall be governed by and construed in accordance with the laws of the State of New York, without regard to otherwise governing principles of conflicts of law.

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APPENDIX D

**Second
Amended and Restated
BYE-LAWS
of
ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
(Effective as of [], 2008)**

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INTERPRETATION

1. Interpretation

(1) In these Bye-laws the following words and expressions shall, where not inconsistent with the context, have the following meanings respectively:

(a) *Act* means the Companies Act 1981 of Bermuda, as amended from time to time;

(b) *Affiliate* means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person. For the purposes of this definition, the term *control* means the power to direct the management of an entity, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms *controlled* and *controlling* have meanings correlative to the foregoing;

(c) *Auditor* includes any individual or partnership appointed as auditor of the Company in accordance with Bye-law 78;

(d) *Bermuda Insurance Subsidiary* means Allied World Assurance Company, Ltd., ~~and any successor thereto~~ and any other insurance company incorporated and organized under the laws of Bermuda that is a subsidiary of the Company;

(e) *Board* means the Board of Directors appointed or elected pursuant to these Bye-laws and acting by resolution in accordance with the Act and these Bye-laws or the Directors present at a meeting of Directors at which there is a quorum;

(f) *Business Day* means any day, other than a Saturday, a Sunday or any day on which banks in Hamilton, Bermuda or The City of New York, United States are authorized or obligated by law or executive order to close;

(g) *Cause* shall be deemed to exist only if (i) the Director whose removal is proposed has been charged with or convicted of an indictable offence or a felony by a court of competent jurisdiction or has been adjudged by a court of competent jurisdiction to be liable for fraud or dishonesty in the performance of such Director's duty to the Company or (ii) the Director whose removal is proposed suffers from any physical or mental disability that substantially impairs the ability of such Director to function in that capacity;

(h) *Code* means the United States Internal Revenue Code of 1986, as amended from time to time, or any federal statute from time to time in effect that has replaced such statute, and any reference in these Bye-laws to a provision of the Code or a rule or regulation promulgated thereunder means such provision, rule or regulation, as amended from time to time, or any provision of a federal law, or any federal rule or regulation, from time to time in effect that has replaced such provision, rule or regulation;

(i) *Common Shares* means the common shares, par value U.S.\$0.03 per share, of the Company and includes a fraction of a Common Share;

(j) *Company* means the company for which these Bye-laws are approved and confirmed;

(k) *Controlled Shares* of any Person means all shares of the Company, of all classes entitled to vote or to elect, appoint or replace Directors, owned by such Person, whether:

(i) directly,

(ii) with respect to Persons who are U.S. Persons, by application of the attribution and constructive ownership rules of Sections 958(a) and 958(b) of the Code or

(iii) beneficially owned directly or indirectly within the meaning of Section 13(d)(3) of the Exchange Act and the rules and regulations thereunder other than Excluded Controlled Shares;

(l) *debenture* means debenture stock, mortgages, bonds and any other such debt securities of the Company whether constituting a charge on the assets of the Company or not;

(m) *Director* means a director of the Company;

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- (n) *Eligible Subsidiary Director* has the meaning ascribed thereto in Bye-law 91(1);
- (o) *Exchange Act* means the United States Securities Exchange Act of 1934, as amended from time to time, or any federal statute from time to time in effect that has replaced such statute, and any reference in these Bye-laws to a provision of the Exchange Act or a rule or regulation promulgated thereunder means such provision, rule or regulation, as amended from time to time, or any provision of a federal law, or any federal rule or regulation, from time to time in effect that has replaced such provision, rule or regulation;
- (p) *Excluded Controlled Shares* in reference to any Person means Controlled Shares of such Person that would not be Controlled Shares of such Person but for clause (iii) of the definition of Controlled Shares, provided that (i) such Person is registered under the United States federal securities laws as a broker, dealer or investment adviser; (ii) such Person is the beneficial owner of such shares solely because it has discretionary authority to vote or dispose of such shares in a fiduciary capacity on behalf of its client who is also a beneficial owner of such shares; (iii) the voting rights carried by such shares are not being exercised (and the client is informed that they are not being exercised) by such broker, dealer or adviser and are being exercised (if they are exercised at all) by such client; and (iv) the Person would meet the eligibility test for the filing of Schedule 13G contained in Rule 13d-1(b)(1) under the Exchange Act with respect to the entirety of its common share ownership (without regard to whether such Person actually has any filing obligations under Section 13(d) of the Exchange Act), and provided, further, that the Company shall have received such assurances as it may request confirming that such shares are Excluded Controlled Shares. The Company may assume that the Controlled Shares of each Member do not include any Excluded Controlled Shares unless such Member otherwise notifies the Company and provides such assurance;
- (q) *Fair Market Value* means, with respect to a repurchase of any shares of the Company in accordance with these Bye-laws, (i) if such shares are listed on a securities exchange (or quoted in a securities quotation system), the average closing sale price of such shares on such exchange (or in such quotation system), or, if such shares are listed on (or quoted in) more than one exchange (or quotation system), the average closing sale price of the shares on the principal securities exchange (or quotation system) on which such shares are then traded, or, if such shares are not then listed on a securities exchange (or quotation system) but are traded in the over-the-counter market, the average of the latest bid and asked quotations for such shares in such market, in each case for the last five trading days immediately preceding the day on which the Repurchase Notice of such shares is sent pursuant to these Bye-laws; or (ii) if no such closing sales prices or quotations are available because such shares are not publicly traded or otherwise, the fair value of such shares as determined by one independent nationally recognized investment banking firm chosen by the Company and reasonably satisfactory to the Member whose shares are to be so repurchased by the Company, provided that the calculation of the Fair Market Value of the shares made by such appointed investment banking firm (i) shall not include any discount relating to the absence of a public trading market for, or any transfer restrictions on, such shares, and (ii) such calculation shall be final and the fees and expenses stemming from such calculation shall be borne by the Company or its assignee, as the case may be;
- (r) *Formula* has the meaning ascribed thereto in Bye-law 51(1);
- (s) *Founder* means any of the Industry Founders or GS Capital Partners 2000, L.P., GS Capital Partners 2000 Offshore, L.P., GS Capital Partners 2000 GmbH & Co. Beteiligungs KG, GS Capital Partners 2000 Employee Fund, L.P., Stone Street Fund 2000, L.P. and Bridge Street Special Opportunities Fund 2000, L.P.;
- (t) *Founder Back-Attribution Convention* has the meaning ascribed thereto in Bye-law 64(7);
- (u) *Indemnitees* has the meaning ascribed thereto in Bye-law 30;
- (v) *Industry Founders* means American International Group, Inc. and The Chubb Corporation;

(w) *Member* means the Person registered in the Register of Members as the holder of shares in the Company and, when two or more Persons are so registered as joint holders of shares, means the Person whose name stands first in the Register of Members as one of such joint holders or all of such Persons as the context so requires;

(x) *Member Notice* has the meaning ascribed thereto in Bye-law 34(2);

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(y) ~~Non-U.S. Direct Subsidiary~~ has the meaning ascribed thereto in ~~Bye-law 91(1)~~;

Non-Bermuda Insurance Subsidiary

means any insurance company incorporated and organized under the laws of any non-U.S. jurisdiction other than Bermuda that is a subsidiary of the Company;

~~(z) Non U.S. Indirect Subsidiary~~ has the meaning ascribed thereto in ~~Bye-law 91(1)~~;

(z) ~~(aa)~~ *Non-Voting Shares* has the meaning ascribed thereto in Bye-law 50(1);

(aa) ~~(bb)~~ *notice* means written notice as further defined in these Bye-laws unless otherwise specifically stated;

(bb) ~~(cc)~~ *Offending Member* has the meaning ascribed thereto in Bye-law 64(9);

(cc) ~~(dd)~~ *Officer* means any individual appointed by the Board to hold an office in the Company;

(dd) ~~(ee)~~ *Other Meeting Date* has the meaning ascribed thereto in Bye-law 34(2);

(ee) ~~(ff)~~ *Ownership Limits* has the meaning ascribed thereto in Bye-law 64(8);

(ff) ~~(gg)~~ *percentage of* the total combined voting power of all classes of shares entitled to vote has the meaning ascribed thereto in Section 951(b) of the Code and Treasury Regulations Section 1.951-1(g)(2);

(gg) ~~(hh)~~ *Person* means any individual, company, corporation, firm, partnership, limited liability company, trust or any other business, entity or person, whether or not recognized as constituting a separate legal entity;

(hh) ~~(ii)~~ *Preference Shares* has the meaning ascribed thereto in Bye-law 50(1);

(ii) ~~(jj)~~ *Register of Directors and Officers* means the Register of Directors and Officers referred to in Bye-law 28;

(jj) ~~(kk)~~ *Register of Members* means the Register of Members referred to in Bye-law 60;

(kk) ~~(ll)~~ *Repurchase Notice* has the meaning ascribed thereto in Bye-law 11(3);

(ll) ~~(mm)~~ *Repurchase Price* has the meaning ascribed thereto in Bye-law 11(3);

(mm) ~~(nn)~~ *Secretary* means the individual appointed to perform any or all the duties of secretary of the Company and includes any deputy or assistant secretary;

(nn) ~~(oo)~~ *Securities Act* means the United States Securities Act of 1933, as amended from time to time, or any federal statute from time to time in effect which has replaced such statute, and any reference in these Bye-laws to a provision of the Securities Act or a rule or regulation promulgated thereunder means such provision, rule or regulation, as amended from time to time, or any provision of a federal law, or any federal rule or regulation, from time to time in effect that has replaced such provision, rule or regulation;

(oo) ~~(pp)~~ *share* means a share of any class of shares in the capital of the Company and includes a fraction of a share;

(pp) ~~(qq)~~ *subsidiary* , with respect to any Person, means a company more than fifty percent (50%) (or, in the case of a wholly-owned subsidiary, one hundred percent (100%)) of the outstanding voting shares of which are owned, directly or indirectly, by such Person, or by one or more other subsidiaries of any such Person, and one or more other subsidiaries;

(qq) ~~(rr)~~ *10% Shareholder* means a Person who owns, in the aggregate,

(i) directly,

(ii) with respect to Persons who are U.S. Persons, by application of the attribution and constructive ownership rules of Sections 958(a) and 958(b) of the Code or

(iii) beneficially, directly or indirectly within the meaning of Section 13(d)(3) of the Exchange Act,

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issued or issuable shares of the Company representing ten percent (10%) or more of the total combined voting power of all classes of shares entitled to vote of the Company other than, with respect to clause (iii), Excluded Controlled Shares;

(rr) ~~(ss)~~ *United States* means the United States of America and dependent territories or any part thereof;

(ss) ~~(tt)~~ *U.S. Person* means (i) an individual who is a citizen or resident of the United States; (ii) a corporation, limited liability company or partnership that is, as to the United States, a domestic corporation, limited liability company or partnership; (iii) an estate that is subject to United States federal income tax on its income regardless of its source; and (iv) a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States Persons are authorized to control all substantial decisions of the trust;

(tt) ~~(uu)~~ *Voting Shares* has the meaning ascribed thereto in Bye-law 50(1).

(2) In these Bye-laws, where not inconsistent with the context:

(a) words denoting the plural number include the singular number and vice versa;

(b) words denoting the masculine gender, feminine gender or neuter shall include the masculine gender, feminine gender or neuter as the case may be;

(c) the word:

(i) *may* shall be construed as permissive;

(ii) *shall* shall be construed as imperative;

(d)
the word *insurance* shall include reinsurance;
and

(e) ~~(d)~~ unless otherwise provided herein, words or expressions defined in the Act shall bear the same meaning in these Bye-laws.

(3) Expressions referring to writing or written shall, unless the contrary intention appears, include facsimile, printing, lithography, photography, electronic mail and other modes of representing words in a visible form.

(4) Headings used in these Bye-laws are for convenience only and are not to be used or relied upon in the construction hereof.

BOARD OF DIRECTORS

2. *Board of Directors*

The business of the Company shall be managed and conducted by the Board.

3. *Management of the Company*

(1) In managing the business of the Company, the Board may exercise all such powers of the Company as are not, by statute or by these Bye-laws, required to be exercised by the Company in general meeting subject, nevertheless, to these Bye-laws, the provisions of any statute and to such regulations as may be prescribed by the Company in general meeting.

(2) No regulation or alteration to these Bye-laws made by the Company in general meeting shall invalidate any prior act of the Board which would have been valid if that regulation or alteration had not been made.

(3) The Board may procure that the Company pays all expenses incurred in promoting and incorporating the Company.

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4. *Power to appoint managing director or chief executive officer*

The Board may from time to time appoint an individual (including a Director) to act as managing director or chief executive officer of the Company, and who shall, subject to the control of the Board, supervise and administer all of the general business and affairs of the Company.

5. *Power to appoint manager*

The Board may appoint a Person to act as manager of the Company's day to day business and may entrust to and confer upon such manager such powers and duties as it deems appropriate for the transaction or conduct of such business.

6. *Power to authorise specific actions*

The Board may from time to time and at any time authorise any Person to act on behalf of the Company for any specific purpose and in connection therewith to execute any agreement, document or instrument on behalf of the Company.

7. *Power to appoint attorney*

The Board may from time to time and at any time by power of attorney appoint any Person, whether nominated directly or indirectly by the Board, to be an attorney of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Board) and for such period and subject to such conditions as it may think fit and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions so vested in the attorney. Such attorney may, if so authorised under the seal of the Company, execute any deed or instrument under such attorney's personal seal with the same effect as the affixation of the seal of the Company.

8. *Power to delegate to a committee*

The Board may appoint one or more Board committees and may delegate any of its powers (including the power to sub-delegate) to any such committee. Such committees may consist partly or entirely of non-Directors.

All Board committees shall conform to such directions as the Board shall impose on them. It is further provided that each member of a Board committee shall have one (1) vote, and each committee shall have the right as it deems appropriate to retain outside experts. Each committee may adopt rules for the conduct of its affairs, including rules governing the adoption of resolutions by unanimous written consent, and the place, time, and notice of meetings, as such committee shall consider advisable and as shall not be inconsistent with these Bye-laws or with any applicable resolution adopted by the Board. Failing the adoption of such rules, the meetings and proceedings of any such committee shall be governed by the provisions of these Bye-laws regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by directions of the Board. Each committee shall cause minutes to be made of all meetings of such committee and of the attendance thereat and shall cause such minutes and copies of resolutions adopted by unanimous consent to be promptly inscribed or incorporated by the Secretary in the Company's minute book.

9. *Power in respect of employees*

The Board may appoint, suspend or remove any managing director, manager, officer, secretary, clerk, agent or employee of the Company and may fix their remuneration and determine their duties.

10. Power to borrow and charge property

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and may issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company or any third party.

11. Exercise of power to purchase shares of or discontinue the Company

(1) The Board may exercise all the powers of the Company to purchase all or any part of its own shares pursuant to Section 42A of the Act.

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(2) The Board may exercise all the powers of the Company to discontinue the Company to a named country or jurisdiction outside Bermuda pursuant to Section 132G of the Act.

(3) **Unilateral Repurchase Right** If the Board in its absolute and unfettered discretion, on behalf of the Company, determines that share ownership by any Member may (i) result in adverse regulatory or legal consequences or (ii) result in, or materially increase the risk of, material adverse tax consequences, to the Company, any of its subsidiaries or any of the Members, the Company will have the option, but not the obligation, to repurchase, in accordance with Section 42A of the Act, all or part of the shares held by such Member (to the extent the Board, in the reasonable exercise of its discretion, determines it is necessary to avoid or cure such adverse consequences) for immediately available funds in an amount equal to the Fair Market Value of such shares on the date the Company sends the Repurchase Notice referred to below (the Repurchase Price); provided that the Board will use its best efforts to exercise this option equally among similarly situated Members (to the extent possible under the circumstances). In that event, the Company will also be entitled to assign its right to purchase to a third party or parties including the other Members. Each Member shall be bound by the determination by the Company to repurchase or assign its right to purchase such Member's shares and, if so required by the Company, shall sell the number of shares that the Company requires it to sell.

In the event that the Company or its assignee(s) determines to repurchase any such shares in accordance with this Bye-law 11(3), the Company shall provide each Member concerned with written notice of such determination (a Repurchase Notice) at least seven (7) calendar days prior to such repurchase or such shorter period as each such Member may authorize, specifying the date on which any such shares are to be repurchased and the Repurchase Price. The Company may revoke the Repurchase Notice at any time before it (or its assignee(s)) pays for the shares. The Member shall retain the ability, subject to these Bye-laws, to transfer its shares to a third party or parties that is not an Affiliate, prior to the closing of the repurchase. Neither the Company nor its assignee(s) shall be obliged to give general notice to the Members of any intention to purchase or the conclusion of any purchase of shares. Payment of the Repurchase Price by the Company or its assignee(s) shall be by wire transfer and made at a closing to be held on the first Business Day that is no less than seven (7) calendar days after receipt of the Repurchase Notice by the Member.

(4) **Restrictions on repurchases** If the Company repurchases shares, or assigns its repurchase right, pursuant to this Bye-law 11, it shall do so only in a manner ~~that~~ the Board, in its sole and absolute discretion, believes would not result, ~~upon consummation of such purchase, in a violation of the Ownership Limits as described in Bye-law 64.~~ in, or materially increase the risk of, a material adverse regulatory or tax treatment of the Company, any subsidiary thereof, or any Member in any jurisdiction.

12. *Election of Directors*

The Board shall consist of not less than seven (7) Directors or such number in excess thereof as the Board may from time to time determine up to a maximum of thirteen (13) Directors, each having one vote, who shall be elected, except in the case of vacancy, by the Members holding a plurality of the votes cast for a resolution approving such director, at a general meeting in accordance with and subject to the limitations in these Bye-laws, including, but not limited to, Bye-law 51. The Directors shall be divided into three (3) classes as nearly equal as possible (Class I, Class II and Class III). The initial Class I Directors shall serve for a term expiring at the annual general meeting of Members to be held in 2008; the initial Class II Directors shall serve for a term expiring at the annual general meeting of Members to be held in 2007; and the initial Class III Directors shall serve for a term expiring at the annual general meeting of Members to be held in 2006. At each annual general meeting of Members, the successor or successors of the class of Directors shall hold office for a term expiring at the annual general meeting of Members held in the third year

following the year of their election. The Directors elected to each class shall hold office until their successors are duly elected and qualified or until their earlier death, disqualification, resignation or removal.

13. Defects in appointment of Directors

All acts done bona fide by any meeting of the Board or by a committee of the Board or by any person acting as a Director shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every person had been duly appointed and was qualified to be a Director.

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14. Alternate Directors

No Director shall have the right to appoint another person to act as his alternate director.

15. Removal of Directors

(1) Subject to any provision to the contrary in these Bye-laws, the Members may, at any special general meeting convened and held in accordance with these Bye-laws, remove a Director, but only for Cause, provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention so to do and be served on such Director not less than 14 days before the meeting and at such meeting such Director shall be entitled to be heard on the motion for such Director's removal.

(2) A vacancy on the Board created by the removal of a Director under the provisions of subparagraph (1) of this Bye-law may be filled by the Members at the meeting at which such Director is removed and, in the absence of such election or appointment, the Board may fill any such vacancy in accordance with Bye-law 16. A Director so appointed shall hold office for the remainder of the removed Director's term or until such Director's successor is elected or appointed or such Director's office is otherwise vacated.

16. Vacancies on the Board

(1) The Board shall have the power from time to time and at any time to appoint any person as a Director to fill a vacancy on the Board occurring as the result of the death, disability, disqualification or resignation of any Director or from an increase in the size of the Board pursuant to Bye-law 12 or if such Director's office is otherwise vacated. The Board shall also have the power from time to time to fill any vacancy left unfilled at a general meeting. A Director so appointed by the Board shall hold office for the remainder of the removed Director's term or until such Director's successor is elected or appointed or such Director's office is otherwise vacated.

(2) The Board may act notwithstanding any vacancy in its number but, if and so long as its number is reduced below the number fixed by these Bye-laws as the quorum necessary for the transaction of business at meetings of the Board, the continuing Directors or Director may act only for the purpose of (a) summoning a general meeting of the Company or (b) preserving the assets of the Company.

(3) The office of Director shall be vacated if:

(a) a Director is removed from office pursuant to these Bye-laws or is prohibited from being a Director by law;

(b) a Director is or becomes bankrupt or makes any arrangement or composition with his creditors generally;

(c) a Director is or becomes of unsound mind or dies; or

(d) a Director resigns his or her office by notice in writing to the Company.

17. Notice of meetings of the Board

(1) The chairman, deputy chairman or any two (2) Directors may, and the Secretary on the requisition of the chairman, deputy chairman or any two (2) Directors shall, at any time summon a meeting of the Board by at least three

(3) Business Days notice to each Director, unless such Director consents to shorter notice. Attendance at a meeting of the Board shall constitute consent to short notice.

(2) Notice of a meeting of the Board shall be deemed to be duly given to a Director if it is given to such Director verbally in person or by telephone or otherwise communicated or sent to such Director by registered mail, electronic mail, courier service, facsimile or other mode of representing words in a legible and non-transitory form at such Director's last known address or any other address given by such Director to the Company for this purpose. If such notice is sent by electronic mail, next-day courier or facsimile, it shall be deemed to have been given the Business Day following the sending thereof and, if by registered mail, five (5) Business Days following the sending thereof.

(3) Meetings of the Directors shall be held within Bermuda, or such other countries as the Board may determine, excluding the United States.

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18. Quorum at meetings of the Board

The quorum necessary for the transaction of business at a meeting of the Board shall be a majority of the Directors then in office, present in person or represented by a duly authorized representative appointed in accordance with the Act, provided that at least two Directors are present in person.

19. Meetings of the Board

(1) The Board shall appoint a Chairman and a Deputy Chairman who shall be Directors. The Board may meet for the transaction of business, adjourn and otherwise regulate its meetings as it sees fit.

(2) Subject to Bye-law 17(3), Directors may participate in any meeting of the Board by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.

(3) Upon any vote of the Directors at a meeting of the Board, each Director shall have one vote.

(4) A resolution put to a vote at a duly constituted meeting of the Board at which a quorum is present and acting throughout shall be carried by the affirmative votes of a majority of the votes cast and in the case of an equality of votes, the resolution shall fail.

20. Chairman of meetings

The Chairman shall have the right to act as chairman at all meetings of the Members and of the Board at which the Chairman is present or, in the case of meetings of Members, such other person as the Chairman may designate to act as chairman of the meeting. In his absence, the Deputy Chairman, if present, shall have the right to act, or to designate another person to act, as chairman and in the absence of all of them a chairman shall be appointed or elected by those present at the meeting and entitled to vote.

21. Unanimous written resolutions

A resolution in writing signed by all the Directors which may be in counterparts, shall be as valid as if it had been passed at a meeting of the Board duly called and constituted, such resolution to be effective on the date on which and at the place at which, the last Director signs the resolution.

22. Contracts and disclosure of Directors' interests

(1) Any Director, or any Director's firm, partner or any company with whom any Director is associated, may act in a professional capacity for the Company and such Director or such Director's firm, partner or such company shall be entitled to remuneration for professional services as if such Director were not a Director, provided that nothing herein contained shall authorise a Director or Director's firm, partner or such company to act as Auditor of the Company.

(2) A Director who is directly or indirectly interested in a contract or proposed contract or arrangement with the Company shall declare the nature of such interest as required by the Act.

(3) Following a declaration being made pursuant to this Bye-law, and unless disqualified by a majority of the Board present at the relevant Board meeting, a Director may vote in respect of any contract or proposed contract or arrangement in which such Director is interested and may be counted in the quorum at such meeting.

23. Remuneration of Directors

(1) The remuneration (if any) of the Directors shall be determined by the Board and shall be deemed to accrue from day to day. The Directors may also be paid all travel, hotel and other expenses reasonably and properly incurred by them in attending and returning from meetings of the Board, any committee appointed by the Board, general meetings of the Company or in connection with the business of the Company or their duties as Directors generally.

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(2) A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Board may determine.

OFFICERS

24. *Officers of the Company*

The Officers of the Company shall include a Secretary, a chief executive officer and such additional Officers as the Board may from time to time determine all of whom shall be deemed to be Officers for the purposes of these Bye-laws.

25. *Appointment of Officers*

The Secretary, the chief executive officer and additional Officers, if any, shall be appointed by the Board from time to time.

26. *Remuneration of Officers*

The Officers shall receive such remuneration as the Board may from time to time determine.

27. *Duties of Officers*

The Officers shall have such powers and perform such duties in the management, business and affairs of the Company as may be delegated to them by the Board from time to time.

28. *Register of Directors and Officers*

The Board shall cause to be kept in one or more books at the registered office of the Company a Register of Directors and Officers and shall enter therein the particulars required by the Act.

MINUTES

29. *Obligations of Board to keep minutes*

(1) The Board shall cause minutes to be duly entered in books provided for the purpose:

(a) of all elections and appointments of Officers;

(b) of the names of the Directors present at each meeting of the Board and of any committee appointed by the Board; and

(c) of all resolutions and proceedings of general meetings of the Members, meetings of the Board, and meetings of committees appointed by the Board.

