

REPORT ON EXAMINATION
OF
ALLIED WORLD SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2014

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
ALLIED WORLD SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2014

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

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

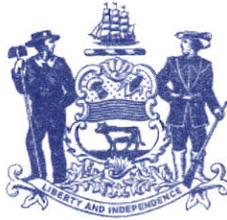
This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 12th day of January, 2016

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2014 of the

ALLIED WORLD SPECIALTY INSURANCE COMPANY

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

Attest By: _____

A handwritten signature in blue ink, appearing to be "J. M. Stewart", written over a horizontal line.

Date: January 12, 2016



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 12th day of January, 2016.

A handwritten signature in black ink, appearing to be "Karen Weldin Stewart", written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS OF FACT	3
COMPANY HISTORY	3
Capital and Surplus	5
Capital Contribution.....	5
Promissory Note.....	5
Dividends	6
MANAGEMENT AND CONTROL	6
Directors.....	6
Officers	7
Holding Company System	8
Affiliated Management and Service Agreements	9
TERRITORY AND PLAN OF OPERATION	12
REINSURANCE	14
FINANCIAL STATEMENTS	16
Assets	17
Liabilities, Surplus and Other Funds	18
Statement of Income	19
Reconciliation of Capital and Surplus	20
COMMENTS ON FINANCIAL STATEMENTS	20
SUBSEQUENT EVENTS	21
SUMMARY OF RECOMMENDATIONS	21
CONCLUSION	21

October 14, 2015

Honorable Karen Weldin Stewart, CIR-ML
Delaware Insurance Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 15.021, dated February 3, 2015, an examination has been made of the affairs, financial condition and management of

ALLIED WORLD SPECIALTY INSURANCE COMPANY

hereinafter referred to as “the Company or AWSIC” incorporated under the laws of the State of Delaware as a stock company with its home office located at 2711 Centerville Road, Wilmington, Delaware 19808. The examination was conducted at the Company’s primary location of books and records, located at 199 Water Street, New York, New York 10038.

The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company in conjunction with the coordinated examination of Allied World Assurance Group's U.S. insurance companies (U.S. Companies). The previous examination of the Company was completed as of December 31, 2009. This examination covers the period from January 1, 2010

through December 31, 2014. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 Del. C. §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

This examination was part of a multi-state coordinated examination including the Company, Allied World Insurance Company (AWIC), Allied World National Assurance Company (AWNAC), Allied World Surplus Lines Insurance Company (AWSLIC), formerly Darwin Select Insurance Company (DSI), Vantapro Specialty Insurance Company (VSIC), and Allied World Assurance Company (U.S.) Inc. (AWUS), who collectively make up the U.S. Companies. Examiners representing the States of Delaware, Arkansas, and New Hampshire participated on the coordinated examination, with the State of New Hampshire as the lead state. An examination report for each of the six U.S. domestic insurers was filed separately.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

This examination had no material adverse findings, significant non-compliance findings, material changes in financial statements, or updates on other significant regulatory information disclosed in the previous examination.

COMPANY HISTORY

The Company, formerly known as Darwin National Assurance Company (DNA), was originally incorporated on January 14, 1972 in the state of North Carolina under the name Peninsula Property and Casualty Company (PPCC) and commenced business on January 31, 1972. General Electric Mortgage Insurance Services, Inc. held all outstanding shares of the Company from its inception until December 30, 1993, when Peninsula Insurance Company (PIC), domiciled in the state of Maryland, acquired the Company.

On June 30, 1994, the Company was sold to an affiliate, Security Insurance Company and subsequently re-domesticated to Delaware on December 15, 1994. The

Allied World Specialty insurance Company

Company was then sold back to PIC and on December 22, 1995, the Company was acquired by AEGIS Holding, Inc. and became known as U.S. Aegis Energy Insurance Company as of February 29, 1996.

On May 1, 2004, the Company was acquired by Darwin Group, Inc. (DGI). The Company's direct parent, Alleghany Insurance Holdings, LLC (AIH), and its direct parent, Alleghany Corporation (AC), were also incorporated in the state of Delaware. On May 21, 2004, the Company's name was changed to Darwin National Assurance Company. On May 24, 2006, Darwin Professional Underwriters, Inc. (DPUI), a Delaware holding corporation, completed an initial public offering (IPO) of 6,000,000 shares of its common stock. Prior to the IPO, AIH controlled approximately 90% of the stock of DPUI. Subsequent to the IPO, AIH controlled approximately 54.9% of the stock of DPUI.

On May 30, 2006, the Delaware Department of Insurance (Department) approved a Form A exemption regarding the reorganization of DGI as a subsidiary of DPUI, as ultimate control remained with AC. On October 20, 2008, DPUI was acquired by Allied World Insurance Company (AWIC) from AIH. DPUI's name was subsequently changed to AW Underwriters, Inc. (AWUI). The Company, as a wholly-owned subsidiary of AWUI, wholly-owns Allied World Surplus Lines Insurance Company (AWSLIC), formerly known as Darwin Select Insurance Company and Vantapro Specialty Insurance Company (Vantapro), both Arkansas domiciled insurance companies. On October 28, 2014, the Company's name was changed to Allied World Specialty Insurance Company.