(2) Minutes prepared in accordance with the Act and these Bye-laws shall be kept by the Secretary at the registered office of the Company.

INDEMNITY

30. Indemnification of Directors and Officers of the Company

The Directors, Secretary and other Officers (such terms to include, for the purposes of Bye-laws 30 and 31, any person appointed to any committee by the Board) for the time being acting in relation to any of the affairs of the Company and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Company and every one of them, and their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their heirs, executors or administrators, (together, the Indemnitees) shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trusts, and none of them shall be answerable for the acts, receipts,

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neglects or defaults of the others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto, and the Company shall advance to each Indemnitee any legal or other expenses such Indemnitee reasonably incurs in investigating or defending any such claim upon receipt of notice from the Indemnitee of such expense having been levied, incurred or being expected to be incurred (together with a copy of any order, invoice, bill or other evidence thereof reasonably acceptable to the Company), provided that this indemnity shall not extend to any matter in which any of said persons is found, in a final judgment or decree not subject to appeal, to have committed fraud or dishonesty.

31. Waiver of claim by Member

Each Member agrees to waive any claim or right of action such Member might have, whether individually or by or in the right of the Company, against any Director or Officer on account of any action taken by such Director or Officer, or the failure of such Director or Officer to take any action in the performance of his duties with or for the Company, provided that such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director or Officer.

MEETINGS

32. Notice of annual general meeting

An annual general meeting of the Company shall be held in each year on such date and at such time and place as the Chairman or the Board shall appoint. At least ten (10) days notice of such meeting shall be given to each Member stating the date, place and time at which the meeting is to be held, that the election of Directors will take place thereat, and as far as practicable, the other business to be conducted at the meeting.

33. Notice of special general meeting

The Chairman or any two (2) Directors or any Director and the Secretary or the Board may convene a special general meeting of the Company whenever in their judgement such a meeting is necessary, upon not less than ten (10) days notice which shall state the date, time, place and the general nature of the business to be considered at the meeting.

34. Advance notice of Member nominees for Director and other Member proposals

(1) The matters to be considered and brought before any annual or special general meeting of Members of the Company shall be limited to only such matters, including the nomination and election of directors, as shall be brought properly before such general meeting in compliance with the Act or procedures set forth in this Bye-law 34.

(2) For any matter to be properly brought before any annual general meeting of Members, the matter must be (i) specified in the notice of annual general meeting given by or at the direction of the Board, (ii) otherwise brought before the annual general meeting by or at the direction of the Board or (iii) brought before the annual general meeting in the manner specified in this Bye-law 34(2) by a Member of record. In addition to any other requirements under applicable law, the Memorandum of Association of the Company and these Bye-laws, persons nominated by Members for election as directors of the Company and any other proposals by Members shall be properly brought before the annual general meeting only if notice in the manner contemplated hereby of any such matter to be presented by a Member at such annual general meeting of Members (the Member Notice) is delivered to the Secretary of the Company at the principal executive office of the Company not less than 90 nor more than 120 days prior to the first

anniversary date of the annual general meeting for the preceding year; provided, however, if and only if the annual general meeting is not scheduled to be held within a period that commences 30 days before such anniversary date and ends 30 days after such anniversary date (an annual general meeting date outside such period being referred to herein as an Other Meeting Date), such Member Notice shall be given in the manner provided herein by the later of the close of business on (i) the date 90 days prior to such Other Meeting Date or (ii) the tenth day following the date such Other Meeting Date is first publicly announced or disclosed. Any Member entitled to nominate any person or persons (as the case may be) for election as a director or directors of the Company shall

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deliver, as part of such Member Notice, a statement in writing setting forth the name of the person or persons to be nominated, the number and class of all shares of the Company owned of record and beneficially by each such person, as reported to such Member by such nominee(s), the information regarding each such person required by paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the Securities and Exchange Commission (or the corresponding provisions of any regulation subsequently adopted by the Securities and Exchange Commission applicable to the Company), each such person's signed consent to serve as a director of the Company if elected, such Member's name and address and the number and class of all shares of the Company owned of record and beneficially by such Member. Any Member who gives a Member Notice of any matter proposed to be brought before the annual general meeting (not involving nominees for director) shall deliver, as part of such Member Notice, the text of the proposal to be presented (including the text of any resolutions to be proposed for consideration by shareholders) and a brief written statement of the reasons why such Member favors the proposal and setting forth such Member's name and address, the number and class of all shares of the Company owned of record and beneficially by such Member and, if applicable, any material interest of such Member in the matter proposed (other than as a Member). As used herein, shares beneficially owned shall mean all shares which such person is deemed to beneficially own pursuant to Rules 13d-3 and 13d-5 under the Exchange Act. The Company may require any proposed nominee to furnish such other information as it may reasonably require to determine whether the nominee would be considered independent under the various rules and standards applicable to the Company.

Notwithstanding anything in this Bye-law 34(2) to the contrary, in the event that the number of directors to be elected to the Board of the Company is increased and either all of the nominees for director or the size of the increased Board is not publicly announced or disclosed by the Company at least 100 days prior to the first anniversary of the preceding year's annual general meeting, a Member Notice shall also be considered timely hereunder, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Company at the principal executive office of the Company not later than the close of business on the tenth day following the first date all of such nominees or the size of the increased Board shall have been publicly announced or disclosed.

(3) Only such matters shall be properly brought before a special general meeting of Members as shall have been brought before the special general meeting pursuant to the Company's notice of special general meeting. In the event the Company calls a special general meeting of Members for the purpose of electing one or more directors to the Board, not at the request of any Members acting pursuant to Bye-law 36 of these Bye-laws, any Member may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Company's notice of special general meeting, if the Member Notice required by Bye-law 34(2) hereof shall be delivered to the Secretary of the Company at the principal executive office of the Company not later than the close of business on the tenth day following the day on which the date of the special general meeting and of the nominees proposed by the Board to be elected at such special general meeting is publicly announced or disclosed.

(4) For purposes of this Bye-law 34, a matter shall be deemed to have been publicly announced or disclosed if such matter is disclosed in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Company with the Securities and Exchange Commission.

(5) In no event shall the postponement or adjournment of an annual general meeting for which notice has already been given or any announcement of such postponement or adjournment, commence a new period for the giving of notice as provided in this Bye-law 34. This Bye-law 34 shall not apply to Members' proposals made pursuant to Rule 14a-8 under the Exchange Act.

(6) The person acting as chairman at any general meeting of Members, in addition to making any other determinations that may be appropriate to the conduct of the general meeting, shall have the power and duty to determine whether notice of nominees and other matters proposed to be brought before a general meeting has been duly given in the manner provided in this Bye-law 34 and, if not so given, shall direct and declare at the general meeting that such

nominees and other matters are not properly before the general meeting and shall not be considered.

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35. Accidental omission of notice of general meeting

The accidental omission to give notice of a general meeting to, or the non-receipt of notice of a general meeting by, any Person entitled to receive notice shall not invalidate the proceedings at that meeting.

36. Meeting called on requisition of Members

Notwithstanding anything herein, the Board shall, on the requisition of Members holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up share capital of the Company as at the date of the deposit carries the right to vote at general meetings of the Company, forthwith proceed to convene a special general meeting of the Company and the provisions of Section 74 of the Act shall apply.

37. Short notice

A general meeting of the Company shall, notwithstanding that it is called by shorter notice than that specified in these Bye-laws, be deemed to have been properly called if it is so agreed by (i) all the Members entitled to attend and vote thereat in the case of an annual general meeting; and (ii) by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five percent (95%) in nominal value of the shares giving a right to attend and vote thereat in the case of a special general meeting.

38. Postponement of meetings

The Secretary may postpone any general meeting called in accordance with the provisions of these Bye-laws (other than a meeting requisitioned under Bye-law 36), provided that notice of postponement is given to each Member before the time for such meeting. Fresh notice of the date, time and place for the postponed meeting shall be given to each Member in accordance with the provisions of these Bye-laws.

39. Quorum for general meeting

At any general meeting of the Company two or more persons present in person and representing in person or by proxy in excess of fifty percent (50%) of the total issued and outstanding Voting Shares throughout the meeting shall form a quorum for the transaction of business; provided, that if the Company shall at any time have only one Member, one Member present in person or by proxy shall constitute a quorum. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the same day two (2) weeks later, at the same time and place or to such other day, time or place as the chairman of the meeting or failing him the Secretary may determine. Unless the meeting is adjourned to a specific date and time, fresh notice of the date, time and place for the resumption of the adjourned meeting shall be given to each Member in accordance with the provisions of these Bye-laws.

40. Adjournment of meetings

The chairman of a general meeting may, with the consent of the Members at any general meeting at which a quorum is present (and shall if so directed), adjourn the meeting. Unless the meeting is adjourned to a specific date and time, fresh notice of the date, time and place for the resumption of the adjourned meeting shall be given to each Member in accordance with the provisions of these Bye-laws.

41. Attendance at meetings

Members or their duly appointed proxies may participate in any general meeting solely by means of their physical attendance at the meetings, and participation by telephone, electronic or other communications facilities shall not be permitted.

42. Attendance of Directors

The Directors of the Company shall be entitled to receive notice of and to attend and be heard at any general meeting.

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43. Voting at meetings

(1) Subject to the provisions of the Act and these Bye-laws, any question proposed for the consideration of the Members at any general meeting shall be decided by the affirmative votes of a majority of the votes cast in accordance with the provisions of these Bye-laws and in the case of an equality of votes the resolution shall fail.

(2) A resolution put to a vote at any general meeting or other meeting of Members as may be required by the Act to amalgamate the Company with any Person in accordance with the Act shall be decided by the affirmative votes of a majority of the votes cast at any such meeting in accordance with the provisions of these Bye-laws and in the case of an equality of votes such resolution shall fail.

(3) No Member shall be entitled to vote at any general meeting unless such Member has paid all the calls on all shares held by such Member.

44. Voting on show of hands

At any general meeting a resolution put to the vote of the meeting shall, in the first instance, be voted upon by a show of hands and, subject to any rights or restrictions for the time being lawfully attached to any class of shares and subject to the provisions of these Bye-laws, every Member present in person and every person holding a valid proxy at such meeting shall be entitled to one vote and shall cast such vote by raising his or her hand.

45. Decision of chairman

At any general meeting a declaration by the chairman of the meeting that a question proposed for consideration has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in a book containing the minutes of the proceedings of the Company shall, subject to the provisions of these Bye-laws, be conclusive evidence of that fact.

46. Demand for a poll

(1) Notwithstanding the provisions of the immediately preceding two Bye-laws, at any general meeting of the Company, in respect of any question proposed for the consideration of the Members (whether before or on the declaration of the result of a show of hands as provided for in these Bye-laws), a poll may be demanded by any of the following persons:

(a) the chairman of such meeting;

(b) at least three (3) Members present in person or represented by proxy;

(c) any Member or Members present in person or represented by proxy and holding between them not less than one-tenth of the total voting rights of all the Members having the right to vote at such meeting; or

(d) any Member or Members present in person or represented by proxy holding shares in the Company conferring the right to vote at such meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all such shares conferring such right.

(2) Where, in accordance with the provisions of subparagraph (1) of this Bye-law, a poll is demanded, subject to any rights or restrictions for the time being lawfully attached to any class of shares, including any limitation on the voting power of any Controlled Shares pursuant to Bye-law 51, every Person present at such meeting shall have one vote for

each Voting Share (as defined in Bye-law 50) of which such Person is the holder or for which such person holds a proxy and such vote shall be counted in the manner set out in subparagraph (4) of this Bye-law and the result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded and shall replace any previous resolution upon the same matter which has been the subject of a show of hands.

(3) A poll demanded in accordance with the provisions of subparagraph (1) of this Bye-law, for the purpose of electing a chairman of the meeting or on a question of adjournment, shall be taken forthwith and a poll demanded on any other question shall be taken in such manner and at such time and place as the chairman of the meeting may direct and any business other than that upon which a poll has been demanded may be proceeded with pending the taking of the poll.

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(4) Where a vote is taken by poll, each Person present and entitled to vote shall be furnished with a ballot paper on which such Person shall record his, her or its vote in such manner as shall be determined at the meeting having regard to the nature of the question on which the vote is taken, and each ballot paper shall be signed or initialled or otherwise marked so as to identify the voter and the registered holder in the case of a proxy. At the conclusion of the poll, the ballot papers shall be examined and counted as the chairman of the meeting directs for the purpose and the result of the poll shall be declared by the chairman.

47. Seniority of joint holders voting

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

48. Instrument of proxy

(1) The instrument appointing a proxy shall be in any common form or in such other form as the Board may approve, shall be in writing, and shall be signed or, in the case of a transmission by electronic mail, electronically signed in a manner acceptable to the chairman of the meeting, by the appointor or of the appointor's attorney duly authorised in writing, or if the appointor is a corporation, either under its seal, or under the hand of a duly authorised officer or attorney. The decision of the chairman of any general meeting as to the validity of any instrument of proxy shall be final.

(2) The appointment of a proxy must be received by the Company at the registered office or at such other place or in such manner as is specified in the notice convening the meeting or in any instrument of proxy sent out by the Company in relation to the meeting at which the person named in the appointment proposes to vote, and an appointment of proxy not received in the manner so permitted shall be invalid.

49. Representation of corporations at meetings

A corporation which is a Member may, by written instrument, authorise such Person as it thinks fit to act as its representative at any meeting of the Members and the Person so authorised shall be entitled to exercise the same powers on behalf of the corporation which such Person represents as that corporation could exercise if it were an individual Member. Notwithstanding the foregoing, the chairman of the meeting may accept such assurances as he or she thinks fit as to the right of any Person to attend and vote at general meetings on behalf of a corporation which is a Member.

50. Rights of shares

(1) At the date these Bye-laws are adopted, the share capital of the Company shall be divided into three (3) classes of shares: Common Shares that carry voting rights (Voting Shares), Common Shares that do not carry voting rights (Non-Voting Shares) and Preference Shares (Preference Shares). The holders of Voting Shares shall, subject to the provisions of these Bye-laws (including, without limitation, the rights attaching to the Preference Shares):

(a) be entitled to one vote per Voting Share or, in the case of a Controlled Share of a Person that would be a 10% Shareholder without giving effect to Bye-law 51, a fraction of a vote per Controlled Share as determined pursuant to Bye-law 51;

(b) be entitled to such dividends as the Board may from time to time declare;

(c) in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganisation or otherwise or upon any distribution of capital, be entitled to the surplus assets of the Company; and

(d) generally be entitled to enjoy all of the rights attaching to shares.

Non-Voting Shares shall at all times rank, as to assets, dividends and in all other respects, on a parity with Voting Shares, except that the Non-Voting Shares shall not have the right to vote, except as otherwise provided by the Act.

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(2) The Board is authorised to provide for the issuance of the Preference Shares in one or more series, and to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof (and, for the avoidance of doubt, such matters and the issuance of such Preference Shares shall not be deemed to vary the rights attached to the Common Shares). The authority of the Board with respect to each series shall include, but not be limited to, determination of the following:

(a) the number of shares constituting that series and the distinctive designation of that series;

(b) the dividend rate (or the basis therefor, if floating) on the shares of that series, whether dividends shall be cumulative and, if so, from which date or dates, and the relative rights of priority, if any, of the payment of dividends on shares of that series;

(c) whether that series shall have voting rights, in addition to the voting rights provided by law, and if so, the terms of such voting rights;

(d) whether that series shall have conversion or exchange privileges (including, without limitation, conversion into Common Shares), and, if so, the terms and conditions of such conversion or exchange, including provision for adjustment of the conversion or exchange rate in such events as the Board shall determine;

(e) whether or not the shares of that series shall be redeemable or repurchaseable (whether at the option of the Company or the holder), and, if so, the terms and conditions of such redemption or repurchase, including the manner of selecting shares for redemption or repurchase if less than all shares are to be redeemed or repurchased, the date or dates upon or after which they shall be redeemable or repurchaseable, and the amount per share payable in case of redemption or repurchase, which amount may vary under different conditions and at different redemption or repurchase dates;

(f) whether that series shall have a sinking fund for the redemption or repurchase of shares of that series, and, if so, the terms and amount of such sinking fund;

(g) the right of the shares of that series to the benefit of conditions and restrictions upon the creation of indebtedness of the Company or any subsidiary, upon the issue of any additional shares (including additional shares of such series or any other series) and upon the payment of dividends or the making of other distributions on, and the purchase, redemption or other acquisition by the Company or any subsidiary of any issued shares of the Company;

(h) the rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, and the relative rights of priority, if any, of payment of shares of that series; and

(i) any other relative participating, optional or other special rights, qualifications, limitations or restrictions of that series including the right to appoint directors and the manner for appointing and removing such directors and the number and term of such directors.

(3) Any Preference Shares of any series which have been redeemed (whether through the operation of a sinking fund or otherwise) or which, if convertible or exchangeable, have been converted into or exchanged for shares of any other class or classes shall have the status of authorized and unissued Preference Shares of the same series and may be reissued as a part of the series of which they were originally a part or may be reclassified and reissued as part of a new series of Preference Shares to be created by resolution or resolutions of the Board or as part of any other series of Preference Shares, all subject to the conditions and the restrictions on issuance set forth in the resolution or resolutions adopted by the Board providing for the issue of any series of Preference Shares.

(4) At the discretion of the Board, whether or not in connection with the issuance and sale of any shares or other securities of the Company, the Company may issue securities, contracts, warrants or other instruments evidencing any shares, option rights, securities having conversion or option rights, or obligations on such terms, conditions and other provisions as are fixed by the Board, including, without limiting the generality of this authority, conditions that preclude or limit any Person or Persons owning or offering to acquire a specified number or percentage of the outstanding Common Shares, other shares, option rights, securities having conversion or option

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rights, or obligations of the Company or transferee of the Person or Persons from exercising, converting, transferring or receiving the shares, option rights, securities having conversion or option rights, or obligations.

51. Limitation on voting rights of Controlled Shares

(1) Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a poll at a general meeting every Member present in person or by proxy shall have one vote for each Voting Share registered in his, her or its name in the Register of Members; provided, however, that, subject to the following provisions of this Bye-law 51, if and for so long as (i) the aggregate number of votes conferred by the Controlled Shares of any Person would constitute ten percent (10%) or more of the total combined voting power of all classes of shares entitled to vote of the Company (calculated after giving effect to any prior reduction in voting rights attaching to shares of other Persons as provided in this Bye-law 51) and (ii) with respect to any Person described in clause (i) who is a U.S. Person, such Person owns by application of Section 958(a) of the Code any shares of the Company, such Controlled Shares, regardless of the identity of the registered holder thereof, shall collectively confer a number of votes determined by the following formula (the Formula):

$$((T - C) / 9) - 1$$

Where: *T* is the aggregate number of votes conferred by all the issued shares of the Company immediately prior to the application of the Formula with respect to such Controlled Shares, adjusted to take into account each reduction in such aggregate number of votes that results from a prior reduction in the exercisable votes conferred by any Controlled Shares pursuant to Bye-law 51(4) as at the same date;

C is the aggregate number of votes conferred by the Controlled Shares attributable to such Person.

Each Controlled Share shall be affected equally by such diminution.

(2) The Directors may, by notice in writing, require any Member to provide within not less than ten (10) Business Days, complete and accurate information to the registered office or such other place as the Directors may designate in respect of any or all of the following matters:

- (a) the number of shares in which such Member is legally or beneficially interested;
- (b) the Persons who are beneficially interested in shares in respect of which such Member is the registered holder;
- (c) the relationship, association or affiliation of such Member with any other Member or Person whether by means of common control or ownership or otherwise; or
- (d) any other facts or matters which the Directors may consider relevant to the determination of the number of Controlled Shares attributable to any Person.

(3) If any Member does not respond to any notice given pursuant to Bye-law 51(2) above within the time specified therein or the Directors shall have reason to believe that any information provided in relation thereto is incomplete or inaccurate, the Directors may determine that the votes attaching to any shares registered in the name of such Member shall be disregarded for all purposes until such time as a response (or additional response) to such notice reasonably satisfactory to the Directors has been received as specified therein.

(4) The Formula shall be applied successively as many times as may be necessary to ensure that ~~no Person (i) who is a~~ no

U.S. Person ~~and~~ who owns by application of Section 958(a) of the Code any shares of the Company shall be a 10% Shareholder at any time, and (ii)

no Person who is not a U.S. Person shall be a 10% Shareholder at any time. For the purposes of determining the votes exercisable by Members as of any date, the Formula shall be applied to the Controlled Shares of each Person in declining order based on the respective numbers of Controlled Shares attributable to each Person. Thus, the Formula will be applied first to the Controlled Shares of the Person to whom the largest number of Controlled Shares are attributable and thereafter sequentially with respect to the Controlled Shares of the Person with the next largest number of Controlled Shares. In each case, calculations are made on the basis of the aggregate number of votes conferred by the issued shares as of such date, as reduced by the prior application of the Formula to any Controlled Shares of any Person as of such date.

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(5) Notwithstanding the provisions of subparagraphs (1) and (2) of this Bye-law 51 above, having applied the provisions thereof as best as they consider reasonably practicable, the Directors may make such final adjustments to the aggregate number of votes attaching to the shares of any Member that they consider fair and reasonable in all the circumstances to ensure that no Person shall be a 10% Shareholder at any time. It is the intention of these Bye-laws to prevent any Person from being treated as a United States shareholder, within the meaning of Section 951(b) of the Code, that would be required to include any amounts in income for United States federal income tax purposes in respect of such Person's investment in the Company prior to receipt of dividend distributions from the Company or disposition of such Person's shares in the Company. In order to insure that no Person shall be treated as a United States shareholder within the meaning of Section 951(b) of the Code, it is also the intention of these Bye-laws to prevent any Person from exercising, through beneficial (direct or indirect) ownership within the meaning of Section 13(d)(3) of the Exchange Act, ten percent (10%) or more of the total combined voting power of all classes of shares of the Company entitled to vote. Accordingly, this Bye-law 51 should be interpreted so as to effectuate this goal (along with conforming definitional changes as needed) in light of future events, including, but not limited to, (i) the issuance of other shares, or right to acquire shares, that are entitled to vote; and (ii) any recapitalization or modification to the rights of any shares the effect of which is, in part, to alter the voting rights or relative voting rights of any shares.

52. Power to issue shares

(1) Subject to these Bye-laws and to any rights attaching to issued shares of the Company, the unissued shares of the Company (whether forming part of the original share capital or any increased share capital) shall be at the disposal of the Board, which may issue, offer, allot, exchange or otherwise dispose of shares or options, warrants or other rights to purchase shares or, subject to Section 43 of the Act, securities convertible into or exercisable or exchangeable for shares (including any employee benefit plan providing for the issuance of shares or options or rights in respect thereof), at such times, for such consideration and on such terms and conditions as it may determine (including, without limitation, such preferred or other special rights or restrictions with respect to dividend, voting, liquidation or other rights of the shares as may be determined by the Board).

(2) Notwithstanding the foregoing provisions of this Bye-law, the Company shall not issue any shares in a manner that the Board believes would cause, by reason of such issuance, a violation of the Ownership Limits (described below under Bye-law 64).

Notwithstanding the foregoing provisions of this Bye-law, the restrictions of this Bye-law 52(2) shall not apply to any issuance of shares to a Person acting as an underwriter in the ordinary course of its business, purchasing such shares pursuant to a purchase agreement to which the Company is a party, for resale.

(3) The Board shall, in connection with the issue of any share, have the power to pay such commission and brokerage as may be permitted by law.

(4) The Company shall not give, whether directly or indirectly, whether by means of loan, guarantee, provision of security or otherwise, any financial assistance for the purpose of a purchase or subscription made or to be made by any Person of or for any shares in the Company, but nothing in this Bye-law shall prohibit transactions mentioned in or permitted pursuant to Sections 39A, 39B and 39C of the Act.

(5) The Company may from time to time do any one or more of the following things:

(a) make arrangements on the issue of shares for a difference between the Members in the amounts and times of payments of calls on their shares;

(b) accept from any Member the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up;

(c) pay dividends in proportion to the amount paid up on each share where a larger amount is paid up on some shares than on others; and

(d) issue its shares in fractional denominations and deal with such fractions to the same extent as its whole shares and shares in fractional denominations shall have in proportion to the respective fractions

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represented thereby all of the rights of whole shares including (but without limiting the generality of the foregoing) the right to vote, to receive dividends and distributions and to participate in a winding up.

53. Variation of rights, alteration of share capital and purchase of shares of the Company

(1) Without limitation to Bye-law 50, subject to the provisions of Sections 42 and 43 of the Act any Preference Shares may be issued or converted into shares that, at a determinable date or at the option of the Company, are liable to be redeemed on such terms and in such manner as the Company before the issue or conversion may by resolution of the Board determine.

(2) While the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a resolution passed by a majority of the votes cast at a separate general meeting of the holders of the shares of the class in accordance with Section 47(7) of the Act. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(3) The Company may from time to time by resolution of the Members change the currency denomination of, increase, alter or reduce its share capital in accordance with the provisions of Sections 45 and 46 of the Act. Where, on any alteration of share capital, fractions of shares or some other difficulty would arise, the Board may deal with or resolve the same in such manner as it thinks fit, including, without limiting the generality of the foregoing, the issue to Members, as appropriate, of fractions of shares and/or arranging for the sale or transfer of the fractions of shares of Members.

(4) Subject to Bye-law 11(4), the Company may from time to time purchase its own shares in accordance with the provisions of Section 42A of the Act.

(5) Notwithstanding Bye-law 53(3), the Board may generally exercise the powers of the Company set out in Sections 45(1)(b), (c), (d) and (e) of the Act, without the need of any approval of the Members as might otherwise be required by such sections of the Act.

54. Conversion and transfer of Non-Voting Shares

Subject to Bye-law 64:

(1) Except as provided in Bye-law 54(3) below, upon the sale, transfer or other disposition of Non-Voting Shares by any Member, such Non-Voting Shares shall become Voting Shares in the hands of the transferee, and shall be so reflected in the Register of Members.

(2) (a) Subject to the terms and conditions hereof, a holder of Non-Voting Shares shall have the right at any time and from time to time, without payment of additional consideration, to convert all or any part of such Member's Non-Voting Shares into Voting Shares on a one-for-one basis.

(b) Such conversion shall take effect upon the registration of such conversion, which shall (subject to Bye-law 64) occur upon the holder providing written notice of such conversion to the Company specifying the date on which such conversion is to be registered, which shall be a date at least 10 days after the date on which such notice is delivered to the Company, or such other date as the holder and the Company may agree. From and after the date such conversion is registered, the holder of the Non-Voting Shares shall cease to be entitled to any rights or privileges

attached to the Non-Voting Shares and the certificates representing the Non-Voting Shares shall represent only a right to receive certificates for the Voting Shares into which such Non-Voting Shares have been converted. The Company shall deliver or caused to be delivered, to the order of all holders of Non-Voting Shares who have surrendered to the Company for cancellation certificates representing Non-Voting Shares, certificates representing the Voting Shares into which such Non-Voting Shares have been converted.

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(3) Notwithstanding anything in this Bye-law 54 to the contrary and subject to Bye-law 64, a holder of Non-Voting Shares shall have the right to transfer such Non-Voting Shares to (i) an Affiliate or (ii) any other Member that is, prior to such transfer, a holder of Non-Voting Shares. Any Non-Voting Shares transferred pursuant to this Bye-law 54(3) shall retain their status as Non-Voting Shares.

(4) Voting Shares shall not be convertible into Non-Voting Shares, except that so long as a Founder (other than an Industry Founder) or any of such Founder's Affiliates owns directly or by application of the attribution and constructive ownership rules of Sections 958(a) and 958(b) of the Code any Common Shares, all Voting Shares owned directly or by application of the attribution and constructive ownership rules of Sections 958(a) and 958(b) of the Code by such Founder or any of such Founder's Affiliates shall automatically convert into Non-Voting Shares, provided that, with respect to Voting Shares converted into Non-Voting Shares by operation of this sentence, such shares shall revert to being Voting Shares after the date such Common Shares are no longer owned by such Founder or its Affiliates. Upon the request of the Company, such Founder or Affiliate shall timely identify to the Company all shares subject to the exception and the first proviso in this Bye-law 54(4).

55. *Registered holder of shares*

(1) The Company shall be entitled to treat the registered holder of any share as the absolute owner thereof and accordingly shall not be bound to recognise any equitable or other claim to, or interest in, such share on the part of any other Person.

(2) Any dividend, interest or other moneys payable in cash in respect of shares may be paid by cheque or draft sent through the post directed to the Member at such Member's address in the Register of Members or, in the case of joint holders, to such address of the holder first named in the Register of Members, or to such Person and to such address as the holder or joint holders may in writing direct. If two (2) or more Persons are registered as joint holders of any shares, any one can give an effectual receipt for any dividend paid in respect of such shares.

56. *Death of a joint holder*

Where two (2) or more persons are registered as joint holders of a share or shares, then in the event of the death of any joint holder or holders, the remaining joint holder or holders shall be absolutely entitled to the said share or shares, and the Company shall recognise no claim in respect of the estate of any joint holder except in the case of the last survivor of such joint holders.

57. *Share certificates*

(1) Every Member shall be entitled to a certificate under the seal of the Company (or a facsimile thereof) specifying the number and, where appropriate, the class of shares held by such Member and whether the same are fully paid up and, if not, how much has been paid thereon. The Board may by resolution determine, either generally or in a particular case, that any or all signatures on certificates may be printed thereon or affixed by mechanical means.

(2) The Company shall be under no obligation to complete and deliver a share certificate unless specifically called upon to do so by the Person to whom such shares have been allotted.

(3) If any such certificate shall be proved to the satisfaction of the Board to have been worn out, lost, mislaid or destroyed, the Board may cause a new certificate to be issued and request an indemnity for the lost certificate if it sees fit.

(4) The share certificates may bear legends concerning restrictions on transfer or otherwise as the Board may from time to time determine.

58. Calls on shares

(1) The Board may from time to time make such calls as it thinks fit upon the Members in respect of any moneys unpaid on the shares allotted to or held by such Members and, if a call is not paid on or before the day appointed for payment thereof, the Member may at the discretion of the Board be liable to pay the Company interest on the amount of such call at such rate as the Board may determine, from the date when such call was payable up to

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the actual date of payment. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

(2) The Board may, on the issue of shares, differentiate between the holders as to the amount of calls to be paid and the times of payment of such calls.

59. *Forfeiture of shares*

(1) If any Member fails to pay, on the day appointed for payment thereof, any call in respect of any share allotted to or held by such Member, the Board may, at any time thereafter during such time as the call remains unpaid, direct the Secretary to forward to such Member a notice in the form, or as near thereto as circumstances admit, of Form A in the Schedule hereto.

(2) If the requirements of such notice are not complied with, any such share may at any time thereafter before the payment of such call and the interest due in respect thereof be forfeited by a resolution of the Board to that effect, and such share shall thereupon become the property of the Company and may be disposed of as the Board shall determine.

(3) A Member whose share or shares have been forfeited as aforesaid shall, notwithstanding such forfeiture, be liable to pay to the Company all calls owing on such share or shares at the time of the forfeiture and all interest due thereon.

REGISTER OF MEMBERS

60. *Contents of Register of Members*

The Board shall cause to be kept in one or more books a Register of Members and shall enter therein the particulars required by the Act.

61. *Inspection of Register of Members*

The Register of Members shall be open to inspection at the registered office of the Company on every Business Day, subject to such reasonable restrictions as the Board may impose, so that not less than two (2) hours in each business day be allowed for inspection. The Register of Members may, after notice has been given in accordance with the Act, be closed for any time or times not exceeding in the whole 30 days in each year.

62. *Determination of record dates*

Notwithstanding any other provision of these Bye-laws, the Board may fix any date as the record date for:

- (a) determining the Members entitled to receive any dividend; and
- (b) determining the Members entitled to receive notice of and to vote at any general meeting of the Company.

TRANSFER OF SHARES

63. *Instrument of transfer*

(1) An instrument of transfer shall be in writing in the form, or as near thereto as circumstances admit, of Form B in the Schedule hereto or in such other common form as the Board may accept. Such instrument of transfer shall be signed by or on behalf of the transferor and transferee, provided that, in the case of a fully paid share, the Board may

accept the instrument signed by or on behalf of the transferor alone. The transferor shall be deemed to remain the holder of such share until the same has been transferred to the transferee in the Register of Members.

(2) The Board may refuse to recognise any instrument of transfer unless it is accompanied by the certificate in respect of the shares to which it relates and by such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.

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(3) Shares may be transferred without a written instrument if transferred by an appointed agent or otherwise in accordance with the Act.

64. Restriction on transfer

(1) Subject to the Act, this Bye-law 64 and such other of the restrictions contained in these Bye-laws and elsewhere as may be applicable, and except, in the case of any shares other than the Voting Shares, as may otherwise be provided by the terms of issuance thereof, any Member may sell, assign, transfer or otherwise dispose of shares of the Company at any time owned by it and, subject to Bye-law 63, the Directors shall procure the timely registration of the same. If the Directors refuse to register a transfer for any reason they shall notify the proposed transferor and transferee within thirty (30) days of such refusal.

(2) The Directors ~~shall~~ may, in their sole and absolute discretion, decline to register a transfer (including a conversion pursuant to Bye-law 54(2)) of shares if the Directors have reason to believe that, such transfer would cause (i) any U.S. Person to become a 10% Shareholder (as determined without giving effect to any adjustments to the voting rights of any Member under Bye-law 51), other than a Person who does not own (including as a result of such transfer) any shares of the Company by application of Section 958(a) of the Code; (ii) any Founder, any Affiliate of a Founder or any Person to whom shares of a Founder are attributed under Section 318(a)(3) of the Code (giving effect to Treasury Regulations Section 1.958-2(d)), to own (after taking into account the Founder Back-Attribution Convention), directly or by application of the constructive and indirect ownership rules of Sections 958(a) and 958(b) of the Code, a greater percentage of the shares than the greater of (x) 9.99% and (y) the percentage of shares such Founder, Affiliate or Person so owned as of ~~the effective date of these~~

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(other than as a result of any Affiliate of a Founder (other than an Industry Founder) holding shares as an underwriter, market maker, broker, dealer or investment adviser, but in no event more than 24.5% of the shares); or (iii) any U.S. Person who is not a Founder, to own, by application of the constructive and indirect ownership rules of Section 958(a) and 958(b) of the Code, ten percent (10%) or more of the shares, but only (for purposes of this Bye-law 64(2)(iii)) if such Person owns (including as a result of such transfer), or is deemed to own by application of Section 958(a) of the Code (including as a result of such transfer), any shares in the Company.

(3) The Directors may, in their sole and absolute ~~and unfettered~~ discretion, decline to register the transfer (including a conversion pursuant to Bye-law 54(2)) of any shares if the Directors have reason to believe (i) that such transfer may expose the Company, any subsidiary thereof or any Member to, or materially increase the risk of, material adverse tax or regulatory treatment in any jurisdiction or (ii) that registration of such transfer under the Securities Act or under any blue sky or other U.S. state securities laws or under the laws of any other jurisdiction is required and such registration has not been duly effected; provided, however, that in case (ii), the Directors shall be entitled to request and rely on an opinion of counsel to the transferor or the transferee, in form and substance satisfactory to the Directors, that no such approval or consent is required and no such violation would occur, and the Directors shall not be obligated to register any transfer absent the receipt of such an opinion.

(4) Without limiting the foregoing, the Board shall decline to approve or register a transfer of shares unless all applicable consents, authorisations, permissions or approvals of any governmental body or agency in Bermuda, the United States or any other applicable jurisdiction required to be obtained prior to such transfer shall have been obtained.

(5) The registration of transfers may be suspended at such time and for such periods as the Directors may from time to time determine; provided that such registration shall not be suspended for more than forty-five (45) days in any period of three hundred and sixty five (365) consecutive days.

(6) The Directors may require any Member, or any Person proposing to acquire shares of the Company, to certify or otherwise provide information in writing as to such matters as the Directors may request for the purpose of giving effect to Bye-laws 11(3), 11(4), 52(2), 64(2) and 64(3) including as to such Member or Person's status as a U.S. Person, its Controlled Shares, whether such Person is directly or indirectly insured or reinsured by any subsidiary of the Company, whether any Person related to such Member or Person is directly or indirectly insured or reinsured by any subsidiary of the Company, and other matters of the kind contemplated by Bye-law 51(2). Such request shall be made by written notice and the certification or other information requested shall be provided to such place and within such period (not less than ten (10) Business Days after such notice is given unless the Directors and

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such Member or proposed acquiror otherwise agree) as the Directors may designate in such request. If any Member or proposed acquiror does not respond to any such request by the Directors as requested, or if the Directors have reason to believe that any certification or other information provided pursuant to any such request is inaccurate or incomplete, the Directors may decline to register any transfer or to effect any issuance or purchase of shares to which such request relates.

(7) **Founder Back-Attribution Convention** For the purposes of Bye-law 64(2)(ii), in applying the constructive ownership rules of Section 958(b) of the Code, the rules of Section 318(a)(3) and Treasury Regulations 1.958-2(d) of the Code shall only apply with respect to Founders and their Affiliates to the extent that the rules would attribute to a Founder, or its Affiliate, the shares owned (directly or by application of the constructive and indirect ownership rules of Sections 958(a) and 958(b) of the Code) by (i) a Person that owns twenty-five percent (25%) or more of such Founder, by vote or value; or (ii) an Affiliate of such Founder (the convention set forth in this paragraph (7), the **Founder Back-Attribution Convention**).

(8) If the Company has reasonable grounds to believe that, as a result of a Person's purchase or other acquisition of or ownership of shares or exercise of any right to acquire shares, one or more Members are or, upon consummation of such purchase or exercise will be, in violation of the ownership limits described in paragraphs (2) and (3) above (the **Ownership Limits**) (or as to which requested evidence of compliance with the Ownership Limits has not been provided to the Company), such purchase or other acquisition shall not be registered in the Register of Members of the Company. In the event that such a transfer is registered, such transfer shall, upon determination by the Company, in its sole discretion, that such violation has occurred (which determination shall be binding on all Members), be reversed. Neither the Company nor the Board of Directors shall be obligated to investigate the circumstances pertaining to any proposed acquisition or any ownership in order to determine compliance with the Ownership Limits.

(9) If the Company has reasonable grounds to believe that as a result of a Person's direct or indirect purchase or other acquisition or ownership of shares (or any rights to acquire shares), one or more Members are in violation of the Ownership Limits (or if the Company has requested evidence of compliance with the Ownership Limits but has not received it in a timely manner), the Board shall determine as soon as practicable and in its sole discretion whether, and to what extent, to require any, or all, Members, including the aforementioned Person (if such Person is a Member, the **Offending Member**) to require the Offending Member to dispose of shares, provided that a disposition under this clause shall be required only if the Board determines (in its sole discretion) that it would have been reasonably practicable for such Offending Member to determine that its actions (including its activities unrelated to its ownership in the Company) would likely result in a violation of the Ownership Limits and, provided, further that under no circumstances shall a Founder, or any of its Affiliates, be required to dispose of shares pursuant to this clause.

(10) Any disposition pursuant to this Bye-law 64 should occur no later than the 28th calendar day after the date on which the Board first received notice that the aforementioned Member exceeded the Ownership Limits and the disposing Member shall make all reasonable efforts to effect such disposition within such 28-day period.

(11) In addition to that set forth in paragraphs (8), (9) and (10), if as a result of a Person's purchase or other acquisition of or ownership of shares, the Company has reasonable grounds to believe that one or more Members are in violation of the Ownership Limits, the Board may take such other action in connection therewith or incidentally thereto as the Board may determine is necessary or advisable in its sole discretion. Any determinations made by the Board or the Company in connection with this Bye-law 64 or Bye-law 51 or other related provisions shall be made in its sole discretion (which determinations shall, in each case, be final and binding upon all Members).

(12) The restrictions on transfer authorized by this Bye-law 64 shall not be imposed in any circumstance in a way that would interfere with the settlement of trades or transactions in shares entered into through the facilities of the New York Stock Exchange, Inc.; provided, however, that the Directors may decline to register transfers in accordance with

these Bye-laws after a settlement has taken place.

(13) Notwithstanding any other provision of these Bye-laws to the contrary, the provisions of this Bye-law 64 shall not apply in any way to purchases made by the Company of all or any part of its shares in accordance with Bye-law 11.

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65. *Transfers by joint holders*

The joint holders of any share or shares may transfer such share or shares to one or more of such joint holders, and the surviving holder or holders of any share or shares previously held by them jointly with a deceased Member may transfer any such share or shares to the executors or administrators of such deceased Member.

TRANSMISSION OF SHARES

66. *Representative of deceased Member*

In the case of the death of a Member, the survivor or survivors where the deceased Member was a joint holder, and the legal personal representatives of the deceased Member where the deceased Member was a sole holder, shall be the only Persons recognised by the Company as having any title to the deceased Member's interest in the shares. Nothing herein contained shall release the estate of a deceased joint holder from any liability in respect of any share which had been jointly held by such deceased Member with other Persons. Subject to the provisions of Section 52 of the Act, for the purpose of this Bye-law, legal personal representative means the executor or administrator of a deceased Member or such other Person as the Board may in its absolute discretion decide as being properly authorised to deal with the shares of a deceased Member.

67. *Registration on death or bankruptcy*

Subject to Bye-law 64, any Person becoming entitled to a share in consequence of the death or the bankruptcy of any Member may be registered as a Member upon such evidence as the Board may deem sufficient or may elect to nominate some Person to be registered as a transferee of such share, and in such case the Person becoming entitled shall execute in favour of such nominee an instrument of transfer in the form, or as near thereto as circumstances admit, of Form C in the Schedule hereto. On the presentation thereof to the Board, accompanied by such evidence as the Board may require to prove the title of the transferor, the transferee shall be registered as a Member but the Board shall, in either case, have the same right to decline or suspend registration as it would have had in the case of a transfer of the share by that Member before such Member's death or bankruptcy, as the case may be.

DIVIDENDS AND OTHER DISTRIBUTIONS

68. *Declaration of dividends by the Board*

The Board may, subject to these Bye-laws and in accordance with Section 54 of the Act, declare a dividend to be paid to the Members, in proportion to the number of shares held by them, and such dividend may be paid in cash or wholly or partly in specie in which case the Board may fix the value for distribution in specie of any assets.

69. *Other distributions*

The Board may declare and make such other distributions (in cash or in specie) to the Members as may be lawfully made out of the assets of the Company.

70. *Reserve fund*

The Board may from time to time before declaring a dividend set aside, out of the surplus or profits of the Company, such sum as it thinks proper as a reserve fund to be used to meet contingencies or for equalising dividends or for any other special purpose.

71. Deduction of amounts due to the Company

The Board may deduct from the dividends or distributions payable to any Member all moneys due from such Member to the Company on account of calls or otherwise.

72. Unclaimed dividends

Any dividend or other sum payable on or in respect of a share which has remained unclaimed for a period of six (6) years from the date when it became due for payment shall be forfeited and shall cease to remain owing by the

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Company and the payment of any unclaimed dividend or other sum payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof.

73. *Interest on dividends*

No dividend or distribution shall bear interest against the Company.

74. *Issue of bonus shares*

(1) Subject to the Ownership Limits, the Board may resolve to capitalise any part of the amount for the time being standing to the credit of any of the Company's share premium or other reserve accounts or to the credit of the profit and loss account or otherwise available for distribution by applying such sum in paying up unissued shares to be allotted as fully paid bonus shares pro rata to the Members.

(2) Subject to the Ownership Limits, the Company may capitalise any sum standing to the credit of a reserve account or sums otherwise available for dividend or distribution by applying such amounts in paying up in full partly paid shares of those Members who would have been entitled to such sums if they were distributed by way of dividend or distribution.

ACCOUNTS AND FINANCIAL STATEMENTS

75. *Records of account*

The Board shall cause to be kept proper records of account with respect to all transactions of the Company and in particular with respect to:

- (a) all sums of money received and expended by the Company and the matters in respect of which the receipt and expenditure relates;
- (b) all sales and purchases of goods by the Company; and
- (c) the assets and liabilities of the Company.

Such records of account shall be kept at the registered office of the Company or, subject to Section 83(2) of the Act, at such other place as the Board thinks fit and shall be available for inspection by the Directors during normal business hours.

76. *Financial year end*

The financial year end of the Company may be determined by resolution of the Board and failing such resolution shall be 31st December in each year.

77. *Financial statements*

Subject to any rights to waive laying of accounts pursuant to Section 88 of the Act, financial statements as required by the Act shall be laid before the Members in general meeting.

AUDIT

78. Appointment of Auditor

Subject to Section 88 of the Act and to Bye-law 80, at the annual general meeting or at a subsequent special general meeting in each year, an independent representative of the Members shall be appointed by them as Auditor of the accounts of the Company. Such Auditor may be a Member but no Director, Officer or employee of the Company shall, during his or her continuance in office, be eligible to act as an Auditor of the Company.

79. Remuneration of Auditor

The remuneration of the Auditor shall be fixed by the Board or a committee thereof.

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80. *Vacation of office of Auditor*

If the office of Auditor becomes vacant by the resignation or death of the Auditor, or by the Auditor becoming incapable of acting by reason of illness or other disability at a time when the Auditor's services are required, the Board shall, as soon as practicable, fill the vacancy thereby created. The Board may fill any other casual vacancy in the office of Auditor, but while the vacancy continues the surviving or continuing Auditor, if any, may act.

81. *Access to books of the Company*

The Auditor shall at all reasonable times have access to all books kept by the Company and to all accounts and vouchers relating thereto, and the Auditor may call on the Directors or Officers of the Company for any information in their possession relating to the books or affairs of the Company.

82. *Report of the Auditor*

(1) Subject to any rights to waive laying of accounts or appointment of an Auditor pursuant to Section 88 of the Act, the accounts of the Company shall be audited at least once in every year.

(2) The financial statements provided for by these Bye-laws shall be audited by the Auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the Auditor shall be submitted to the Members in general meeting.

(3) The generally accepted auditing standards referred to in paragraph (2) of this Bye-law shall be those of the United States of America and the financial statements and the report of the Auditor shall disclose this fact.

NOTICES

83. *Notices to Members of the Company*

A notice may be given by the Company to any Member either by delivering it to such Member in person or by sending it to such Member's address in the Register of Members or to such other address given for the purpose. For the purposes of this Bye-law, a notice may be sent by mail, courier service, cable, telex, telecopier, facsimile, electronic mail or other mode of representing words in a legible and non-transitory form.

84. *Notices to joint Members*

Any notice required to be given to a Member shall, with respect to any shares held jointly by two (2) or more Persons, be given to whichever of such Persons is named first in the Register of Members and notice so given shall be sufficient notice to all the holders of such shares.

85. *Service and delivery of notice*

Any notice shall be deemed to have been duly served at the time when the same would be delivered in the ordinary course of transmission and, in proving such service, it shall be sufficient to prove that the notice was properly addressed and prepaid, if posted, and the time when it was posted, delivered to the courier or to the cable company or transmitted by telex, facsimile or other method as the case may be.

SEAL OF THE COMPANY

86. The seal

The ~~seal of the Company shall be~~
may adopt a seal
in such form as the Board may ~~from time to time~~ determine. The Board may adopt one or more duplicate seals for use
in or
outside Bermuda.

87. Manner in which seal is to be affixed

~~The~~
A
seal of the Company ~~shall~~
may, but need
not, be affixed to any
deed,
instrument, ~~except,~~
share certificate or document, and if the seal is to be affixed thereto, it shall be
attested by the signature of ~~a~~ (i)
any
Director ~~and~~
, (ii) any Officer, (iii)
the Secretary ~~or any two Directors, or any Person appointed,~~
or (iv) any person

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authorized

by the Board for the purpose, provided that any Director or Officer may affix the seal of the Company attested by such Director or Officer's signature to any authenticated copies of these Bye-laws, the incorporating documents of the Company, the minutes of any meetings or any other documents required to be authenticated by such Director or Officer

that purpose

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WINDING-UP

88. *Winding-up/distribution by liquidator*

If the Company shall be wound up, the liquidator may, with the sanction of a resolution of the Members, divide amongst the Members in specie or in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he, she or it deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator shall think fit, but so that no Member shall be compelled to accept any shares or other securities or assets whereon there is any liability.

ALTERATION OF BYE-LAWS

89. *Alteration of Bye-laws*

No Bye-law shall be rescinded, altered or amended and no new Bye-law shall be made until the same has been approved by a resolution of the Board and by a resolution of the Members.

CERTAIN SUBSIDIARIES

90. *Directors of Bermuda Insurance Subsidiary Subsidiaries*

Notwithstanding any other provision of these Bye-laws to the contrary:

(1) The only individuals who shall be eligible to be elected or appointed by the Company as the Class I directors, Class II directors and Class III directors of any

Bermuda Insurance Subsidiary shall be the Class I Directors, Class II Directors and Class III Directors, respectively from time to time.

(2) Any resignation or removal of a Director from the Board or other vacancy arising therein, as well as any replacement or succession of a Director, shall in each case have the same effect on the board of directors of the Bermuda Insurance Subsidiary.

(3) The total number of directors of the each

Bermuda Insurance Subsidiary shall be equal to the total number of Directors. Each director of the each

Bermuda Insurance Subsidiary shall have the same vote, as the respective Director. The directors of the

each

Bermuda Insurance Subsidiary shall be divided into the same classes as the Directors.

91. Directors of certain Non-U.S.
Non-Bermuda Insurance Subsidiaries

Notwithstanding any other provision of these Bye-laws to the contrary:

(1) No person shall be elected as a director of any ~~direct subsidiary of the Company organized under the laws of a jurisdiction outside the United States, other than the~~ Non-U.S., Non-Bermuda Insurance Subsidiary, ~~(Non U.S. Direct Subsidiary)~~ or of any subsidiary ~~(including any indirect subsidiary) of a Non U.S. Direct Subsidiary so organized (Non U.S. Indirect Subsidiary)~~ unless such person has, within the preceding 120 calendar days, been approved, by resolution of the Members in accordance with and subject to the limitations in these Bye-laws, including, but not limited to, Bye-law 51, as a person eligible to be elected as a director of such ~~Non-U.S. Direct Subsidiary or Non-U.S. Indirect, Non-Bermuda Insurance Subsidiary (an Eligible Subsidiary Director)~~; and

(2) No person may be elected as a director of a ~~Non-U.S. Direct Subsidiary or a Non U.S. Indirect, Non-Bermuda Insurance Subsidiary, unless all Eligible Subsidiary Directors approved for the relevant Non-U.S. Direct Subsidiary or Non U.S. Indirect, Non-Bermuda Insurance Subsidiary are elected at the same time.~~

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(3) In the event of a vacancy in the Board of a Non-U.S., Non-Bermuda Insurance Subsidiary, provisions substantially the same as Bye-law 16 of these Bye-laws shall apply.

(4) In the event of the formation of a new Non-U.S., Non-Bermuda Insurance Subsidiary, the initial directors of such subsidiary may be appointed by the shareholders of such subsidiary, provided that such directors shall be approved by resolution of the Members in accordance with and subject to the limitations in these Bye-laws as a person eligible to be elected as a director of such Non-U.S., Non-Bermuda Insurance Subsidiary at the next annual meeting of the Company occurring immediately after such subsidiary's formation.

92. Bye-laws or articles of association of certain insurance subsidiaries

The Board in its discretion shall require that the Bye-laws of ~~the~~ each

Bermuda Insurance Subsidiary shall contain provisions substantially similar to Bye-law 90, and the Bye-laws, Articles of Association or other constitutive documents of each Non-U.S. ~~Direct Subsidiary or Non-U.S. Indirect~~, Non-Bermuda Insurance

Subsidiary shall contain provisions substantially similar to Bye-law 91.

~~93. Directors of subsidiaries of Bermuda Insurance Subsidiary~~

~~Election, appointment, removal, resignation, number and classification of directors of any direct or indirect subsidiary of the Bermuda Insurance Subsidiary organized under the laws of a jurisdiction outside the United States shall be subject to the requirements of either Bye-law 90 or 91.~~

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SCHEDULE FORM A (Bye-law 59)

NOTICE OF LIABILITY TO FORFEITURE FOR NON-PAYMENT OF CALL

You have failed to pay the call of [amount of call] made on the day of , 20 last, in respect of the [number] share(s) [numbers in figures] standing in your name in the Register of Members of the Company, on the day of , 20 last, the day appointed for payment of such call. You are hereby notified that unless you pay such call together with interest thereon at the rate of per annum computed from the said day of , 20 last, on or before the day of , 20 next at the place of business of the Company the share(s) will be liable to be forfeited.

Dated this day of , 20

[Signature of Secretary]

By order of the Board

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SCHEDULE FORM B (Bye-law 63)

TRANSFER OF A SHARE OR SHARES

FOR VALUE RECEIVED

hereby sell, assign and transfer unto
of

shares of Allied World Assurance Company Holdings, Ltd

[amount]
[transferor]
[transferee]
[address]
[number of shares]

Dated ==

(Transferor)

In the presence of:

(Witness)

(Transferee)

In the presence of:

(Witness)

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SCHEDULE FORM C (Bye-law 67)

TRANSFER BY A PERSON BECOMING ENTITLED ON DEATH/BANKRUPTCY OF A MEMBER

I/We having become entitled in consequence of the [death/bankruptcy] of [name of the deceased Member] to [number] share(s) standing in the Register of Members of Allied World Assurance Company Holdings, Ltd in the name of the said [name of deceased Member] instead of being registered myself/ourselves elect to have [name of transferee] (the Transferee) registered as a transferee of such share(s), and I/we do hereby accordingly transfer the said share(s) to the Transferee to hold the same unto the Transferee his, her or its executors, administrators and assigns subject to the conditions on which the same were held at the time of the execution thereof; and the Transferee does hereby agree to take the said share(s) subject to the same conditions.

WITNESS our hands this day of , 20

Signed by the above-named)
[person or persons entitled])
in the presence of:)

Signed by the above-named)
[transferee])
in the presence of:)

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**ANNUAL GENERAL MEETING OF SHAREHOLDERS
OF
ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
10:00 a.m. (Local Time)
MAY 8, 2008
27 RICHMOND ROAD
PEMBROKE HM 08, BERMUDA
6 FOLD AND DETACH HERE AND READ THE REVERSE SIDE 6**

PROXY

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

Meeting Details

PROXY SOLICITED BY THE BOARD OF DIRECTORS OF ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD (THE COMPANY) IN CONNECTION WITH THE COMPANY'S ANNUAL GENERAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 8, 2008 (THE ANNUAL GENERAL MEETING) AT 10:00 A.M. (LOCAL TIME) AT 27 RICHMOND ROAD, PEMBROKE HM 08, BERMUDA.

The undersigned shareholder of the Company hereby acknowledges receipt of the Notice of Annual General Meeting and Proxy Statement, each dated March 21, 2008, and hereby appoints Scott A. Carmilani and Wesley D. Dupont, as proxy, each with the power to appoint his substitute, and authorizes them to represent and vote as designated herein, all of the voting common shares, par value \$0.03 per share, of the Company (Common Shares) held of record on March 12, 2008 by the undersigned shareholder of the Company at the Annual General Meeting, and at any adjournment or postponement thereof, with respect to the matters listed on this Proxy. In their discretion, the Proxies are authorized to vote such Common Shares upon such other business as may properly come before the Annual General Meeting.

**PLEASE BE SURE TO SIGN AND DATE THIS PROXY
(Continued, and to be marked, dated and signed as instructed on the other side)**

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6 FOLD AND DETACH HERE AND READ THE REVERSE SIDE 6

**PROXY FOR ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
ANNUAL GENERAL MEETING OF SHAREHOLDERS MAY 8, 2008
THE SUBMISSION OF THIS PROXY, IF PROPERLY EXECUTED, REVOKES ALL
PRIOR PROXIES.**

Please mark your votes like this

| | FOR | WITHHOLD AUTHORITY | | FOR | AGAINST | ABSTAIN |
|--|------------|-------------------------------|--|------------|----------------|----------------|
| A. To elect the nominees listed as the Class I Directors of the Company to serve until the Company's Annual General Meeting in 2011 or until their successors are duly elected and qualified or their office is otherwise vacated. | o | o | B. To approve each slate of nominees as Eligible Subsidiary Directors of certain of the Company's non-U.S. subsidiaries. | o | o | o |
| Nominees: Mark R. Patterson, Samuel J. Weinhoff | | | Allied World Assurance Holdings (Ireland) Ltd Nominees: Scott A. Carmilani, John Clifford, Wesley D. Dupont, Hugh Governey, Michael I.D. Morrison, John T. Redmond | | | |
| | | | Allied World Assurance Company (Europe) Limited Nominees: J. Michael Baldwin, Scott A. Carmilani, John Clifford, Hugh Governey, Michael I.D. Morrison, John T. Redmond | | | |
| | | | Allied World Assurance Company (Reinsurance) Limited Nominees: J. Michael Baldwin, Scott A. Carmilani, John Clifford, Hugh Governey, Michael I.D. Morrison, John T. Redmond | | | |
| (To withhold authority to vote for any individual nominee, strike a line through that nominee's name in the list above.) | | | Newmarket Administrative Services (Bermuda), Ltd Nominees: Scott A. Carmilani, Joan H. Dillard, Wesley D. Dupont, Richard E. Jodoin | | | |
| IF THIS PROXY IS EXECUTED AND RETURNED BUT NO INDICATION IS MADE AS TO WHAT ACTION IS TO BE TAKEN, IT WILL BE DEEMED TO CONSTITUTE A VOTE FOR EACH OF THE NOMINEES AND EACH OF THE PROPOSALS SET FORTH ON THIS PROXY. | | | Newmarket Administrative Services (Ireland) Limited Nominees: Scott A. Carmilani, John Clifford, Hugh Governey, John T. Redmond | | | |

be subject to Cayman Islands stamp duty. The Cayman Islands are not party to any double taxation treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

We have, pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, obtained an undertaking from the Governor-in-Council that:

no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation applies to us or our operations; and

the aforesaid tax or any tax in the nature of estate duty or inheritance tax are not payable on our ordinary shares, debentures or other obligations.

The undertaking that we have obtained is for a period of 20 years from 28 June, 2005.

United States federal income taxation

This discussion describes the material US federal income tax consequences of the purchase, ownership and disposition of our ADSs and ordinary shares. This discussion does not address any aspect of US federal gift or estate tax, or the state, local or foreign tax consequences of an investment in our ADSs and ordinary shares. This discussion applies to you only if you are a US Holder (as defined below), you acquired ordinary shares or ADSs pursuant to this offering and you hold and beneficially own those ADSs and ordinary shares as capital assets for tax purposes. This discussion does not apply to you if you are a member of a class of holders subject to special rules, such as:

dealers in securities or currencies;

traders in securities that elect to use a mark-to-market method of accounting for securities holdings;

banks or other financial institutions;

insurance companies;

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tax-exempt organizations;

partnerships and other entities treated as partnerships or other pass through entities for US federal income tax purposes or persons holding ADSs and ordinary shares through any such entities;

regulated investments companies or real estate investment trusts;

persons that hold ADSs and Shares as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;

US Holders (as defined below) whose functional currency for tax purposes is not the US dollar;

US expatriates or persons treated as residents of more than one country;

persons liable for alternative minimum tax; or

persons who actually or constructively own 10% or more of the total combined voting power of all classes of our shares (including ADSs and ordinary shares) entitled to vote.

This discussion is based on the US Internal Revenue Code of 1986, as amended, which we refer to in this discussion as the Code, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion relies on our assumptions regarding the value of our ordinary shares and the nature of our business over time. Finally, this discussion is based in part upon the representations of the depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. For US federal income tax purposes, as a holder of an ADS, you will be treated as the owner of the underlying ordinary shares represented by such ADS.

Prospective purchasers are urged to consult with their own tax advisors concerning the particular US federal income tax consequences to them of the purchase, ownership and disposition of our ADSs and ordinary shares, as well as the consequences to them arising under the laws of any other taxing jurisdiction.

For purposes of the US federal income tax discussion below, you are a US Holder if you beneficially own ADSs and ordinary shares and are:

a citizen or resident of the United States for US federal income tax purposes;

a corporation, or other entity taxable as a corporation, that was created or organized in or under the laws of the United States or any political subdivision thereof;

an estate the income of which is subject to US federal income tax regardless of its source; or

a trust if (a) a court within the United States is able to exercise primary supervision over its administration and one or more US persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a US person.

For US federal income tax purposes, income earned through a foreign or domestic partnership or other foreign or domestic entity treated as a partnership is attributed to its owners. Accordingly, if a partnership or other such entity holds ADSs and ordinary shares, the tax treatment will generally depend on the status of the partner or other owner and the activities of the partnership or other flow-through entity.

In general, if you hold ADSs, you will be treated for US federal income tax purposes as if you held the ordinary shares represented by those ADSs.

US Holders

Dividends on ADSs and Ordinary Shares

Beginning in 2007, we intend to pay annual cash dividends on our ordinary shares, and indirectly on our ADSs. See Dividend Policy.

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Subject to the *Passive Foreign Investment Company* discussion below, if we do make distributions (which we expect would be cash distributions in US dollars), and you are a US Holder, the gross amount of any distributions you receive on your ADSs and ordinary shares will generally be treated as dividend income if the distributions are made from our current or accumulated earnings and profits, calculated according to US federal income tax principles. Distributions in excess of current and accumulated earnings and profits will be treated first as a non-taxable return of capital to the extent of your basis in the ADSs and ordinary shares and thereafter as capital gain. However, if you are a US Holder who is an individual, and have held your ADSs and ordinary shares for a sufficient period of time, dividend distributions on our ADSs and ordinary shares to you will generally constitute qualified dividend income taxed at a preferential rate (generally 15% for dividend distributions before January 1, 2011) as long as our ADSs and ordinary shares continue to be readily tradable on the New York Stock Exchange. You should consult your own tax adviser as to the rate of tax that will apply to you with respect to dividend distributions, if any, you receive from us.

We do not intend to calculate our earnings and profits according to US tax accounting principles. Accordingly, notwithstanding the discussion in the previous paragraph, distributions on our ADSs and ordinary shares, if any, will generally be taxed to you as dividend distributions for US tax purposes. Even if you are a corporation, you will not be entitled to claim a dividends received deduction with respect to distributions you receive from us. Dividends generally will constitute income from sources outside the United States for purposes of the US foreign tax credit rules. You should consult your own tax adviser as to your ability, and the various limitations on your ability, to claim foreign tax credits in connection with the receipt of dividends.

Sales and other dispositions of ADSs and Ordinary Shares

Subject to the *Passive Foreign Investment Company* discussion below, when you sell or otherwise dispose of ADSs and ordinary shares, you will generally recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in the ADSs and ordinary shares. Your adjusted tax basis will generally equal the amount you paid for the ADSs and ordinary shares. Any gain or loss you recognize will be long-term capital gain or loss if your holding period in our ADSs and ordinary shares is more than one year at the time of disposition. If you are a US Holder who is an individual, any such long-term capital gain will be taxed at preferential rates (generally 15% for capital gain recognized before January 1, 2011). Your ability to deduct capital losses will be subject to various limitations.

Passive Foreign Investment Company

If we were a *Passive Foreign Investment Company*, or *PFIC*, for any taxable year in which you hold our ADSs and ordinary shares, as a US Holder, you would generally be subject to adverse US tax consequences, in the form of increased tax liabilities and special US tax reporting requirements.

We will be classified as a *PFIC* in any taxable year if either: (a) the average percentage value of our gross assets (tested on a quarterly basis) that produce passive income or are held for the production of passive income is at least 50% of the value of our total gross assets or (b) 75% or more of our gross income for the taxable year is passive income (such as certain dividends, interest or royalties). For purposes of the first test: (a) any cash, cash equivalents, and cash invested in short-term, interest bearing, debt instruments, or bank deposits that is readily convertible into cash, generally counts as producing passive income or held for the production of passive income and (b) the total value of our assets is calculated based on our market capitalization.

We operate an active medical device business in China and do not expect to be a *PFIC* for the taxable year 2006. Our expectation is based on assumptions as to our projections of the value of our outstanding shares during the year and our use of the proceeds of the initial public offering of our ADSs and ordinary shares and of the other cash that we will hold and generate in the ordinary course of our business throughout taxable year 2006. Despite our expectation, there can be no assurance that we will not be a *PFIC* for the taxable year 2006 and/or later taxable years, as *PFIC* status is re-tested each year and depends on our assets

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and income in such year. In particular, in determining the average percentage value of our gross assets, the aggregate value of our assets will generally be deemed to be equal to our market capitalization (determined by the sum of the aggregate value of our outstanding equity) plus our liabilities. Additionally, our goodwill (determined by the sum of our market capitalization plus liabilities, less the value of known assets) should be treated as a non-passive asset. Therefore, a drop in the market price of our ADSs and ordinary shares and associated decrease in the value of our goodwill would cause a reduction in the value of our non-passive assets for purposes of the asset test. Accordingly, we would likely become a PFIC if our market capitalization were to decrease significantly while we hold substantial cash and cash equivalents. We could also be a PFIC for any taxable year if the gross income that we and our subsidiaries earn from investing the portion of the cash raised in our initial public offering that exceeds the immediate capital needs of our business is substantial in comparison with the gross income from our business operations. *Our special US counsel expresses no opinion with respect to our expectations contained in this paragraph.*

If we were a PFIC, you would generally be subject to additional taxes and interest charges on certain excess distributions we make and on any gain realized on the disposition or deemed disposition of your ADSs and ordinary shares, regardless of whether we continue to be a PFIC in the year in which you receive an excess distribution or dispose of or are deemed to dispose of your ADSs and ordinary shares. Distributions in respect of your ADSs and ordinary shares during a taxable year would generally constitute excess distributions if, in the aggregate, they exceed 125% of the average amount of distributions in respect of your ADSs and ordinary shares over the three preceding taxable years or, if shorter, the portion of your holding period before such taxable year.

To compute the tax on excess distributions or any gain, (a) the excess distribution or the gain would be allocated ratably to each day in your holding period, (b) the amount allocated to the current year and any tax year before we became a PFIC would be taxed as ordinary income in the current year, (c) the amount allocated to other taxable years would be taxed at the highest applicable marginal rate in effect for that year, and (d) an interest charge at the rate for underpayment of taxes for any period described under (c) above would be imposed with respect to any portion of the excess distribution or gain that is allocated to such period. In addition, if we were a PFIC, no distribution that you receive from us would qualify for taxation at the preferential rate discussed in the Dividends on ADSs and Ordinary Shares section above.

If we were a PFIC in any year, as a US Holder, you would be required to make an annual return on IRS Form 8621 regarding your ADSs and ordinary shares. You should consult with your own tax adviser regarding reporting requirements with regard to your ADSs and ordinary shares.

If we were a PFIC in any year, you would generally be able to avoid the excess distribution rules described above by making a timely so-called mark-to-market election with respect to your ADSs and ordinary shares provided our ADSs and ordinary shares are marketable. Our ADSs and ordinary shares will be marketable as long as they remain regularly traded on a national securities exchange, such as the New York Stock Exchange. If you made this election in a timely fashion, you would generally recognize as ordinary income or ordinary loss the difference between the fair market value of your ADSs and ordinary shares on the first day of any taxable year and their value on the last day of that taxable year. Any ordinary income resulting from this election would generally be taxed at ordinary income rates and would not be eligible for the reduced rate of tax applicable to qualified dividend income. Any ordinary losses would be limited to the extent of the net amount of previously included income as a result of the mark-to-market election, if any. Your basis in the ADSs and ordinary shares would be adjusted to reflect any such income or loss. You should consult with your own tax adviser regarding potential advantages and disadvantages to you of making a mark-to-market election with respect to your ADSs and ordinary shares.

We do not intend to provide you with the information you would need to make or maintain a so-called Qualified Electing Fund or QEF election. Accordingly, if we were a PFIC in any year you would not be able to avoid the excess distribution rules described above by making such an election with respect to your ADSs and ordinary shares.

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US Information Reporting and Backup Withholding Rules

In general, dividend payments with respect to the ADSs and ordinary shares and the proceeds received on the sale or other disposition of those ADSs and ordinary shares may be subject to information reporting to the IRS and to backup withholding (currently imposed at a rate of 28%). Backup withholding will not apply, however, if you (a) are a corporation or come within certain other exempt categories and, when required, can demonstrate that fact or (b) provide a taxpayer identification number, certify as to no loss of exemption from backup withholding and otherwise comply with the applicable backup withholding rules. To establish your status as an exempt person, you will generally be required to provide certification on IRS Form W-9. Any amounts withheld from payments to you under the backup withholding rules will be allowed as a refund or a credit against your US federal income tax liability, provide that you timely furnish the required information to the IRS.

PROSPECTIVE PURCHASERS OF OUR ADSs AND ORDINARY SHARES SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE US FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY ADDITIONAL TAX CONSEQUENCES RESULTING FROM PURCHASING, HOLDING OR DISPOSING OF ADSs AND ORDINARY SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION, INCLUDING ESTATE, GIFT, AND INHERITANCE LAWS.

Table of Contents**UNDERWRITING**

We, the selling shareholders and the underwriters named below have entered into an underwriting agreement with respect to the ADSs being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of ADSs indicated in the following table. Goldman Sachs (Asia) L.L.C. and UBS AG are the representatives of the underwriters. Goldman Sachs (Asia) L.L.C.'s address is 68th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong and UBS AG's address is 52/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

| Underwriters | Number of ADSs |
|-----------------------------------|-----------------------|
| Goldman Sachs (Asia) L.L.C. | |
| UBS AG | |
| J.P. Morgan Securities Inc. | |
| CIBC World Markets Corp. | |
| First Shanghai Securities Limited | |
| Piper Jaffray & Co. | |
| Total | 20,000,000 |

The underwriters are committed to take and pay for all of the ADSs being offered, if any are taken, other than the ADSs covered by the option described below unless and until this option is exercised.

If the underwriters sell more ADSs than the total number set forth in the table above, the underwriters have an option to buy up to an additional 3,000,000 ADSs from us and the selling shareholders. They may exercise that option for 30 days. If any ADSs are purchased pursuant to this option, the underwriters will severally purchase ADSs in approximately the same proportion as set forth in the table above.

The following table shows the per ADS and total underwriting discounts and commissions to be paid to the underwriters by us and the selling shareholders. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase a total of 3,000,000 additional ADSs.

Paid by Us

| | No Exercise | Full Exercise |
|---------|------------------------|--------------------------|
| Per ADS | US\$ | US\$ |
| Total | US\$ | US\$ |

Paid by the Selling Shareholders

| | No Exercise | Full Exercise |
|---------|------------------------|--------------------------|
| Per ADS | US\$ | US\$ |
| Total | US\$ | US\$ |

Total underwriting discounts and commissions to be paid to the underwriters represent % of the total amount of the offering.

ADSs sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any ADSs sold by the underwriters to securities dealers may be sold at a discount of up

to US\$ per ADS from the initial public offering price. Any such securities dealers may resell any ADSs purchased from the underwriters to certain other brokers or dealers at a discount of up to US\$ per ADS from the initial public offering price. If all the ADSs are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

Total expenses for this offering are estimated to be approximately US\$3.6 million, including SEC registration fees of US\$29,532, NASD filing fees of US\$26,500, New York Stock Exchange listing fees of US\$150,000, printing expenses of approximately US\$300,000, legal fees of approximately US\$1,550,000,

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accounting fees of approximately US\$950,000, roadshow costs and expenses of approximately US\$450,000, and travel and other out-of-pocket expenses of approximately US\$150,000. All amounts are estimated except for the fees relating to SEC registration, NASD filing and New York Stock Exchange listing.

We and the selling shareholders have agreed to pay all fees and expenses we and the selling shareholders incur in connection with this offering and all reasonable costs and expenses incurred the representatives of the underwriters in connection with the marketing of this offering. All fees and expenses will be borne in proportion to the numbers of ADSs sold in the offering by us and the selling shareholders, respectively, unless otherwise agreed upon between us and any of the selling shareholders.

Some of the underwriters are expected to make offers and sales both inside and outside the United States through their respective selling agents. Any offers and sales in the United States will be conducted by broker-dealers registered with the SEC. Goldman Sachs (Asia) L.L.C. is expected to make offers and sales in the United States through its selling agent, Goldman, Sachs & Co. UBS AG is expected to make offers and sales in the United States through its SEC-registered broker-dealer affiliate selling agent, UBS Securities, LLC.

The underwriters have entered into an agreement in which they agree to restrictions on where and to whom they and any dealer purchasing from them may offer ADSs, as a part of the distribution of the ADSs. The underwriters also have agreed that they may sell ADSs among themselves.

We have agreed with the underwriters that we will not, without the prior consent of the representatives, for a period of 180 days following the date of this prospectus, offer, sell, contract to sell, pledge, grant any option to purchase, purchase any option or contract to sell, right or warrant to purchase, make any short sale, file a registration statement with respect to any of the ADSs or its ordinary shares or any securities that are convertible into or exercisable or exchangeable for the ADSs or our ordinary shares, or otherwise transfer or dispose of (including entering into any swap or other agreement that transfers to any other entity, in whole or in part, any of the economic consequences of ownership interest): (1) our ordinary shares and depositary shares representing our ordinary shares; (2) shares of our subsidiaries or controlled affiliates and depositary shares representing those shares; and (3) securities that are substantially similar to such shares or depositary shares. We have also agreed to cause our subsidiaries and controlled affiliates to abide by the restrictions of the lock-up agreement. In addition, each of our directors and executive officers and substantially all of our shareholders, including each of the selling shareholders have agreed to enter into a similar 180-day lock-up agreement with respect to our ordinary shares, depositary shares representing our ordinary shares and securities that are substantially similar to our ordinary shares or depositary shares representing our ordinary shares, subject to customary exceptions for transfers among affiliates. The restrictions of our lock-up agreement do not apply to: (1) the issuance of securities pursuant to our employee share incentive plan outstanding on the date of this prospectus of which the underwriters have been advised in writing and is described in this prospectus, and (2) a transfer by us to our affiliate, provided that such transfer is not a disposition for value and that such affiliate agrees to be bound in writing by the restrictions set forth in the lock-up agreement to which we are subject.

The 180-day restricted period described in the preceding paragraph will be automatically extended if: (1) during the last 17 days of the 180-day restricted period, we issue an earnings release or announce material news or a material event; or (2) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the date of the earnings release or the announcement of the material news or material event.

At our request, the underwriters have reserved up to 5% of the ADSs being offered, at the initial public offering price, through a directed share program to persons that we believe have contributed to our growth, including members of our management, friends and family members of our management, our employees, directors, affiliates and strategic partners, and employees of our affiliates and strategic partners. There can be no assurance that any of the reserved shares will be so purchased. The number of shares available for sale to the general public in this offering will be reduced to the extent that the reserved shares are purchased in the

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directed share program. Any reserved shares not purchased through the directed share program will be offered to the general public on the same basis as the other shares offered hereby.

The representatives of the underwriters currently anticipate that approximately 4,500,000 ADSs being offered in this offering may be sold at the initial public offering price to investment entities affiliated with General Atlantic LLC, collectively, GA, on the same basis as the other ADSs being offered in this offering. The number of ADSs available for sale to the general public will be reduced to the extent that GA purchases those ADSs and, to the extent those ADSs are not purchased, the representatives of the underwriters will offer those ADSs to the general public on the same basis as the other ADSs being offered in this offering. GA has agreed that in the event it purchases any ADSs in this offering, it will not to transfer or dispose of, directly or indirectly, any such ADSs or securities convertible into or exchangeable or exercisable for our ordinary shares, in the form of ADSs or otherwise, for a period of 180 days.

Prior to the offering, there has been no public market for our ADSs or ordinary shares. The initial public offering price of the ADSs will be determined by agreement between us and the representatives. Among the factors to be considered in determining the initial public offering price of the ADSs, in addition to prevailing market conditions, will be our historical performance, estimates of our business potential and earnings prospects, an assessment of our management and the consideration of the above factors in relation to market valuation of companies in related businesses.

We have received approval to list our ADSs on the New York Stock Exchange under the symbol MR, subject to official notice of issuance.

In connection with the offering, the underwriters may purchase and sell ADSs in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of ADSs than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional ADSs from us and the selling shareholders. The underwriters may close out any covered short position by either exercising their option to purchase additional ADSs or purchasing ADSs in the open market. In determining the source of ADSs to close out the covered short position, the underwriters will consider, among other things, the price of ADSs available for purchase in the open market as compared to the price at which they may purchase additional ADSs pursuant to the option granted them. Naked short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing ADSs in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the ADSs in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for, or purchases of, ADSs made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased ADSs sold by, or for the account of, such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the ADS, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the ADSs. As a result, the price of the ADS may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they are required to be conducted in accordance with applicable laws and regulations, and they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

No offer of ADSs has been made or will be made to the public in the United Kingdom within the meaning of Section 102B of the Financial Services and Markets Act 2000, as amended, or FSMA, except to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do

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not require the publication by us of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority, or FSA. Each underwriter: (i) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which Section 21 of FSMA does not apply to us; and (ii) has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the ADSs in, from or otherwise involving the United Kingdom.

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive, which we refer to as a Relevant Member State, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, which we refer to as the Relevant Implementation Date, no offer of ADSs has been made and or will be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the ADSs which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer of ADSs may be made to the public in that Relevant Member State at any time: (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than 43,000,000 and (iii) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or (c) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression an offer of ADSs to the public in relation to any ADSs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the ADSs to be offered so as to enable an investor to decide to purchase or subscribe the ADSs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/ EC and includes any relevant implementing measure in each Relevant Member State.

The ADSs may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the ADSs may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to ADSs which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the ADSs may not be circulated or distributed, nor may the ADSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Where the ADSs are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the

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entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the ADSs under Section 275 except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (ii) where no consideration is given for the transfer or (iii) by operation of law.

The ADSs have not been and will not be registered under the Securities and Exchange Law of Japan, or the Securities and Exchange Law, and ADSs will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to any exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

This prospectus has not been and will not be circulated or distributed in the PRC, and ADSs may not be offered or sold, and will not be offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC. For the purpose of this paragraph only, the PRC does not include Taiwan and the special administrative regions of Hong Kong and Macau.

This prospectus does not constitute an invitation or offer to the public in the Cayman Islands of the ADSs, whether by way of sale or subscription. The underwriters have not offered or sold, and will not offer or sell, directly or indirectly, any ADSs in the Cayman Islands.

No action may be taken in any jurisdiction other than the United States that would permit a public offering of the ADSs or the possession, circulation or distribution of this prospectus in any jurisdiction where action for that purpose is required. Accordingly, the ADSs may not be offered or sold, directly or indirectly, and neither the prospectus nor any other offering material or advertisements in connection with the ADSs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

A prospectus in electronic format will be made available on the websites maintained by one or more of the underwriters or one or more securities dealers. One or more of the underwriters may distribute prospectus electronically. Certain underwriters may agree to allocate a number of ADSs for sale to their online brokerage account holders. ADSs to be sold pursuant to an Internet distribution will be allocated on the same basis as other allocations. In addition, ADSs may be sold by the underwriters to securities dealers who resell ADSs to online brokerage account holders.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of ADSs offered.

We and the selling shareholders have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

This prospectus may be used by the underwriters and other dealers in connection with offers and sales of the ADSs, including the ADSs initially sold by the underwriters in the offering being made outside of the United States, to persons located in the United States.

Some of the underwriters and their affiliates have provided, and may in the future provide, investment banking and other services to us, our officers or our directors for which they have received or will receive customary fees and commissions.

Goldman Sachs (Asia) L.L.C. and UBS AG are acting as the joint global coordinators and joint bookrunners for this offering.

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ENFORCEMENT OF CIVIL LIABILITIES

We are registered under the laws of the Cayman Islands as an exempted company with limited liability. We are registered in the Cayman Islands because of certain benefits associated with being a Cayman Islands corporation, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of foreign exchange control or currency restrictions and the availability of professional and support services. However, the Cayman Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a significantly lesser extent. In addition, Cayman Islands companies may not have standing to sue before the federal courts of the United States.

Substantially all of our assets are located outside the United States. In addition, a majority of our directors and officers, are nationals or residents of jurisdictions other than the United States, and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or these persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States. It may also be difficult for you to enforce in US courts judgments obtained in US courts based on the civil liability provisions of the US federal securities laws against us, our officers and directors.

We have appointed CT Corporation System as our agent to receive service of process with respect to any action brought against us in the United States District Court for the Southern District of New York under the federal securities laws of the United States or of any State of the United States or any action brought against us in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York.

Conyers Dill & Pearman, our counsel as to Cayman Islands law, and King & Wood, our counsel as to PRC law, have advised us that there is uncertainty as to whether the courts of the Cayman Islands or the PRC would, respectively, (1) recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States, or (2) entertain original actions brought in the Cayman Islands or the PRC against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

Conyers Dill & Pearman has further advised us that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (i) such courts had proper jurisdiction over the parties subject to such judgment, (ii) such courts did not contravene the rules of natural justice of the Cayman Islands, (iii) such judgment was not obtained by fraud, (iv) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands, (v) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands, and (vi) there is due compliance with the correct procedures under the laws of the Cayman Islands.

King & Wood has advised us that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedure Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedure Law based either on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. King & Wood has further advised us that under PRC law, a foreign judgment, which does not otherwise violate basic legal principles, state sovereignty, safety or social public interest, may be recognized and enforced by a PRC court, based either on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. As there currently exists no treaty or other form of reciprocity between China and the United States governing the recognition of judgments, including those predicated upon the liability provisions of the US federal securities laws, there is uncertainty whether and on what basis a PRC court would enforce judgments rendered by US courts.

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LEGAL MATTERS

We are being represented by O Melveny & Myers LLP with respect to legal matters of United States federal securities and New York State law. The underwriters are being represented by Sullivan & Cromwell LLP with respect to legal matters of United States federal securities and New York State law. The validity of the Class A ordinary shares represented by the ADSs offered in this offering and certain legal matters as to Cayman Islands law will be passed upon for us by Conyers Dill & Pearman. Certain legal matters as to PRC law will be passed upon for us by King & Wood and for the underwriters by Jun He Law Offices. Conyers Dill & Pearman and O Melveny & Myers LLP may rely upon King & Wood with respect to matters governed by PRC law. Sullivan & Cromwell LLP may rely upon Jun He Law Offices with respect to matters governed by PRC law.

EXPERTS

The consolidated financial statements as of December 31, 2004 and 2005, and for each of the three years in the period ended December 31, 2005 and related financial statements schedule included in this prospectus have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm, as stated in their report appearing herein, which reports express an unqualified opinion on the consolidated financial statements and related financial statement schedule and includes an explanatory paragraph referring to the translation of Renminbi amounts into United States dollar amounts for the convenience of the reader, and have been so included in reliance upon the reports of such firm, given on their authority as experts in accounting and auditing.

The statements included in this prospectus under the caption Prospectus Summary, Risk Factors, Our Corporate Structure, Management's Discussion and Analysis of Financial Condition and Results of Operations, Our Industry, Business, Regulation, Management, Related Party Transactions, Taxation and Enforcement of Civil Liabilities, to the extent they constitute matters of PRC law, have been reviewed and confirmed by King & Wood, our PRC counsel, as experts in such matters, and are included herein in reliance upon such review and confirmation. The offices of King & Wood are located at 47th Floor, Shun Hing Square Diwang Commercial Centre, 5002 Shenan Road East, Shenzhen 518008, China.

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form F-1 and a registration statement on Form F-6, including relevant exhibits and schedules under the Securities Act, covering the Class A ordinary shares represented by the ADSs offered by this prospectus, as well as the ADSs. You should refer to our registration statements and their exhibits and schedules if you would like to find out more about us and about the ADSs and the Class A ordinary shares represented by the ADSs. This prospectus summarizes material provisions of contracts and other documents that we refer you to. Since the prospectus may not contain all the information that you may find important, you should review the full text of these documents.

We will furnish to The Bank of New York, as depositary of our ADSs, our annual reports. When the depositary receives these reports, it will upon our request promptly provide them to all holders of record of ADSs. We will also furnish the depositary with all notices of shareholders meetings and other reports and communications in English that we make available to our shareholders. The depositary will make these notices, reports and communications available to holders of ADSs and will upon our request mail to all holders of record of ADSs the information contained in any notice of a shareholders meeting it receives.

Upon the completion of this offering, we will be subject to periodic reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. Accordingly, we will be required to file reports, including Annual Reports on Form 20-F, and other information with the SEC. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders under the federal proxy rules contained in Sections 14(a), (b) and (c) of the Exchange Act, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

The registration statements, reports and other information so filed can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC also maintains a website that contains reports, proxy statements and other information about issuers, such as us, who file electronically with the SEC. The address of that website is <http://www.sec.gov>. The information on that website is not a part of this prospectus. Reports and information statements and other information about us may also be inspected at the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

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**MINDRAY MEDICAL INTERNATIONAL LIMITED
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FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
AND FOR THE SIX MONTHS ENDED JUNE 30, 2005 (UNAUDITED)
AND 2006 (UNAUDITED)**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Mindray Medical International Limited:

We have audited the accompanying consolidated balance sheets of Mindray Medical International Limited and its subsidiaries (the Company) as of December 31, 2004 and 2005, the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2005 and the related financial statement schedule included in Schedule 1. These consolidated financial statements and related financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mindray Medical International Limited and its subsidiaries at December 31, 2004 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

Our audits also comprehended the translation of Renminbi amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such United States dollar amounts are presented solely for the convenience of readers in the United States of America.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Shanghai, China

July 10, 2006

Table of Contents**MINDRAY MEDICAL INTERNATIONAL LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Year Ended December 31, | | | Six Months Ended June 30, | | | |
|---|---|-----------|-----------|---------------------------|------------------------|------------------------|-------------------------|
| | 2003 | 2004 | 2005 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| | (In thousands, except share and per share data) | | | | | | |
| Net revenues | 460,254 | 697,837 | 1,078,573 | 134,918 | 436,776 | 676,764 | 84,656 |
| Cost of revenues ^(a) | (210,565) | (319,013) | (493,326) | (61,710) | (194,892) | (307,330) | (38,444) |
| Gross profit | 249,689 | 378,824 | 585,247 | 73,208 | 241,884 | 369,434 | 46,212 |
| Operating expenses: | | | | | | | |
| Selling expenses ^(a) | (61,322) | (92,177) | (146,499) | (18,325) | (69,427) | (99,975) | (12,506) |
| General and administrative expenses ^(a) | (35,808) | (32,340) | (112,082) | (14,020) | (37,750) | (24,865) | (3,110) |
| Research and development expenses ^(a) | (39,781) | (61,604) | (106,147) | (13,278) | (48,146) | (66,678) | (8,341) |
| Operating income | 112,778 | 192,703 | 220,519 | 27,585 | 86,561 | 177,916 | 22,255 |
| Other income, net | 1,918 | 39 | 9,210 | 1,152 | 707 | 239 | 30 |
| Interest income | 531 | 3,087 | 3,854 | 482 | 611 | 6,543 | 819 |
| Interest expense | (2,815) | (3,324) | (2,019) | (253) | (1,201) | (279) | (35) |
| Income before income taxes and minority interests | 112,412 | 192,505 | 231,564 | 28,966 | 86,678 | 184,419 | 23,069 |
| Provision for income taxes | (7,624) | (10,758) | (18,066) | (2,260) | (6,449) | (13,191) | (1,650) |
| Minority interests | | | (8,409) | (1,052) | | (6,455) | (808) |
| Net income | 104,788 | 181,747 | 205,089 | 25,654 | 80,229 | 164,773 | 20,611 |
| Deemed dividend on issuance of convertible redeemable | | | (14,031) | (1,755) | | | |

preferred
shares at a
discount

| | | | | | | | |
|--|---------|---------|---------|--------|--------|---------|--------|
| Income attributable to ordinary shareholders | 104,788 | 181,747 | 191,058 | 23,899 | 80,229 | 164,773 | 20,611 |
|--|---------|---------|---------|--------|--------|---------|--------|

| | | | | | | | |
|--------------------------|---------|---------|---------|-----------|---------|---------|-----------|
| Basic earnings per share | RMB1.22 | RMB2.11 | RMB2.31 | US\$ 0.29 | RMB0.93 | RMB2.10 | US\$ 0.26 |
|--------------------------|---------|---------|---------|-----------|---------|---------|-----------|

| | | | | | | | |
|----------------------------|---------|---------|---------|-----------|---------|---------|-----------|
| Diluted earnings per share | RMB1.22 | RMB2.11 | RMB2.31 | US\$ 0.29 | RMB0.93 | RMB1.86 | US\$ 0.23 |
|----------------------------|---------|---------|---------|-----------|---------|---------|-----------|

Shares used in computation of:

| | | | | | | | |
|--------------------------|------------|------------|------------|------------|------------|------------|------------|
| Basic earnings per share | 86,000,000 | 86,000,000 | 82,790,427 | 82,790,427 | 86,000,000 | 78,490,233 | 78,490,233 |
|--------------------------|------------|------------|------------|------------|------------|------------|------------|

| | | | | | | | |
|----------------------------|------------|------------|------------|------------|------------|------------|------------|
| Diluted earnings per share | 86,000,000 | 86,000,000 | 82,790,427 | 82,790,427 | 86,000,000 | 88,467,984 | 88,467,984 |
|----------------------------|------------|------------|------------|------------|------------|------------|------------|

Note (a):

| | Year Ended December 31, | | | | Six Months Ended June 30, | | |
|---|-------------------------|---------|---------|----------|---------------------------|---------|----------|
| | 2003 | 2004 | 2005 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | RMB 000 | US\$ 000 | RMB 000 | RMB 000 | US\$ 000 |
| Share-based compensation charges incurred during the period related to: | | | | | | | |
| Cost of revenues | | | 268 | 34 | 268 | 236 | 30 |
| Selling expenses | | | 8,576 | 1,073 | 8,576 | 3,337 | 417 |
| General and administrative expenses | | | 59,014 | 7,382 | 14,420 | 4,483 | 561 |
| Research and development expenses | | | 3,071 | 384 | 3,071 | 2,130 | 266 |

See accompanying notes to consolidated financial statements

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**MINDRAY MEDICAL INTERNATIONAL LIMITED
CONSOLIDATED BALANCE SHEETS**

| | December 31, | | | June 30, | |
|---|----------------|----------------|----------------|------------------------|-------------------------|
| | 2004 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| (In thousands, except share and per share data) | | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | 178,556 | 446,143 | 55,808 | 212,875 | 26,628 |
| Restricted cash | 11,836 | 7,727 | 966 | 7,409 | 927 |
| Accounts receivable (less allowance for doubtful accounts of RMB2,007 and RMB2,016 (US\$252) for 2004 and 2005 respectively and RMB2,016 (US\$252) for June 30, 2006 (unaudited)) | 38,958 | 71,330 | 8,923 | 66,555 | 8,325 |
| Inventories | 86,294 | 105,422 | 13,187 | 120,659 | 15,093 |
| Value added tax receivables | 9,064 | 12,963 | 1,621 | | |
| Subscription receivable | | | | 10,034 | 1,255 |
| Other receivables | 16,915 | 13,987 | 1,750 | 18,977 | 2,374 |
| Prepayments and other | 13,063 | 17,134 | 2,143 | 29,799 | 3,728 |
| Deferred tax assets | 1,356 | 406 | 51 | 1,041 | 130 |
| Total current assets | 356,042 | 675,112 | 84,449 | 467,349 | 58,460 |
| Loans to employees | 9,963 | 8,460 | 1,058 | 6,200 | 776 |
| Long-term investments | | | | 103,386 | 12,932 |
| Other assets | 2,020 | 2,020 | 253 | 2,020 | 253 |
| Property, plant and equipment, net | 112,020 | 152,489 | 19,075 | 160,680 | 20,099 |
| Land use right | 2,773 | 2,639 | 330 | 2,572 | 322 |
| Deferred tax assets | 235 | 115 | 14 | 54 | 7 |
| Goodwill | | | | 279,650 | 34,981 |
| Total assets | 483,053 | 840,835 | 105,179 | 1,021,911 | 127,830 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | |
| Current liabilities: | | | | | |
| Short-term bank loans | 37,000 | | | | |
| Notes payable | | 17,153 | 2,146 | 33,382 | 4,176 |
| Accounts payable | 33,015 | 62,809 | 7,857 | 66,149 | 8,274 |
| Customers deposits | 15,957 | 29,827 | 3,731 | 25,165 | 3,148 |
| Salaries payables | 26,594 | 43,653 | 5,460 | 33,290 | 4,164 |
| Other taxes payable | 4,500 | 5,086 | 636 | 1,243 | 156 |
| Other payables | 3,527 | 8,862 | 1,108 | 10,952 | 1,370 |
| Accrued professional expenses | | 11,555 | 1,445 | 11,037 | 1,381 |
| Accrued other expenses | 3,170 | 9,908 | 1,239 | 20,169 | 2,523 |

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| | | | | | |
|---------------------------|---------|---------|--------|---------|--------|
| Advance subsidies | 10,350 | 14,500 | 1,814 | 16,600 | 2,076 |
| Dividend payable | | | | 37,145 | 4,646 |
| Income taxes payable | 2,443 | 2,928 | 366 | 7,663 | 959 |
| Total current liabilities | 136,556 | 206,281 | 25,802 | 262,795 | 32,873 |

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**MINDRAY MEDICAL INTERNATIONAL LIMITED
CONSOLIDATED BALANCE SHEETS**

| | December 31, | | | June 30, | |
|---|----------------|----------------|----------------|------------------------|-------------------------|
| | 2004 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| (In thousands, except share and per share data) | | | | | |
| Commitment and contingencies (Note 16) | | | | | |
| Minority interests | 10 | 37,596 | 4,703 | 10 | 1 |
| Mezzanine equity: | | | | | |
| Convertible redeemable preferred shares (HK\$0.001 par value: 1,000,000,000 shares authorized and nil and 10,074,977 shares for 2004 and 2005 and 8,975,105 for June 30, 2006 (unaudited), respectively issued and outstanding (Note 9) | | 325,389 | 40,703 | 289,867 | 36,259 |
| Shareholders equity: | | | | | |
| Ordinary shares (HK\$0.001 par value: 5,000,000,000 shares authorized and 86,000,000 and 75,350,054 for 2004 and 2005, and 84,099,572 for June 30, 2006 (unaudited), respectively issued and outstanding) | 89 | 79 | 10 | 88 | 11 |
| Additional paid-in capital | 86,177 | 45,773 | 5,726 | 402,123 | 50,301 |
| Retained earnings | 260,221 | 225,717 | 28,235 | 67,028 | 8,385 |
| Total shareholders equity | 346,487 | 271,569 | 33,971 | 469,239 | 58,697 |
| Total liabilities and shareholders equity | 483,053 | 840,835 | 105,179 | 1,021,911 | 127,830 |

See accompanying notes to consolidated financial statements

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MINDRAY MEDICAL INTERNATIONAL LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME

| | Ordinary share capital | | Additional paid-in capital | Retained earnings | Total |
|--|------------------------|---------|----------------------------|-------------------|-----------|
| | Number | RMB 000 | | | |
| | | | RMB 000 | RMB 000 | RMB 000 |
| (In thousands, except share and per share data) | | | | | |
| As of January 1, 2003 | 86,000,000 | 89 | 86,177 | 76,886 | 163,152 |
| Net income | | | | 104,788 | 104,788 |
| Dividends paid (RMB0.20 per share) | | | | (17,200) | (17,200) |
| As of December 31, 2003 | 86,000,000 | 89 | 86,177 | 164,474 | 250,740 |
| Net income | | | | 181,747 | 181,747 |
| Dividends paid (RMB1.00 per share) | | | | (86,000) | (86,000) |
| As of December 31, 2004 | 86,000,000 | 89 | 86,177 | 260,221 | 346,487 |
| Net income | | | | 205,089 | 205,089 |
| Dividends paid (RMB2.40 per share) | | | | (206,400) | (206,400) |
| Effect of reverse merger on minority interests | (7,649,946) | (7) | (10,008) | (19,162) | (29,177) |
| Conversion of ordinary shares to convertible redeemable preferred shares | (3,000,000) | (3) | (89,820) | | (89,823) |
| Capital contributions related to reverse merger | | | 130 | | 130 |
| Deemed dividend on issuance of convertible redeemable preferred shares at a discount | | | | (14,031) | (14,031) |
| Capital contributions in connection with share-based compensation, net | | | 59,294 | | 59,294 |
| As of December 31, 2005 | 75,350,054 | 79 | 45,773 | 225,717 | 271,569 |
| As of December 31, 2005 (US\$ 000) | 75,350,054 | 10 | 5,726 | 28,235 | 33,971 |
| Net income | | | | 164,773 | 164,773 |
| Dividends paid (RMB1.60 per share) | | | | (136,680) | (136,680) |
| Dividends paid (RMB2.00 per share) | | | | (186,782) | (186,782) |
| Conversion of convertible redeemable preferred share to ordinary shares | 1,099,872 | 1 | 35,521 | | 35,522 |
| Issuance of ordinary shares for acquisition of minority interests | 7,649,646 | 8 | 310,911 | | 310,919 |
| Share-based compensation | | | 9,918 | | 9,918 |
| As of June 30, 2006 (unaudited) | 84,099,572 | 88 | 402,123 | 67,028 | 469,239 |
| As of June 30, 2006 (unaudited) (US\$ 000) | 84,099,572 | 11 | 50,301 | 8,385 | 58,697 |

See accompanying notes to consolidated financial statements

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Table of Contents**MINDRAY MEDICAL INTERNATIONAL LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, | | | | Six Months Ended June 30, | | |
|---|-------------------------------------|----------|----------|----------|---------------------------|----------|----------|
| | 2003 | 2004 | 2005 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | RMB 000 | US\$ 000 | RMB 000 | RMB 000 | US\$ 000 |
| | (Unaudited) (Unaudited) (Unaudited) | | | | | | |
| | (In thousands) | | | | | | |
| Cash flows from operating activities: | | | | | | | |
| Net income | 104,788 | 181,747 | 205,089 | 25,654 | 80,229 | 164,773 | 20,611 |
| Adjustments to reconcile net income to net cash from operating activities: | | | | | | | |
| Amortization of land use right | 67 | 134 | 134 | 17 | 67 | 67 | 8 |
| Depreciation of property, plant and equipment | 8,079 | 16,003 | 25,346 | 3,170 | 9,881 | 18,371 | 2,298 |
| Allowance for doubtful receivables | 282 | 199 | (432) | (54) | (712) | (5) | (1) |
| Loss (gain) on disposal of property, plant and equipment | 51 | 244 | 60 | 8 | 45 | (19) | (2) |
| Impairment loss on long-lived assets | | 1,373 | | | | | |
| Employee share-based compensation | | | 70,929 | 8,872 | 26,335 | 10,186 | 1,274 |
| Income attributable to the minority interests | | | 8,409 | 1,052 | | 6,455 | 808 |
| Changes in current asset and liabilities: | | | | | | | |
| Decrease/(increase) in accounts receivables | 3,480 | (13,738) | (32,381) | (4,050) | 805 | 4,775 | 597 |
| Increase in inventories | (5,796) | (20,980) | (19,128) | (2,393) | (33,924) | (15,237) | (1,906) |
| (Increase)/decrease in value added tax receivables | (3,689) | 871 | (3,899) | (488) | (1,249) | 12,963 | 1,622 |
| (Increase)/decrease in other receivables | (2,802) | (10,128) | 5,534 | 692 | (1,984) | (4,985) | (624) |
| Increase in prepayments and other | (7,997) | (1,352) | (4,071) | (509) | (730) | (12,665) | (1,584) |
| (Increase)/decrease in deferred taxes assets | (117) | (1,234) | 1,070 | 134 | 1,086 | (574) | (72) |
| Increase in notes payables | | | 17,153 | 2,146 | | 16,229 | 2,030 |
| Increase in accounts payable | 8,022 | 18,497 | 29,794 | 3,727 | 46,524 | 3,340 | 418 |
| | 18,179 | (13,378) | 13,870 | 1,735 | 11,946 | (4,662) | (583) |

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| | | | | | | | |
|---|----------|----------|-----------|----------|-----------|-----------|----------|
| Increase/(decrease) in customers deposits | | | | | | | |
| Increase/(decrease) in salaries payable | 13,026 | 10,532 | 17,059 | 2,134 | (1,326) | (10,363) | (1,296) |
| Increase/(decrease) in other taxes payable | 3,918 | (3,352) | 586 | 73 | (726) | (3,843) | (481) |
| Increase/(decrease) in other payables | 8,137 | (5,011) | 5,335 | 667 | 2,476 | 2,090 | 261 |
| Increase/(decrease) in accrued professional expenses | | | 11,555 | 1,445 | | (518) | (65) |
| (Decrease)/increase in accrued other expenses | (2,897) | 1,609 | 6,738 | 843 | 4,341 | 10,261 | 1,284 |
| Increase in advance subsidies | 4,300 | 3,050 | 4,150 | 519 | 5,960 | 2,100 | 263 |
| Increase in income taxes payable | 375 | 754 | 485 | 61 | 147 | 4,735 | 592 |
| Net cash from operating activities | 149,406 | 165,840 | 363,385 | 45,455 | 149,191 | 203,474 | 25,452 |
| Cash flows from investing activities: | | | | | | | |
| Purchase of property, plant and equipment | (50,505) | (28,142) | (68,245) | (8,537) | (36,727) | (26,884) | (3,363) |
| Proceeds from disposal of property, plant and equipment | | 118 | 205 | 26 | 27 | 341 | 42 |
| Decrease/(increase) in restricted cash | | 10,264 | 4,109 | 514 | (1,344) | 318 | 39 |
| Increase in long term investment | | | | | | (103,386) | (12,932) |
| (Lending)/repayment of employees loans | (3,364) | (3,831) | 1,503 | 188 | 414 | 2,260 | 283 |
| Acquisition of minority interests | | | | | | (10,034) | (1,255) |
| Net cash used in investing activities | (53,869) | (21,591) | (62,428) | (7,809) | (37,630) | (137,385) | (17,186) |
| Cash flows from financing activities: | | | | | | | |
| Repayment of bank loans | (2,000) | (10,000) | (37,000) | (4,628) | | | |
| Dividend paid | (17,200) | (86,000) | (206,400) | (25,818) | (182,535) | (284,057) | (35,532) |
| Dividend paid to minority interest | | | | | | (15,300) | (1,914) |
| Contribution from minority shareholders | | 10 | | | | | |
| Contributions from shareholders | | | 130 | 16 | 28 | | |
| | | | 209,900 | 26,256 | | | |

Issue of preferred shares
 (net of direct incremental
 costs of RMB15,351
 (US\$1,920) in 2005)

| | | | | | | | |
|---------------------------------------|----------|----------|----------|---------|-----------|-----------|----------|
| Net cash used in financing activities | (19,200) | (95,990) | (33,370) | (4,174) | (182,507) | (299,357) | (37,446) |
|---------------------------------------|----------|----------|----------|---------|-----------|-----------|----------|

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data)

1. Organization and Principal Activities

Mindray Medical International Limited (previously named as Mindray International Holdings Limited) and, together with its subsidiaries, Mindray or the Company, was incorporated as an exempted company with limited liability in the Cayman Islands on June 10, 2005 under the Companies Law of the Cayman Islands. Mindray is principally engaged in the manufacture, development and sale of medical devices including patient monitoring devices, diagnostic laboratory instruments and ultrasound imaging systems in the People's Republic of China (the PRC). The Company also designs and develops equipment to customers' specifications.

Substantially all of the Company's business is conducted in the PRC through its primary operating subsidiary, Shenzhen Mindray Bio-Medical Electronics Co., Ltd. (Shenzhen Mindray) in which the Company indirectly holds approximately 99.9% equity interest. Shenzhen Mindray holds a 99.9% interest in a second consolidated subsidiary, Beijing Shen Mindray Medical Electronics Technology Research Institute Co., Ltd. (Beijing Mindray), which is engaged principally in research and development activities. These subsidiaries are collectively referred to as the operating subsidiaries. Mindray holds its interest in the operating subsidiaries indirectly through two holding companies, Greatest Elite Limited (GE) and Giant Glory Investments Limited (GG), which are wholly owned shell companies and are incorporated in the British Virgin Islands (BVI).

On September 13, 2005, Mindray issued 75,350,054 ordinary shares and 3,000,000 convertible redeemable preferred shares to Shenzhen Mindray's controlling shareholders for approximately 91.1% of the outstanding equity interests of Shenzhen Mindray and 100% of the equity interest of GE and GG. The controlling shareholders of Shenzhen Mindray became the owners of 100% of the outstanding shares of Mindray in proportion to their interests in Shenzhen Mindray and Mindray became the 100% owner of GE and GG. The approximately 8.9% equity interests of Shenzhen Mindray shareholders who did not participate in the exchange were recorded as minority interests. Prior to the exchange, Mindray, GG and GE were shell companies which contained interests in Shenzhen Mindray and only an insignificant amount of cash and no liabilities. Accordingly, the exchange was accounted for as a reverse merger and the financial statements of Mindray presents the historical results, assets and liabilities of Shenzhen Mindray upon the consummation of the reverse merger on the basis that Shenzhen Mindray was the accounting acquirer with no change in the basis of the net assets of Shenzhen Mindray, and the merger with Mindray has been reflected as a recapitalization of Shenzhen Mindray as of the date of consummation. In April 2006, Mindray acquired the remaining minority interest in Shenzhen Mindray, with the exception of a nominal interest, which is required to be held by PRC residents pursuant to local regulations.

2. Summary of Significant Accounting Policies*(a) Basis of presentation and principles of consolidation*

The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP).

The consolidated financial statements include the financial statements of the Company and all its majority-owned subsidiaries. All significant inter-company transactions have been eliminated on consolidation.

Unaudited interim financial information

The financial information with respect to the six months ended June 30, 2005 and 2006 is unaudited and has been prepared on the same basis as the audited financial statements. In the opinion of management, such unaudited financial information contained all adjustments, consisting of only normal recurring adjustments,

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

necessary for a fair presentation of the results of such periods. The results of operations for the six months ended June 30, 2006 are not necessarily indicative of results to be expected for the full year.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid short-term deposits which are unrestricted as to withdrawal and use, and which have maturities of three months or less from the date of purchase.

(c) Restricted cash

Restricted cash are cash balances pledged for the facility used to issue letters of credit and short-term bank loans.

(d) Inventories

Inventories are stated at the lower of cost or market value. Cost is calculated using the weighted average cost method. Write downs of potentially obsolete or slow-moving inventory are recorded based on the management's specific analysis of future sales forecasts and economic conditions.

(e) Property, plant and equipment, net

Property, plant and equipment are carried at cost less accumulated depreciation. Assets under construction are not depreciated until construction is completed and the assets are ready for their intended use. Gains and losses from the disposal of property, plant and equipment are included in income from operations.

Depreciation is computed on a straight-line basis over the estimated useful lives of assets as follows:

| Classification | Years |
|---|--------------|
| Buildings | 20 years |
| Plant and machinery | 3 to 5 years |
| Electronic equipments, furniture and fixtures | 3 to 5 years |
| Motor vehicles | 5 years |

(f) Land use right

All land in the PRC is owned by the PRC government. The government in the PRC, according to PRC law, may sell the right to use the land for a specified period of time. Thus, all of the Company's land purchases in the PRC are considered to be leasehold land and are stated at cost less accumulated amortization and any recognized impairment loss. The cost of the land use right is amortized on a straight-line basis over 20 years.

(g) Goodwill

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill. The Company has only completed the preliminary purchase price allocation in connection with the acquisition of the minority interest on April 20, 2006 and as such, the goodwill is subject to revision. See Note 4.

Goodwill is not amortized, but is tested for impairment at the reporting unit level on at least an annual basis. The evaluation of goodwill for impairment involves two steps: (1) the identification of potential

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill and (2) the measurement of the amount of goodwill loss by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill and recognizing a loss by the excess of the latter over the former. For assessment of impairment loss, the Company will measure fair value based either on internal models or independent valuations.

(h) Impairment or disposal of long-lived assets

The Company reviews its long-lived assets for potential impairment based on a review of projected undiscounted cash flows associated with these assets. Long-lived assets are evaluated for impairment whenever events and circumstances exist that indicates the carrying amount of these assets may not be recoverable. Measurement of impairment losses for long-lived assets that the Company expects to hold and use is based on the difference between the estimated fair value of the assets and the carrying amount. In 2004, the Company wrote down the golf membership debentures and a building in Beijing to their market price which were below the carrying value and recorded an impairment loss of RMB1,373.

Long-lived assets to be disposed of are stated at lower of fair value or carrying amount. Expected future operating losses from any discontinued operations would be recorded in the periods in which the losses are incurred.

(i) Mezzanine equity

Convertible redeemable preferred shares issued in 2005 that carry a redemption feature are classified as mezzanine equity (See Note 9).

(j) Revenue recognition

The Company recognizes revenues when all the following conditions have been satisfied:

There is persuasive evidence of an arrangement;

Delivery has occurred (e.g., an exchange has taken place);

The sales price is fixed or determinable; and,

Collectibility is reasonably assured.

All revenues are based on firm customer orders with fixed terms and conditions. The Company does not provide its customers with the right of return, price protection or cash rebates. For products which include software, the software is incidental to the product as a whole, and the Company does not provide any significant post customer support services and does not provide customers with upgrades. Accordingly, revenues from the sale of products is recognized when the risks and rewards are passed to the customer, which is typically upon shipment, when the terms are free-on-board shipping point, or upon delivery. There are no customer acceptance provisions associated with the Company's products, except related to the standards and quality of a given product.

The Company offers sales incentives to certain customers in the form of future credits for free products. The costs of the sales incentives are accrued as cost of revenues with a corresponding current liability. The Company recognizes the cost of these incentives as each of the required revenue transactions that results in progress by the customer toward earning the sales incentive occurs.

The Company recognized contract revenues generated from the provision of development services and related costs for a contract in the year ended December 31, 2004 on a completed-contract basis because the Company was unable to estimate contract revenues, contract costs and progress towards completion. Under

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

this method, RMB 8,694 and RMB10,557 of contract revenues and related costs, respectively, were deferred as of December 31, 2003 and recognized when the contract was completed in the year ended December 31, 2004. There were no such contracts in 2005 or in the six months ended June 30, 2006. (unaudited)

The Company presents revenues net of value-added tax collected from customers at 17%, which amounts to RMB55,510, RMB73,229, RMB101,327 (US\$12,675) and RMB44,087 and RMB63,546 (US\$7,949) for 2003, 2004, 2005 and the six months ended June 30, 2005 (unaudited) and 2006 (unaudited). Additionally, the Company recognizes as a component of revenues a value-added tax refund received by the operating subsidiaries of the Company, pursuant to Certain Policies to Encourage the Development of Software and Integrated Circuit Industries as New and High Technology Enterprises at a rate of 14% of the sales value for self-developed software only. Such software is an integrated component of the Company's products even though the Company considers such software to be incidental to the product. The amount of refund for such value-added tax included in net revenues was RMB18,500, RMB24,555, RMB32,121(US\$4,018) and RMB13,649 and Nil for 2003, 2004, 2005 and the six months ended June 30, 2005 (unaudited) and 2006 (unaudited). The PRC government changed the regulation in 2006 and the Company's integrated software no longer qualifies for the value-added tax refund.

(k) Shipping and handling costs

Shipping and handling costs are classified as cost of revenues. During 2003, 2004, 2005 and the six months ended June 30, 2005 (unaudited) and 2006 (unaudited), shipping and handling costs classified as cost of revenues were RMB5,885, RMB7,990, RMB16,582 (US\$2,074) and RMB5,900 and RMB11,279 (US\$1,411), respectively.

(l) Government subsidies

Government subsidies include cash subsidies and advance subsidies received from the PRC government by the operating subsidiaries of the Company. Such subsidies are generally provided in relation to the development of new high technology medical products and as well as incentives from the local government for investing in the high technology industry in the region. There is no assurance that the Company will receive similar or any subsidies in the future. Cash subsidies are recognized as other income when received and when all the conditions for their receipt have been satisfied. Cash subsidies recognized as other income were RMB1,932, RMB1,181, and RMB8,837 (US\$1,105) and RMB411 and Nil (US\$Nil) in 2003, 2004, 2005 and the six months ended June 30, 2005 (unaudited) and 2006 (unaudited), respectively. Advance subsidies received have been recorded as a current liability.

(m) Research and development costs

Research and development (R&D) costs are incurred in the development of the new products and processes, including significant improvements and refinements to existing products. All R&D costs are expensed as incurred.

(n) Advertising expenses

The Company expenses advertising costs as incurred. Advertising expenses were RMB4,370, RMB5,818 and RMB5,936 (US\$743) and RMB3,938 and RMB4,858 (US\$608) in 2003, 2004, 2005 and the six months ended June 30, 2005 (unaudited) and 2006 (unaudited), respectively, and is classified as selling expenses.

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

(o) Staff retirement plan costs

The Company's costs related to its defined contribution staff retirement plans are expensed as incurred (See Note 14).

(p) Share-based compensation

The Company accounts for share-based compensation to employees of the Company based on the fair value of the ordinary shares at the date of grant, and will record compensation expense to the extent the fair value of the shares transferred is determined to be greater than the price paid by the employee.

The Company incurred three separate compensation charges in 2005, which amounted to RMB70,929 (US\$8,872). One charge, which totaled RMB26,335 (US\$3,294), was recorded in connection with 1,277,339 shares transferred in January 2005 to certain management level employees by the shareholders of the Company for past and current services to the Company. A corresponding amount has been recorded as a capital contribution from shareholders. The Company determined the fair value of such shares by means of weighing evenly the results of a discounted cash flow analysis and a market-based approach (known as guideline company method) with the assistance of an independent third party valuation expert. The discounted cash flow method derived by management considered the Company's future business plan, specific business and financial risks, the stage of development of the Company's operations and economic and competitive elements affecting the Company's business, industry and market.

Another charge of RMB11,635 (US\$1,455) was recorded in connection with both the issuance of 3,000,000 preferred shares to certain employees and one non-employee director in September 2005 in exchange for 3,000,000 of their ordinary shares. See Note 9 for further discussion of the transaction. The compensation expense was calculated based on the difference between the fair value of the ordinary and preferred shares. The Company engaged an independent third party valuation expert to provide assistance in estimating the fair value of the Company on the date of transaction, September 26, 2005, and allocating the enterprise value between the ordinary and preferred shares. The valuation resulted in a deemed value per share of the preferred and ordinary shares equal to approximately US\$4.18 and US\$3.70, respectively.

Lastly, the Company recorded a charge of RMB32,959 (US\$4,123) in relation to an earnings adjustment provision entered into between the Preferred shareholders and certain employees in connection with the employees' sale of the preferred shares to such Preferred shareholders, see Note 10. The amount recorded is based on the fair value of the ordinary shares multiplied by the Company's best estimate of the number of shares to be provided to such employees pursuant to this performance-type award. The number of shares to be transferred is contingent upon the Company meeting certain pre-defined net income levels for the year ended December 31, 2005. A corresponding amount has been recorded as a capital contribution from shareholders. The Company and the Preferred shareholders settled the earnings adjustment provision on June 15, 2006 and approximately 1.1 million preferred shares, recorded as outstanding as of December 31, 2005, were converted into ordinary shares upon transfer to the employees.

On February 22, 2006, the Company implemented a new share-based compensation plan, which permits the Company to grant share options to certain members of senior management and key employees. The compensation expense in the six months ended June 30, 2006 is RMB10,186 (US\$1,274) (unaudited). See Note 11 for further disclosures.

(q) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, the change in the net deferred tax asset or liability is included in the computation of net income. Deferred tax assets and liabilities are measured using enacted tax rates applicable to taxable income

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

in the years in which temporary differences are expected to be recovered or settled. Deferred tax assets are evaluated and, if realization is not considered to be more likely than not, a valuation allowance is provided.

(r) Earnings per share

Basic earnings per share is computed by dividing net income, adjusted for dividends attributable to Preferred shareholders, by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share gives effect to all dilutive potential ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding is adjusted to include the number of additional ordinary shares that would have been outstanding if the dilutive potential ordinary shares had been issued. The assumed conversion of the preferred shares into 2,784,309 of ordinary shares is anti-dilutive as of December 31, 2005 as a result of the deemed dividends incurred during the period. The assumed exercise of 6,928,000 share options have been included as the effect is anti-dilutive for the six months ended June 30, 2006.

(s) Foreign currency transactions

All transactions in currencies other than functional currencies during the year are remeasured at the exchange rates prevailing on the respective transaction dates. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than functional currencies are remeasured at the exchange rates existing on that date. Exchange differences are recorded in the consolidated statement of operations.

(t) Convenience translation into United States Dollars

The consolidated financial statements of the Company are stated in Renminbi (RMB). The translation of RMB amounts as of and for the year ended December 31, 2005 and June 30, 2006 into United States dollar (US\$) is included solely for the convenience of readers and has been made at the rate of RMB7.9943 to US\$1.00, which is based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York at June 30, 2006. Such translations should not be construed as representations that RMB amounts could be converted into US\$ at that rate or any other rate.

(u) Comprehensive income

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income, which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS No. 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. During the periods presented, the Company's comprehensive income represents its net income.

(v) Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses in the financial statements and accompanying notes. The significant accounting estimates which have had an impact on the Company's financial statements include share-based compensation, provision for income taxes and inventory. Actual results could differ from those estimates.

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

(w) Fair value disclosures

The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, short-term bank loans, notes payable, accounts payable, accrued expenses and other payables approximate their fair values due to the short term nature of these instruments.

The convertible redeemable preferred shares are recorded at their fair value upon issuance and subsequently at their accreted values, which approximate the cash outlay which would be due upon settlement, if not converted into common shares.

(x) Concentration of risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with financial institutions with high-credit ratings and quality.

The Company generally requires upfront payment or a significant installment prior to delivery of their products. As a consequence, management believes the Company's exposure to credit risk is limited. The Company establishes an allowance for doubtful receivables primarily based upon the age of receivables and factors surrounding the credit risk of specific customers. Allowance for doubtful accounts was RMB2,007 and RMB2,016 (US\$252) and RMB2,016 (US\$252) in 2004 and 2005 and the six months ended June 30, 2006 (unaudited), respectively.

(y) Recent changes in accounting standards

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4 (SFAS 151). SFAS 151 clarifies the accounting that requires abnormal amounts of idle facility expenses, freight, handling costs, and spoilage costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred on or after June 15, 2005. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payments (SFAS 123R). This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS 123R will be effective for the fiscal year beginning January 1, 2006. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29 (SFAS 153), which amends Accounting Principles Board Opinion No. 29, Accounting for Nonmonetary Transactions to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this statement is not expected to have a material effect on the Company's financial position or results of operations.

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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In March 2005, the FASB issued FASB Interpretation No. (FIN) 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS No. 143 (FIN 47). FIN 47 clarifies that an entity is required to recognize a liability for a legal obligation to perform an asset retirement activity if the fair value can be reasonably estimated even though the timing and/or method of settlement are conditional on a future event. FIN 47 is required to be adopted for annual reporting periods ending after December 15, 2005. The Company is evaluating the effect of the adoption of FIN 47. The adoption of this statement is not expected to have a material effect on the Company's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes And Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 . This statement supercedes APB Opinion No. 20, Accounting changes and SFAS No. 3, Reporting Accounting changes in Interim Financial Statements (SFAS 154.) SFAS 154 requires retrospective application to prior periods financial statements of changes in accounting principles, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. APB Opinion No. 20

Accounting Changes, previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to have a material effect on the Company's financial position or results of operations.

In September 2005, the FASB's Emerging Issues Task Force (EITF) reached a final consensus on Issue 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty (EITF 04-13). EITF 04-13 requires that two or more legally separate exchange transactions with the same counterparty be combined and considered a single arrangement for purposes of applying APB Opinion No. 29, Accounting for Nonmonetary Transactions , when the transactions are entered into in contemplation of one another. EITF 04-13 is effective for new arrangements entered into, or modifications or renewals of existing arrangements, in interim or annual periods beginning after March 15, 2006. The adoption of this statement is not expected to have a material effect on the Company's financial position or results of operations.

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MINDRAY MEDICAL INTERNATIONAL LIMITED
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(In thousands, except share and per share data)

3. Investment in Subsidiaries*Subsidiaries*

Particulars regarding the legal subsidiaries as of June 30, 2006 are as follows:

| Name of company | Place of establishment and operation | Percentage of ordinary share/ registered capital held by the Company | Principal activities |
|--|--|---|--|
| Giant Glory Investments Limited | BVI | 100% | Investment holding |
| Greatest Elite Limited | BVI | 100% | Investment holding |
| Mindray (UK) Limited | United Kingdom | 100% | Marketing of medical equipment |
| Mindray USA Corp. | United States of America | 100% | Sales and marketing of medical equipment |
| Shenzhen Mindray Bio-Medical Electronics Co., Ltd. | PRC | 99.9% | Manufacturing and trading of medical equipments and research and development of related products |
| Beijing Shen Mindray Medical Electronics Technology Research Institute Co., Ltd. | PRC | 99.9% | Research and development of medical equipment |

4. Acquisition of Minority Interest (Unaudited)

On April 20, 2006, the Company acquired an approximately 8.9% of the minority interest in Shenzhen Mindray in exchange for 7,649,646 ordinary shares. After the acquisition, the Company owns approximately 99.9% Shenzhen Mindray. The results of Shenzhen Mindray's operations, attributable to the approximately 8.9% interest acquired have been included in the Company's unaudited consolidated financial statements for the six months ended June 30, 2006 since the date of acquisition.

The aggregate purchase price was determined to be RMB310,919, based on issuance of 7,649,646 ordinary shares valued at RMB40.64 (US\$5.05) per share. The value of the ordinary shares issued by the Company was determined based on the fair value of the ordinary shares on February 20, 2006, which is the date when the terms and conditions of the purchase were agreed. The Company determined the fair value of such shares by means of weighing evenly the results of a discounted cash flow analysis and the market approach (known as guideline company method) with the assistance of an independent third party valuation expert. The discounted cash flow method derived by management

considered the Company's future business plan, specific business and financial risks, the stage of development of the Company's operations and economic and competitive elements affecting the Company's business, industry and market. The Company then allocated the resulting enterprise value between the ordinary and the convertible redeemable preferred shares.

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The following table summarizes the preliminary estimated fair values of the portion of the assets acquired and liabilities assumed at the date of minority interest acquisition. The Company is in the process of obtaining third-party valuations of its property and certain identifiable intangible assets such as its brand name, trademark and certain contractual agreements; thus, the allocation of the purchase price consideration disclosed herein is preliminary and subject to revision once the Company completes its valuation exercise.

| | As of April 20, 2006 | |
|--------------------------------|-----------------------------|-----------------|
| | RMB 000 | US\$ 000 |
| Current assets | 38,247 | 4,784 |
| Property, plant, and equipment | 13,619 | 1,704 |
| Other long-term assets | 1,080 | 135 |
| Goodwill | 279,650 | 34,981 |
| Total assets acquired | 332,596 | 41,604 |
| Current liabilities | 21,677 | 2,711 |
| Net assets acquired | 310,919 | 38,893 |

The Company will allocate the goodwill balance to the Company's segments upon the completion of the purchase price allocation.

5. Inventories

Inventories consist of following:

| | As of December 31, | | | As of June 30, | |
|------------------|---------------------------|----------------|-----------------|-----------------------|--------------------|
| | 2004 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | US\$ 000 | RMB 000 | US\$ 000 |
| | | | | (Unaudited) | (Unaudited) |
| Raw materials | 42,646 | 24,601 | 3,077 | 39,197 | 4,903 |
| Work-in-progress | 19,502 | 51,729 | 6,471 | 61,228 | 7,659 |
| Finished goods | 24,146 | 29,092 | 3,639 | 20,234 | 2,531 |
| | 86,294 | 105,422 | 13,187 | 120,659 | 15,093 |

6. Long-term Investments (Unaudited)

During the six months ended June 30, 2006, for investment purposes, the Company entered into agreements with Shenzhen International Trust & Investment Co., Ltd. (the Trust) pursuant to which the Company deposited cash RMB100,000 (US\$12,884) with the Trust, which the Trust then lent to third party borrowers. The amount is receivable on demand beginning two years from the date of the agreement at April 12, 2006 and June 12, 2006. The

receivable pays interest at 4.2% to 4.25% per annum and both the principal and interest, payable by the third party to the Trust have been guaranteed by the Bank of China to the Trust. An interest income of RMB386 (US\$48) was accrued up to June 30, 2006 (unaudited).

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MINDRAY MEDICAL INTERNATIONAL LIMITED
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(In thousands, except share and per share data)

7. Property, Plant and Equipment, net

Property, plant and equipment, net consist of following:

| | As of December 31, | | | As of June 30, | |
|--|--------------------|----------|----------|------------------------|-------------------------|
| | 2004 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| Buildings | 75,330 | 95,701 | 11,971 | 97,313 | 12,173 |
| Plant and machinery | 8,418 | 23,279 | 2,912 | 43,688 | 5,465 |
| Electronic equipment, furniture and fixtures | 43,436 | 78,150 | 9,776 | 82,440 | 10,312 |
| Motor vehicles | 8,602 | 8,708 | 1,089 | 8,708 | 1,089 |
| Construction in progress | 6,784 | 669 | 84 | 713 | 89 |
| Total | 142,570 | 206,507 | 25,832 | 232,862 | 29,128 |
| Less: Accumulated depreciation | (30,550) | (54,018) | (6,757) | (72,182) | (9,029) |
| Net book value | 112,020 | 152,489 | 19,075 | 160,680 | 20,099 |

As at December 31, 2005 and June 30, 2006 (unaudited), property with net book value of RMB62,922 (US\$7,871) and RMB61,318 (US\$7,670), respectively, was pledged for the available loan facilities.

8. Short-term bank loans and Notes payable

| | As of December 31, | | | As of June 30, | |
|-----------------------|--------------------|---------|----------|------------------------|-------------------------|
| | 2004 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| Secured bank loans | 17,000 | | | | |
| Unsecured bank loans | 20,000 | | | | |
| Notes payables | | 17,153 | 2,146 | 33,382 | 4,176 |
| Total bank borrowings | 37,000 | 17,153 | 2,146 | 33,382 | 4,176 |

The secured bank loans were secured by pledge of bank deposits of:

| | As of December 31, | | | As of June 30, | |
|--|--------------------|---------|----------|----------------|----------|
| | 2004 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | US\$ 000 | RMB 000 | US\$ 000 |
| | | | | | |

| | | | |
|-----------------------|--------|--------------------|--------------------|
| | | (Unaudited) | (Unaudited) |
| Pledged bank deposits | 11,836 | | |

The Company has total available loan and notes payables facilities of RMB220,000 (US\$27,520) and RMB250,000 (US\$31,272) with various banks, of which RMB202,847 (US\$25,374) and RMB247,606 (US\$30,973) were available as of December 31, 2005 and as of June 30, 2006 (unaudited), respectively. The funds borrowed under these facilities are generally repayable within one year. The weighted average variable interest rates on the bank loans as of December 31, 2004 and 2005 and as of June 30, 2006 (unaudited) were 5.31% and 5.22% and Nil%, respectively.

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9. Convertible redeemable preferred shares

In September 2005, the Company issued 10,074,977 convertible redeemable preferred shares (preferred shares), of which 7,074,977 preferred shares were issued to a third party investor (Preferred shareholders) for cash proceeds of US\$27,839. The remaining 3,000,000 preferred shares were issued to four employees of the Company in exchange for 3,000,000 ordinary shares, for purposes of selling these preferred shares to such third party investor. In connection with the transaction, three of the four employees (Employee shareholders) also entered into a performance arrangement with the third party investor.

The Company recorded the initial carrying amount of the convertible redeemable preferred shares at RMB340,740 (US\$42,623) or approximately US\$4.18 per share, which was determined to be the fair value of such shares at the date of issuance. The Company determined the fair value of such shares by means of weighing evenly the results of a discounted cash flow analysis and the market approach (known as guideline company method) with the assistance of an independent third party valuation expert. The discounted cash flow method derived by management considered the Company's future business plan, specific business and financial risks, the stage of development of the Company's operations and economic and competitive elements affecting the Company's business, industry and market. The Company then allocated the resulting enterprise value between the ordinary and preferred shares. The initial carrying value of the preferred shares was offset by direct cost of the equity issuance of RMB15,351 (US\$1,920).

The Preferred shareholders paid approximately US\$3.93 per preferred share, which represents a discount to their fair value of approximately US\$4.18 per share. The Company recognized a deemed dividend of RMB14,031 (US\$1,755) for the benefit the Preferred shareholders received, which is equal to the amount of the discount for the preferred shares issued.

Voting rights. Each preferred share has voting rights equivalent to the number of ordinary shares into which it is convertible.

Participating Dividends. The Preferred shareholders shall be entitled to receive a dividend out of any funds legally available therefore, when and if declared by the Board of Directors of the Company, at the rate or in the amount as the Board of Directors considers appropriate. If no preferred dividends are declared, the Preferred shareholders are also entitled to a pro rata share of dividends paid out to ordinary shareholders on an as-converted basis. Participating dividends are payable in priority to a payment of dividends to the holders of any other class of share capital.

Conversion. Each preferred share is convertible at the election of the Preferred shareholders at any time prior to an initial public offering (IPO). Each preferred share will be converted into such number of ordinary shares as determined by dividing US\$3.97 by the then prevailing conversion price.

The preferred shares are automatically converted into (1) ordinary shares immediately prior to an IPO at a valuation at or above the predefined IPO threshold on a stock exchange as approved by the holders of preferred shares or (2) a similar instrument immediately prior to an IPO on a stock exchange as approved by the holders of preferred shares below the IPO valuation threshold if rules/regulations do not allow the continuing existence of preferred shares.

Antidilution provisions. In the event the Company issues additional options, warrants, convertible securities and ordinary shares without consideration or for a consideration per share less than the applicable conversion price in effect, the conversion price shall be reduced, concurrently with such issue, to a new price, with the exception of equity instruments issued in connection with an employee option plan.

Liquidation preference. In the event of any liquidation, dissolution or winding up (other than on conversion, redemption or purchase shares) of the Company, the holders of the preferred shares shall receive a sum equal to subscription price plus interest accrued daily on an annual basis at a compounded annual

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rate of 8% less any participating dividends received, in priority to any distribution the holders of any other class of shares. If liquidation preference is not satisfied in full, each preferred share shall be entitled to share on an as-converted basis with the ordinary shares in the remaining assets (if any) available for distribution.

Redemption. The Preferred shareholders may redeem preferred shares at any time prior to conversion into ordinary shares: (i) after the third anniversary of the date of issue, (ii) anytime after a bankruptcy event or (iii) if certain changes to equity ownership occurs before the third anniversary described in the shareholder agreement at the option of a majority of the Preferred shareholders then outstanding. In the event the Preferred shareholders exercise the redemption right, the Company shall redeem up to all of the preferred shares at a redemption price per preferred share equal to $US\$3.97x(1+(0.10xN))$ less any participating dividends paid prior to the Redemption Date. N refers to a fraction the numerator of which is the number of calendar days between subscription date and the Redemption Date and the denominator of which is 365. As of December 31, 2005 the Company determined that redemption is not probable as it is expected that such shares will be automatically converted in connection with the Company's IPO and accordingly has not accrued any dividend pursuant to this term.

Performance adjustment. The sale of 2,000,000 preferred shares to the Preferred shareholders directly by certain Employee shareholders is subject to adjustment based on the Company's result for the year ended December 31, 2005. This performance adjustment provision specifies that in the event the Company's results are less than or greater than certain predefined amounts, the Preferred shareholders would either receive additional preferred shares if the Company's earnings is less than the pre-defined amount or return to the Employee shareholders a certain number of shares (or cash) in the event the earnings adjustment is met or exceeded. Both the Preferred shareholders and Employee shareholders have placed in escrow 1,369,422 preferred shares and 1,800,425 ordinary shares, respectively, which represents the maximum number of shares subject to exchange pursuant to this provision. Upon exchange, the shares received by the Preferred shareholders pursuant to the performance adjustment formula will remain as preferred shares and the shares received by the Employee shareholders pursuant to the performance adjustment formula will be converted into ordinary shares. As discussed in Note 2 (p), the Company has recorded a share-based compensation charge of RMB11,635 (US\$1,455) in connection with issuance of preferred shares to the employees in September 2005 and RMB32,959 (US\$4,123) in relation to the performance adjustment provision on the basis that the Company expects the predefined earnings level will be exceeded. The performance adjustment was settled and 1.1 million preferred shares were converted to ordinary shares and transferred to the employee shareholders on June 15, 2006. For such compensation charge, a corresponding amount has been recorded as a capital contribution from the Preferred shareholders.

10. Capital Structure

In September 2005, in connection with the share exchange disclosed in Note 1, Mindray issued 75,350,054 ordinary shares and 3,000,000 preferred shares, each with a par value of HK\$0.001 in exchange for 78,350,054 ordinary shares of Shenzhen Mindray which equals approximately 91.1% of the 86,000,000 outstanding shares in Shenzhen Mindray. The share exchange, which occurred on a one for one basis, was accounted for as a reverse merger, and Shenzhen Mindray was deemed to be the accounting acquirer. The 7,649,946 ordinary shares of Shenzhen Mindray (representing approximately 8.9% of the 86,000,000 outstanding shares) that were held by shareholders that did not exchange and thus were not acquired by Mindray accordingly became minority interest of the consolidated entity as of the date of the reverse merger. The consolidated financial statements presented prior to the reverse merger are those of Shenzhen Mindray. In addition, the 86,000,000 ordinary shares outstanding from January 1, 2003 through the date of the reverse merger equal the number of ordinary shares of Shenzhen Mindray which were legally outstanding during this period.

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In September 2005, the Company issued 7,074,977 convertible redeemable preferred shares to a third party investor.

As a result of the PRC laws and regulations, the Company's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets either in the form of dividends, loans or advances, which restricted portion amounted to approximately RMB160,448 (US\$20,070) as of December 31, 2005. This amount is made up of the registered equity of the PRC subsidiaries and the statutory reserves disclosed in Note 17.

Beginning in 2007, the Company expects to distribute approximately 20% of net income to the shareholders. The declaration of dividends, if any, is subject to approval by the Board of Directors.

In the six months ended June 30, 2006, the Company issued an additional 7,649,646 shares to the minority interest shareholders in Shenzhen Mindray in exchange for their interests in Shenzhen Mindray (see Note 4). In connection with this transaction, in order to facilitate compliance with PRC regulations, GE paid such minority interests cash in the amount of RMB10,034 and concurrently recorded a subscription receivable of RMB10,034 in connection with the issuance of shares, which was outstanding as at June 30, 2006 and subsequently collected on July 13, 2006.

On June 15, 2006, the Company also converted 1,099,872 convertible redeemable preferred shares to ordinary shares as a result of the settlement of the performance adjustment (see Note 9).

11. Share-based compensation plan

Pursuant to the 2006 Employee Share Option Plan (the Plan), the Company granted options for the purchase of a maximum of 7,033,000 shares in the Company, subject to vesting requirements. The options entitle the option holder to acquire one ordinary share of the Company at an exercise price of US\$5.00 (RMB40.35) per share. The options expire eight years from the date of grant, and are subject to graded vesting, with approximately 25% of the options granting on January 31, 2007, 2008, 2009 and 2010, respectively. In addition to the requirement that the employee be employed at the time of vesting, the vesting of each option is subject to employees meeting individual performance targets based on evaluations of each individual employee.

The Company has adopted SFAS 123R and recognizes the fair value of the granted options over the required service period based on the Company's estimate of the number of shares which will vest.

Management has used the Black-Scholes option pricing model to estimate the fair value of the options on grant date with the following weighted-average assumptions:

| | |
|--------------------------|----------------------|
| Risk-free interest rate | 5.16% |
| Expected life | 5.25 years |
| Assumed volatility | 33.2% |
| Expected dividends | 3.00% |
| Fair value on grant date | US\$ 1.35 (RMB10.95) |

Assumed volatility is derived by referring to the average annualized standard deviation of the share price of listed comparable companies. The expected life of the option has been assumed to be exercised evenly throughout the option life. The risk free interest rate is based on the yield to maturity of the PRC government bond as of the grant date with maturity closest to the relevant option expiry date. Management's best estimate is that the individual performance targets will be achieved. If such targets are not met, total compensation cost may decrease and certain recognized compensation cost will be reversed.

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A summary of option and nonvested shares activity under the Plan as of June 30, 2006 (unaudited) and changes in the period is presented below:

| Options | Shares | Exercise price |
|---|---------------|-----------------------|
| | of | US\$ |
| Outstanding as of January 1, 2006 | | |
| Granted | 7,033,000 | 5.00 |
| Exercised | | |
| Forfeited | (105,000) | 5.00 |
| Outstanding and nonvested as of June 30, 2006 | 6,928,000 | 5.00 |

Exercisable as of June 30, 2006

As of June 30, 2006, there was RMB57,995 (US\$7,255) (unaudited) of total unrecognized compensation cost related to nonvested share options granted under the Plan. That cost is expected to be recognized over 4.5 years.

12. Earnings Per Share

| | Year Ended December 31, | | | | Six Months Ended June 30, | | |
|---|--------------------------------|----------------|----------------|-----------------|--------------------------------------|--------------------------------------|---------------------------------------|
| | 2003 | 2004 | 2005 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| Net income for the period | 104,788 | 181,747 | 205,089 | 25,654 | 80,229 | 164,773 | 20,611 |
| Deemed dividends on issuance of convertible redeemable preferred shares | | | (14,031) | (1,755) | | | |
| Income attributable to ordinary shareholders | 104,788 | 181,747 | 191,058 | 23,899 | 80,229 | 164,773 | 20,611 |
| Weighted average number of ordinary shares for the calculation of | 86,000,000 | 86,000,000 | 82,790,427 | 82,790,427 | 86,000,000 | 78,490,233 | 78,490,233 |

| | | | | | | | | |
|--|--|--|--|--|--|--|-----------|-----------|
| basic earnings per share | | | | | | | | |
| Effect of dilutive potential ordinary shares attributable to preferred shares | | | | | | | | |
| | | | | | | | 9,977,751 | 9,977,751 |

| | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|
| Weighted average number of ordinary shares for the calculation of diluted earnings per share | 86,000,000 | 86,000,000 | 82,790,427 | 82,790,427 | 86,000,000 | 88,467,984 | 88,467,984 |
|--|------------|------------|------------|------------|------------|------------|------------|

13. Other Income, net

| | Year Ended December 31, | | | | Six Months Ended June 30, | | |
|----------------------|-------------------------|---------|---------|----------|---------------------------|------------------------|-------------------------|
| | 2003 | 2004 | 2005 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| Government subsidies | 1,932 | 1,181 | 8,837 | 1,105 | 411 | | |
| Other income | 2 | 224 | 625 | 78 | 501 | 605 | 76 |
| Donation | | (450) | | | | | |
| Other expenses | (16) | (916) | (252) | (31) | (205) | (366) | (46) |
| Other income, net | 1,918 | 39 | 9,210 | 1,152 | 707 | 239 | 30 |

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14. Staff Retirement Plan

As stipulated under the rules and regulations in the PRC, the Company's subsidiaries are required to contribute certain percentage of payroll costs of its employees to a state-managed retirement schemes operated by the local governments for its employees in the PRC. After the contribution, the Company has no further obligation for actual payment of the retirement benefits.

The cost of the Company's contributions to the staff retirement plans in the PRC amounted to RMB2,186, RMB4,241 and RMB7,286 (US\$911) and RMB3,103 and RMB4,463 (US\$558) in 2003, 2004 and 2005 and the six months ended June 30, 2005 (unaudited) and 2006 (unaudited), respectively.

15. Income Taxes

The components of income taxes are as follows:

| | Year Ended December 31, | | | Six Months Ended June 30, | | | |
|-----|-------------------------|---------|---------|---------------------------|---------------------|---------------------|----------------------|
| | 2003 | 2004 | 2005 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| PRC | 7,624 | 10,758 | 18,066 | 2,260 | 6,449 | 13,191 | 1,650 |

The Company is a tax exempted company incorporated in Cayman Islands and is not subject to taxation under the current Cayman Islands law. Subsidiaries operating in the PRC are subject to income taxes as described below and the subsidiaries incorporated in the BVI are not subject to taxation.

The basic corporate tax rate for the Sino-Foreign Equity Joint Venture in the PRC is currently 33% (30% state tax and 3% local tax). However, as Shenzhen Mindray is a production enterprise located in Shenzhen special economic zone, the applicable income tax rate is 15% and is entitled to a tax exemption for two years from year of its first taxable profit and a 50% tax reduction for the third to fifth year (7.5% state tax and Nil% local tax). The first profitable year was 1999. Shenzhen Mindray also has been designated as a new and high technology enterprise, and hence it has been eligible to receive a special additional tax holiday which represents a reduction in income tax of 50% resulting in a reduced tax rate of 7.5% for three years beginning with 2004 through the fiscal year ending December 31, 2006.

Beijing Shen Mindray Bio-Medical Electronics Technology Research Co., Ltd. is entitled to a corporate income tax exemption for three years from its first year of operations and 50% tax reduction for the fourth to sixth year (15% state tax and Nil% local tax).

The current and deferred components of the income tax expense appearing in the consolidated statements of operations are as follows:

| | Year Ended December 31, | | | Six Months Ended June 30, | | | |
|--------------|-------------------------|---------|---------|---------------------------|---------------------|---------------------|----------------------|
| | 2003 | 2004 | 2005 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| Income tax | | | | | | | |
| Current year | 7,895 | 11,992 | 16,996 | 2,126 | 5,363 | 13,765 | 1,722 |

| | | | | | | | |
|------------------------------|-------|---------|--------|-------|-------|--------|-------|
| Over provision in prior year | (154) | | | | | | |
| Deferred tax | | | | | | | |
| Current year | (117) | (1,234) | 1,070 | 134 | 1,086 | (574) | (72) |
| Total income tax expense | 7,624 | 10,758 | 18,066 | 2,260 | 6,449 | 13,191 | 1,650 |

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The Company's deferred tax assets as of December 31, 2004, 2005 and as of June 30, 2005 (unaudited) and 2006 (unaudited) are attributable to the following:

| | As of December 31, | | | As of June 30, | |
|-------------------------|--------------------|---------|----------|------------------------|-------------------------|
| | 2004 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| Deferred tax assets: | | | | | |
| Inventory provision | 400 | 287 | 36 | 288 | 36 |
| Provisions and accruals | 956 | 119 | 15 | 646 | 81 |
| Depreciation | 235 | 115 | 14 | 54 | 7 |
| Unrealized profit | | | | 107 | 13 |
| Total | 1,591 | 521 | 65 | 1,095 | 137 |

The Company does not have any material tax losses in any legal subsidiaries. No income arose in the United States of America in any of the periods presented.

A reconciliation of income tax expense to the amount computed by applying the current tax rate to the income before income taxes in the consolidated statements of operations is as follows:

| | Year Ended December 31, | | | | Six Months Ended June 30, | | |
|---|-------------------------|---------|---------|----------|---------------------------|------------------------|-------------------------|
| | 2003 | 2004 | 2005 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| Income before income taxes | 112,412 | 192,505 | 231,564 | 28,966 | 86,678 | 184,419 | 23,069 |
| PRC enterprise income tax rate | 15% | 15% | 15% | 15% | 15% | 15% | 15% |
| Income tax at PRC enterprise income tax rate on income before income taxes | 16,862 | 28,876 | 34,735 | 4,345 | 13,002 | 27,663 | 3,460 |
| Effect of income (loss) for which no income tax benefit/ expense is receivable/ payable | 3,940 | 548 | 3,442 | 431 | 1,522 | 1,839 | 230 |
| Employee share-based compensation | | | 10,639 | 1,331 | 3,950 | 1,528 | 191 |
| Non-taxable VAT refund | (2,775) | (3,683) | (4,818) | (603) | (2,047) | | |
| Additional deduction on R&D expenses | (2,472) | (4,225) | (7,866) | (984) | (3,529) | (4,648) | (581) |

| | | | | | | | |
|--|---------|----------|----------|---------|---------|----------|---------|
| Effect of tax holidays and tax concessions | (7,777) | (10,758) | (18,066) | (2,260) | (6,449) | (13,191) | (1,650) |
| Overprovision of income tax expenses in prior year | (154) | | | | | | |
| Total income tax expense | 7,624 | 10,758 | 18,066 | 2,260 | 6,449 | 13,191 | 1,650 |

The additional tax that would otherwise have been payable without tax holidays and tax concessions amounted to approximately RMB7,777, RMB10,758 and RMB18,066 (US\$2,260) and RMB6,449 and RMB13,191 (US\$1,650) in 2003, 2004 and 2005 and the six months ended June 30, 2005 (unaudited) and 2006 (unaudited), respectively (representing a reduction in basic earnings per share of RMB0.09, RMB0.13 and RMB0.22 (US\$0.03) in 2003, 2004 and 2005 and RMB0.07 and RMB0.17 (US\$0.02) for the six months ended June 30, 2005 (unaudited) and 2006 (unaudited).

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

16. Commitments and Contingencies*(a) Lease commitments*

Rental expenses under operating leases were RMB3,508, RMB4,246 and RMB5,853 (US\$725) and RMB3,442 (US\$431) in 2003, 2004 and 2005 and for the six months ended June 30, 2006 (unaudited), respectively.

As of December 31, 2005, the Company was obligated under operating leases, which relate to buildings, requiring minimum rentals as follows:

Year ending December 31,

| | |
|---------------------|----------------|
| 2006 | 4,682 |
| 2007 | 3,830 |
| 2008 | 3,657 |
| 2009 | 2,127 |
| 2010 | |
| 2011 and thereafter | |
| | RMB 000 14,296 |
| | US\$ 000 1,788 |

(b) Capital commitments

As of December 31, 2005, the Company had outstanding capital commitments for property, plant and equipment totaling RMB11,512 (US\$1,440).

(c) Contingencies

The Company is subject to claims and legal proceedings that arise in the ordinary course of its business operations. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably to the Company. The Company does not believe that any of these matters will have a material adverse effect on its business, assets or operations.

The Company issues indemnifications and warranties in certain instances in the ordinary course of business with its customers. Historically, costs incurred to settle claims related to these indemnifications and warranties have not been material to the Company's financial position, results of operations or cash flows. The fair value of the indemnifications and warranties that the Company issued during 2003, 2004 and 2005 were not material to the Company's financial position, results of operations or cash flows.

17. Distribution of Profits

As stipulated by the relevant PRC laws and regulations applicable to the Company's subsidiaries in the PRC, the Company is required to make appropriations from net income as determined in accordance with accounting principles and the relevant financial regulations applicable to PRC enterprise (PRC GAAP) to non-distributable reserves (also referred to as statutory common reserves) which included a statutory surplus reserve and a statutory welfare reserve as of December 31, 2005. Based on newly revised PRC Company law which took effect on January 1, 2006, the PRC subsidiaries are no longer required to make appropriations to the statutory welfare reserve but appropriation to the statutory surplus reserve are still required to be made at not less than 10% of the profit after tax as determined under PRC GAAP. The

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

appropriations to statutory surplus reserve are required until the balance reaches 50% of the subsidiaries registered capital.

The statutory surplus reserve is used to offset future extraordinary losses. The subsidiaries may, upon a resolution passed by the shareholders, convert the statutory surplus reserve into capital. The statutory welfare reserve was used for the collective welfare of the employees of subsidiaries. These reserves represent appropriations of retained earnings determined according to PRC law and may not be distributed. There were no appropriations to reserves by the Company other than the Company's subsidiaries in the PRC during any of the periods presented. However, as a result of these laws, approximately RMB74,448 (US\$9,313) is not available for distribution as of December 31, 2005.

18. Segment Reporting

The Company has three reportable segments based on its major product groups: patient monitoring devices, diagnostic laboratory instruments and ultrasound imaging systems. Each reportable segment derives its revenues from the sale of their product, which is the responsibility of a member of the senior management of the Company who has knowledge of product and service specific operational risks and opportunities. The Company's chief operating decision makers have been identified as the Chairman and the President, who review the consolidated results when making decisions about allocating resources and assessing performance of the Company.

The Company has combined two operating segments to arrive at the diagnostic laboratory instruments reporting segment. In particular, the biochemistry analyzers and hematology analyzers are operating segments which exhibit similar long-term financial performance and economic characteristics and also similar in nature of the products, production processes, the type of customers and distribution methods.

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

The accounting policies underlying the financial information provided for the segments are based primarily on statutory accounting requirements in the PRC. The principal measurement differences between this financial information and the consolidated financial statements are described below. The Company does not allocate operating expenses to individual reporting segments when making decisions about resources to be allocated to the segment and assessing its performance. All revenues are attributed to sales to external parties.

For the year ended December 31,

| 2005 | Patient monitoring devices | Diagnostic laboratory instruments | Ultrasound imaging systems | Others | Total |
|------------------|---|--|---|----------------|----------------|
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Net revenues | 496,464 | 263,162 | 264,267 | 14,334 | 1,038,227 |
| Cost of revenues | (202,821) | (115,720) | (130,919) | (27,284) | (476,744) |
| Gross profit | 293,643 | 147,442 | 133,348 | (12,950) | 561,483 |

| 2004 | Patient monitoring devices | Diagnostic laboratory instruments | Ultrasound imaging systems | Others | Total |
|------------------|---|--|---|----------------|----------------|
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Net revenues | 364,994 | 172,703 | 112,739 | 14,481 | 664,917 |
| Cost of revenues | (144,299) | (81,554) | (56,136) | (22,214) | (304,203) |
| Gross profit | 220,695 | 91,149 | 56,603 | (7,733) | 360,714 |

| 2003 | Patient monitoring devices | Diagnostic laboratory instruments | Ultrasound imaging systems | Others | Total |
|------------------|---|--|---|----------------|----------------|
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Net revenues | 280,584 | 116,733 | 36,281 | 8,142 | 441,740 |
| Cost of revenues | (117,158) | (54,887) | (18,432) | (14,203) | (204,680) |
| Gross profit | 163,426 | 61,846 | 17,849 | (6,061) | 237,060 |

For the six months ended June 30,

| Patient monitoring | Diagnostic laboratory | Ultrasound imaging |
|-------------------------------|----------------------------------|-------------------------------|
|-------------------------------|----------------------------------|-------------------------------|

| 2006 (Unaudited) | devices | instruments | systems | Others | Total |
|-------------------------|----------------|--------------------|----------------|----------------|----------------|
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Net revenues | 271,571 | 190,454 | 200,300 | 8,266 | 670,591 |
| Cost of revenues | (108,322) | (83,059) | (88,271) | (16,399) | (296,051) |
| Gross profit | 163,249 | 107,395 | 112,029 | (8,133) | 374,540 |

| 2005 (Unaudited) | Patient monitoring devices | Diagnostic laboratory instruments | Ultrasound imaging systems | Others | Total |
|-------------------------|---|--|---|--------------------------------|--------------------------------|
| | RMB 000 (Unaudited) | RMB 000 (Unaudited) | RMB 000 (Unaudited) | RMB 000 (Unaudited) | RMB 000 (Unaudited) |
| Net revenues | 217,731 | 104,491 | 93,037 | 4,960 | 420,219 |
| Cost of revenues | (87,446) | (45,616) | (45,724) | (10,206) | (188,992) |
| Gross profit | 130,285 | 58,875 | 47,313 | (5,246) | 231,227 |

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

A reconciliation of the amounts presented for reportable segments to the consolidated totals is as follows:

| | Year Ended December 31, | | | | Six Months Ended June 30, | | |
|---|-------------------------------------|---------|-----------|----------|---------------------------|---------|----------|
| | 2003 | 2004 | 2005 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | RMB 000 | US\$ 000 | RMB 000 | RMB 000 | US\$ 000 |
| | (Unaudited) (Unaudited) (Unaudited) | | | | | | |
| Total revenues per segment reporting | 441,740 | 664,917 | 1,038,227 | 129,871 | 420,219 | 670,591 | 83,884 |
| Reconciling adjustments: | | | | | | | |
| Reclassification of VAT refund(a) | 18,500 | 24,555 | 32,121 | 4,018 | 13,649 | | |
| Reclassification of shipping and handling fees charged to customers(b) | 14 | 2,583 | 8,225 | 1,029 | 2,908 | 6,173 | 772 |
| Contract revenues on completed contract basis(c) | | 5,782 | | | | | |
| Total consolidated net revenues, as reported | 460,254 | 697,837 | 1,078,573 | 134,918 | 436,776 | 676,764 | 84,656 |
| Total cost of revenues per segment reporting | 204,680 | 304,203 | 476,744 | 59,636 | 188,992 | 296,051 | 37,033 |
| Reconciling adjustments: | | | | | | | |
| Reclassification of shipping and handling fees from operating expenses(b) | 5,885 | 7,990 | 16,582 | 2,074 | 5,900 | 11,279 | 1,411 |
| Contract cost on completed contract basis(c) | | 6,820 | | | | | |
| Total consolidated cost of revenues, as reported | 210,565 | 319,013 | 493,326 | 61,710 | 194,892 | 307,330 | 38,444 |
| Gross profit per segment reporting | 237,060 | 360,714 | 561,483 | 70,235 | 231,227 | 374,540 | 46,851 |
| Reconciling adjustments: | | | | | | | |
| Reclassification of VAT refund(a) | 18,500 | 24,555 | 32,121 | 4,018 | 13,649 | | |
| Reclassification of shipping and handling | (5,871) | (5,407) | (8,357) | (1,045) | (2,992) | (5,106) | (639) |

| | | | | | | | |
|--|-----------|-----------|-----------|----------|-----------|-----------|----------|
| fees, net(b) | | | | | | | |
| Contract revenues and costs on completed contract basis(c) | | | (1,038) | | | | |
| Total consolidated gross profit, as reported | 249,689 | 378,824 | 585,247 | 73,208 | 241,884 | 369,434 | 46,212 |
| Operating expenses | (136,911) | (186,121) | (364,728) | (45,623) | (155,323) | (191,518) | (23,957) |
| Operating income | 112,778 | 192,703 | 220,519 | 27,585 | 86,561 | 177,916 | 22,255 |
| Other income, net | 1,918 | 39 | 9,210 | 1,152 | 707 | 239 | 30 |
| Interest income | 531 | 3,087 | 3,854 | 482 | 611 | 6,543 | 819 |
| Interest expense | (2,815) | (3,324) | (2,019) | (253) | (1,201) | (279) | (35) |
| Income before income taxes and minority interests | 112,412 | 192,505 | 231,564 | 28,966 | 86,678 | 184,419 | 23,069 |

Note (a) VAT refunds are classified as Other income under segment reporting and included in net revenues in the consolidated statement of operations.

Note (b) Shipping and handling costs charged to customers are included in operating expenses and netted against the expense under segment reporting and are reclassified against revenues for the consolidated

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MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

net revenues as reported. Shipping and handling expenses are classified as operating expenses under segment reporting and included in cost of revenues in the consolidated statement of operations.

Note (c) The design service provided in 2003 and 2004 was recognized based on completion of contractual milestones in segment reporting and were accounted for using the completed contract method in the consolidated statement of operations.

Geographic disclosures

The Company's revenues by geography are based on country of customer destination. The net revenues attributable by country of domicile and other countries are as follows:

| | Year Ended December 31, | | | Six Months Ended June 30, | | | |
|---------------------------------|-------------------------|---------|-----------|---------------------------|---------------------|---------------------|----------------------|
| | 2003 | 2004 | 2005 | 2005 | 2005 | 2006 | 2006 |
| | RMB 000 | RMB 000 | RMB 000 | US\$ 000 | RMB 000 (Unaudited) | RMB 000 (Unaudited) | US\$ 000 (Unaudited) |
| PRC | 346,772 | 459,602 | 626,997 | 78,431 | 267,067 | 380,935 | 47,651 |
| Other countries | 113,482 | 238,235 | 451,576 | 56,487 | 169,709 | 295,829 | 37,005 |
| Total consolidated net revenues | 460,254 | 697,837 | 1,078,573 | 134,918 | 436,776 | 676,764 | 84,656 |

There are no single customers who contributed for 10% or more of the Company's net revenues in 2003, 2004, 2005 and for the six months ended June 30, 2005 (unaudited) and 2006 (unaudited).

No net revenues attributable to any individual country were material, other than in the PRC, in any of the reporting periods. All the long-lived assets of the Company are located in the PRC and the Company does not allocate such assets to individual segments.

Major customers

There are no single customers who contributed for 10% or more of the Company's net revenues in 2003, 2004, 2005 and for the six months ended June 30, 2005 (unaudited) and 2006 (unaudited).

19. Related party transactions

During 2003 and 2004, the Company did not enter into any material transaction with its related parties.

For the year ended December 31, 2005, certain shareholders contributed GG and GE to Mindray at nominal value of RMB162 (not stated in thousands) in order to facilitate the reverse merger described in Note 1. Prior to their contribution, GG and GE were shell companies which held interests in Shenzhen Mindray, and immaterial amounts of cash and had no liabilities.

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SCHEDULE 1
MINDRAY MEDICAL INTERNATIONAL LIMITED
STATEMENT OF OPERATIONS

| | Period from June 10 to December 31, 2005 | |
|--|--|-----------------|
| | RMB 000 | US\$ 000 |
| | (In thousands, except share and per share data) | |
| Net revenues | | |
| Operating expenses: | | |
| General and administrative expenses | (39) | (5) |
| Employee share-based compensation | (44,594) | (5,578) |
| Operating loss | (44,633) | (5,583) |
| Interest income | 2,141 | 268 |
| Loss before income taxes | (42,492) | (5,315) |
| Provision for income taxes | | |
| Net loss after income taxes | (42,492) | (5,315) |
| Share of net profits of subsidiaries | 86,008 | 10,758 |
| Net income | 43,516 | 5,443 |
| Deemed dividend on issuance of convertible redeemable preferred shares at a discount | (14,031) | (1,755) |
| Income attributable to ordinary shareholders | 29,485 | 3,688 |

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**MINDRAY MEDICAL INTERNATIONAL LIMITED
BALANCE SHEET**

December 31, 2005

RMB 000 US\$ 000
(In thousands except
share and per share
data)

| ASSETS | | |
|--|---------|--------|
| Current assets: | | |
| Cash and cash equivalents | 225,349 | 28,189 |
| Other receivables | 94 | 12 |
| Total current assets | 225,443 | 28,201 |
| Investments in subsidiaries | 384,848 | 48,140 |
| Total assets | 610,291 | 76,341 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Other payables | 1,142 | 143 |
| Accrued expenses | 12,191 | 1,525 |
| Total current liabilities | 13,333 | 1,668 |
| Mezzanine equity: | | |
| Convertible redeemable preference shares (HK\$0.001 par value: 1,000,000,000 shares authorized, and 10,074,977 shares for 2005 issued and outstanding) | 325,389 | 40,703 |
| Shareholders equity: | | |
| Ordinary shares (HK\$0.001 par value: 5,000,000,000 shares authorized and 75,350,054 for 2005 issued and outstanding) | 79 | 10 |
| Additional paid-in capital | 242,005 | 30,272 |
| Retained earnings | 29,485 | 3,688 |
| Total shareholders equity | 271,569 | 33,970 |
| Total liabilities and shareholders equity | 610,291 | 76,341 |

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**MINDRAY MEDICAL INTERNATIONAL LIMITED
STATEMENT OF SHAREHOLDERS EQUITY
AND COMPREHENSIVE INCOME**

| | Ordinary share capital | | Additional paid-in capital | Retained earnings | Total |
|--|------------------------|---------|----------------------------|-------------------|-----------|
| | Number | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| (In thousands except share and per share data) | | | | | |
| As of June 10, 2005 | 75,350,054 | 79 | | | 79 |
| Net income | | | | 43,516 | 43,516 |
| Contributions of investments in subsidiaries | | | 298,840 | | 298,840 |
| Conversion of ordinary shares to convertible redeemable preferred shares | | | (101,458) | | (101,458) |
| Capital contributions of expenses and cash related to reorganization | | | 29 | | 29 |
| Deemed dividend on issuance of convertible redeemable preferred shares at a discount | | | | (14,031) | (14,031) |
| Capital contributions in connection with share based compensation | | | 44,594 | | 44,594 |
| As of December 31, 2005 | 75,350,054 | 79 | 242,005 | 29,485 | 271,569 |
| As of December 31, 2005 (US\$ 000) | 75,350,054 | 10 | 30,272 | 3,688 | 33,970 |

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MINDRAY MEDICAL INTERNATIONAL LIMITED
STATEMENT OF CASH FLOWS

| | Period from June 10 to December 31, 2005 | |
|--|--|-----------------|
| | RMB 000 | US\$ 000 |
| | (In thousands, except share and per share data) | |
| Cash flows from operating activities: | | |
| Net income | 43,516 | 5,443 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Employee share-based compensation | 44,594 | 5,578 |
| Share of net profits of subsidiaries | (86,008) | (10,758) |
| Changes in current assets and liabilities: | | |
| Increase in other receivables | (94) | (12) |
| Increase in other payables | 1,142 | 143 |
| Increase in accrued expenses | 12,191 | 1,525 |
| Net cash from operating activities | 15,341 | 1,919 |
| Cash flows used in investing activities: | | |
| Capital injection in subsidiaries | (*) | (*) |
| Cash flows from financing activities: | | |
| Contributions from shareholders | 29 | 4 |
| Issue of ordinary shares | 79 | 10 |
| Issue of convertible redeemable preference shares (net of direct incremental costs of RMB15,351 (US\$1,920)) | 209,900 | 26,256 |
| Net cash generated from financing activities | 210,008 | 26,270 |
| NET INCREASE IN AND BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR | 225,349 | 28,189 |

* The balance was RMB162 (not stated in thousands).

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**MINDRAY MEDICAL INTERNATIONAL LIMITED
NOTES TO SCHEDULE 1**

- 1) Schedule 1 has been provided pursuant to the requirements of Rule 12-04(a) and 4-08(e)(3) of Regulation S-X, which require condensed financial information as to financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. As of December 31, 2005 approximately RMB74,448,000 (US\$9,313,000) is not available for distribution, and as such, the condensed financial information of Mindray has been presented for the period from June 10, 2005 (the date of incorporation) to December 31, 2005. No condensed financial information has been presented for additional periods as Mindray did not legally exist until June 10, 2005 and the historic consolidated financial statement presented represent those of Shenzhen Mindray, which was deemed to be the accounting acquirer of Mindray in September 2005.

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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| <u>EX-23.1 CONSENT OF DELOITTE</u> | |

Through and including _____, 2006 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

Mindray Medical International Limited
20,000,000

American Depositary Shares

Representing
20,000,000 Class A Ordinary Shares

Goldman Sachs (Asia) L.L.C.
UBS Investment Bank
Representatives of the Underwriters

JPMorgan
CIBC World Markets
First Shanghai Securities Limited
Piper Jaffray

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PART II
INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 6. *Indemnification of directors and officers*

The registrant's articles of association provide that, subject to Companies Law (2004) (Revision) Cap. 22 (the Companies Law), every director or other officer of the registrant shall be indemnified against any liability incurred by him in his capacity as such. However, directors and officers of the registrant are not indemnified against any liability to the registrant or a related company of the registrant arising out of negligence, default, breach of duty or breach of trust with respect to the registrant or a related company, unless such liability is incurred in defending any proceedings, whether civil or criminal, in which judgment is given in his favor, or in which he is acquitted, or in connection with any application in which relief is granted to him by the court pursuant to the Companies Law from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the registrant.

Pursuant to the form of Indemnification Agreement filed as Exhibit 10.2 to this registration statement, the registrant will agree to indemnify its directors and officers, to the extent permitted by Cayman law, against certain liabilities and expenses incurred by such persons in connection with claims by reason of their being such a director or officer.

Item 7. *Recent sales of unregistered securities*

During the past three years, the registrant has issued and sold the securities listed below without registering the securities under the Securities Act. In the case of each transaction referenced in this Item 7, the issuance was a private placement of securities with fewer than ten purchasers who are all non-US residents, no directed selling efforts, no discounts, commissions or fees, no underwriter, and no substantial U.S. market interest as defined in Regulation S. The only exceptions to this are that one of the four Goldman Sachs affiliated entities that purchased Mindray preferred shares in September of 2005 is incorporated in the State of Delaware and the grant of options was made to a large number of our employees. The registrant believes that each of the following issuances was exempt from registration under the Securities Act in reliance on Regulation S or Rule 701 under the Securities Act or pursuant to Section 4(2) of the Securities Act regarding transactions not involving a public offering.

In September 2005, we issued a total of 75,350,054 ordinary shares, par value HK\$0.001 per share, to Able Choice Investments Limited, Asiawell Holdings Limited, Dragon City International Investment Limited, Hung Yue Finance Limited, Ideaport Technology Limited, Med-Tech Consulting Co. Ltd., MEG Holding Corp., New Dragon (No. 12) Investments Limited, Quiet Well Limited and Well Elite Group Limited, and a total of 3,000,000 convertible redeemable preferred shares to Able Choice Investments Limited, Dragon City International Investment Limited, New Dragon (No. 12) Investments Limited and Quiet Well Limited in exchange for their respective outstanding ownership interests in Shenzhen Mindray.

In September 2005 we entered into a subscription and share purchase agreement with GS Capital Partners V Fund L.P., GS Capital Partners V Offshore Fund, L.P., GS Capital Partners V GmbH & Co. KG, and GS Capital Partners V Institutional, L.P., or collectively the GS Funds, pursuant to which we issued 7,074,977 convertible redeemable preferred shares convertible into ordinary shares to the GS Funds at a cash purchase price of approximately US\$3.93 per share.

On February 22, 2006, we granted options to purchase 7,033,000 ordinary shares to employees. Each of these options has an exercise price of US\$5.00 per share. These options vest generally over four years subject to performance conditions.

On June 15, 2006, we issued a total of 7,649,646 ordinary shares to Able Choice to be owned by shareholders of Mingrui Venture Capital and Investment Co. Ltd. and Legend New-Tech Investments Ltd. in exchange for consideration of 7,649,646 shares of Shenzhen Mindray acquired by Mindray International.

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On September 8, 2006, we granted options to purchase 2,994,300 ordinary shares to employees, including 600,000 options to each of our co-CEOs, Mr. Xu Hang and Mr. Li Xiting. Each of these options has an exercise price of US\$11.00 per share. These options vest generally over four years subject to performance conditions.

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(a) Exhibits

Index to Exhibits

| Number | Description |
|---------------|--|
| 1.1* | Form of Underwriting Agreement. |
| 3.1* | Second Amended and Restated Memorandum and Articles of Association of Mindray Medical International Limited. |
| 3.2* | Third Amended and Restated Memorandum and Articles of Association of Mindray Medical International Limited. |
| 4.1* | Form of American Depositary Receipt. |
| 4.2 | Specimen Certificate for Class A Ordinary Shares. |
| 4.3* | Form of Deposit Agreement among Mindray Medical International Limited., Depositary and holders of the American Depositary Shares. |
| 4.4* | Shareholders Agreement between Mindray International Holdings Ltd., Shenzhen Mindray Bio-Medical Electronics Co., Ltd., the several shareholders named therein, and the several investors named therein, dated September 26, 2005. |
| 4.5* | Registration Rights Agreement between Mindray Medical International Limited and the several investors named therein, dated September 5, 2006. |
| 5.1* | Opinion of Conyers Dill & Pearman, Cayman Islands counsel to the registrant, regarding the validity of the Class A ordinary shares being registered. |
| 5.2* | Opinion of King & Wood, counsel to the registrant, regarding compliance with PRC law. |
| 8.1* | Form of opinion of O Melveny & Myers LLP, regarding certain US tax matters. |
| 8.2* | Opinion of Conyers Dill & Pearman, Cayman Islands counsel to the registrant, regarding certain Cayman Islands tax matters. |
| 10.1* | Amended and Restated Employee Share Incentive Plan and form of Option Agreement. |
| 10.2* | Form of Indemnification Agreement with the directors of Mindray Medical International Limited. |
| 10.3* | Form of Employment Agreement of Mindray Medical International Limited. |
| 10.4* | Grant Contract of Use Right of State-owned Land of Mindray headquarters building between Shenzhen Mindray Bio-Medical Electronics Co., and Shenzhen Planning and State-owned Land Bureau, dated July 18, 2001. |
| 10.5* | Agreement for Assignment of Trademark between Chang Run Da Electronic (Shenzhen) Co., Ltd and Shenzhen Mindray Bio-Medical Electronics Co., Ltd, dated November 20, 2002. |
| 10.6* | Purchase Agreement of New Energy Building between Shenzhen Mindray Bio-Medical Electronics Co., Ltd and Shenzhen Mindray Electronic Co., Ltd, dated April 9, 2002. |
| 10.7* | Lease Agreement of Reagent and Manufacturing building between Shenzhen Mindray Bio-Medical Electronics Co., Ltd and Shenzhen Zhongguan Company Limited, dated June 28, 2004. |
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| 10.10* | Form of Agreement on Transfer of Shares of Shenzhen Mindray Bio-Medical Electronics Co., Ltd. |
| 10.11* | Form of Equity Transfer Agreement. |
| 21.1* | List of subsidiaries. |
| 23.1 | Consent of Deloitte Touche Tohmatsu CPA Ltd., Independent Registered Public Accounting Firm. |
| 23.2* | Consent of Conyers Dill & Pearman (included in Exhibit 5.1). |
| 23.3* | Consent of King & Wood (included in Exhibit 5.2). |
| 23.4* | Consent of O Melveny & Myers LLP (included in Exhibit 8.1). |
| 23.5* | Consent of American Appraisal China Limited. |
| 23.6* | Consent of Chen Qingtai. |
| 23.7* | Consent of Ronald Ede. |
| 23.8* | Consent of Wu Qiyao. |
| 24.1* | Powers of Attorney. |

To be filed by amendment.

* Previously filed.

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Item 9. Undertakings

(a) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant under Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) For the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(4) For the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of securities the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
- (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
- (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
- (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 6, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by

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the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Shenzhen, China on September 14, 2006.

Mindray Medical International Limited
By: /s/ Joyce I-Yin Hsu

Name: Joyce I-Yin Hsu
Title: Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities indicated on September 14, 2006.

| Signature | Capacity |
|-------------------------------------|--|
| /s/ * | Chairman of the Board and Co-Chief Executive Officer |
| Xu Hang | |
| /s/ * | Director and Co-Chief Executive Officer (principal executive officer) |
| Li Xiting | |
| /s/ * | Director |
| Andrew Wolff | |
| /s/ Joyce I-Yin Hsu | Chief Financial Officer (principal financial and accounting officer) |
| Joyce I-Yin Hsu | |
| *By /s/ Joyce I-Yin Hsu | |
| Joyce I-Yin Hsu Attorney-in-fact | |

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Signature of authorized representative in the United States

Pursuant to the Securities Act of 1933, as amended, the undersigned, the duly authorized representative in the United States of Mindray Medical International Limited, has signed this registration statement or amendment thereto in New York, New York, on September 14, 2006.

Puglisi & Associates
By: /s/ Donald J. Puglisi

Name: Donald J. Puglisi
Title: Managing Director

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Table of Contents**INDEX TO EXHIBITS**

| Number | Description |
|---------------|--|
| 1.1* | Form of Underwriting Agreement. |
| 3.1* | Second Amended and Restated Memorandum and Articles of Association of Mindray Medical International Limited. |
| 3.2* | Third Amended and Restated Memorandum and Articles of Association of Mindray Medical International Limited. |
| 4.1* | Form of American Depositary Receipt. |
| 4.2 | Specimen Certificate for Class A Ordinary Shares. |
| 4.3* | Form of Deposit Agreement among Mindray Medical International Limited., Depositary and holders of the American Depositary Shares. |
| 4.4* | Shareholders Agreement between Mindray International Holdings Ltd., Shenzhen Mindray Bio-Medical Electronics Co., Ltd., the several shareholders named therein, and the several investors named therein, dated September 26, 2005. |
| 4.5* | Registration Rights Agreement between Mindray Medical International Limited and the several investors named therein, dated September 5, 2006. |
| 5.1* | Opinion of Conyers Dill & Pearman, Cayman Islands counsel to the registrant, regarding the validity of the Class A ordinary shares being registered. |
| 5.2* | Opinion of King & Wood, counsel to the registrant, regarding compliance with PRC law. |
| 8.1* | Form of opinion of O Melveny & Myers LLP, regarding certain US tax matters. |
| 8.2* | Opinion of Conyers Dill & Pearman, Cayman Islands counsel to the registrant, regarding certain Cayman Islands tax matters. |
| 10.1* | Amended and Restated Employee Share Incentive Plan and form of Option Agreement. |
| 10.2* | Form of Indemnification Agreement with the directors of Mindray Medical International Limited. |
| 10.3* | Form of Employment Agreement of Mindray Medical International Limited. |
| 10.4* | Grant Contract of Use Right of State-owned Land of Mindray headquarters building between Shenzhen Mindray Bio-Medical Electronics Co., Ltd and Shenzhen Planning and State-owned Land Bureau, dated July 18, 2001. |
| 10.5* | Agreement for Assignment of Trademark between Chang Run Da Electronic (Shenzhen) Co., Ltd and Shenzhen Mindray Bio-Medical Electronics Co., Ltd, dated November 20, 2002. |
| 10.6* | Purchase Agreement of New Energy Building between Shenzhen Mindray Bio-Medical Electronics Co., Ltd and Shenzhen Mindray Electronic Co., Ltd, dated April 9, 2002. |
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