Capital and Surplus

The Restated Certificate of Incorporation provides that the authorized capital stock of the Company shall be 5,000 shares of \$2,000 par value common stock. At December 31, 2014, the Company had 10,000,000 common shares authorized with a par value of \$1 per share, of which 3,500,000 shares were issued and outstanding, resulting in total capital stock of \$3,500,000. All shares of the Company are owned by AWUI.

During the period under examination, the Company's surplus as regards policyholders increased \$114,101,889, from \$283,293,612 to \$397,395,501, primarily due to net income totaling \$111,075, 515. The Company also received contributions recorded to paid-in surplus over the examination period totaling \$4,171,926, to provide additional capacity for premium growth.

Capital Contribution

In accordance with 18 Del. C. §1313(b)(1)a, on November 5, 2014, the Department approved a thirty million dollar (\$30,000,000) intercompany capital contribution provided from the Company to AWSLIC, one of its wholly owned Arkansas domiciled insurance subsidiaries.

Promissory Note

Dated November 29, 2012, the Company made a loan pursuant to a Promissory Note (Note) with its affiliate, Allied World Financial Services, Inc. (AWFSI). Under the terms of the Note, AWFSI promises to pay the Company, or any successor, the principal sum of thirteen million, eight hundred thousand dollars (\$13,800,000.00) with interest thereon at a rate of 4.20% per annum, from the date of the Note, computed on the basis of a 360-day, 12-month year, with all unpaid accrued interest due and payable in full on

each June 30, commencing on June 30, 2015 until the end of the term of the Note. On June 15, 2015, the payment terms of the Note were amended to commence payments or accrued interest on June 15, 2018. All other terms of the Note remained the same. The principal sum and all unpaid accrued interest thereon shall be due and payable in full on November 29, 2022.

Dividends

In 2009, the Company declared and paid an ordinary dividend in the amount of \$34,700,000 to its sole stockholder, AWUI, as approved by the Board of Directors (Board). In 2010, the Company declared and paid an ordinary dividend in the amount of \$13,700,000 to AWUI as approved by the Board.

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Law of the State of Delaware as required by 18 Del. C. §4903, and implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under direction of its Board. The bylaws provide that the number of directors that constitutes the whole Board shall not be less than two members or more than fifteen. Each director shall be elected for a term of one year and serve until such director's successor is elected and qualified. The directors duly elected in accordance with the Company's bylaws and serving at December 31, 2014, including their Primary Business Affiliation, were as follows:

<u>Name</u>	<u>Primary Business Affiliation</u>
Scott Andrew Carmilani*	President and Chief Executive Officer, Allied World Assurance Company Holdings, AG
John Justin McElroy*	Chief Operating Officer, Allied World Assurance Company Holdings, AG
Richard Edward Jodoin	Vice Chairman, Allied World North America
Louis Phillip Iglesias*	President, Allied World North America

* New director in 2014

Officers

The bylaws state that the officers of the corporation shall consist of a President, a Secretary, a Treasurer, and may, at the discretion of the Board, include a Chairman and one or more Vice Chairmen and one or more Vice Presidents (including Executive Vice Presidents and Senior Vice Presidents). The following individuals were elected as officers of the Company and were serving in that capacity at December 31, 2014:

<u>Name</u>	<u>Title</u>
Louis Phillip Iglesias*	President
Richard Edward Jodoin*	Vice Chairman
Robert John Larson	Treasurer and Vice President, Finance
Timothy Joseph Curry	Secretary, Senior VP and Deputy General Counsel

Karen Leshowitz Colonna	Assistant Secretary, Senior VP and Deputy General Counsel
Susan Virginia Chmielecki*	President, North American Healthcare
Robert Lane Bowden II*	Executive VP, Chief Marketing Officer
Paul Christopher Martin	Executive VP, Chief Actuarial Officer
James Bernard Paulhus	VP, Finance and Assistant Treasurer

* New officer in 2014

Holding Company System

The Company is a member of an insurance holding company system as defined under Chapter 50, “Insurance Holding Companies” of the Delaware Insurance Code. The Company is a wholly-owned subsidiary of AWUI, which is wholly-owned by AWIC. AWIC is a wholly-owned subsidiary of Allied World Assurance Holdings (U.S.) Inc. (AWUSH), which is a wholly-owned subsidiary Allied World Assurance Company Holdings (Ireland), Ltd (AWACH), a Bermuda corporation. The ultimate parent in the holding company system is Allied World Assurance Company Holdings, AG, a Switzerland corporation. The Company has investments in two wholly-owned insurance subsidiaries, AWSLIC and Vantapro. The following depicts an abbreviated organizational chart of the Company’s relationship within the holding company system at December 31, 2014.

<u>Company</u>	<u>Domicile</u>	<u>% Owned</u>
Allied World Assurance Company Holdings, AG	Switzerland	
Allied World Assurance Company Holdings, Ltd	Bermuda	100%
Allied World Assurance Company, Ltd	Bermuda	100%

Allied World Specialty insurance Company

Allied World Assurance Holdings (Ireland) Ltd	Bermuda	100%
Allied World Assurance Holdings (U.S.) Inc.	Delaware	100%
Allied World National Assurance Company	New Hampshire	100%
Allied World Insurance Company	New Hampshire	100%
Allied World Assurance Company (U.S.) Inc.	Delaware	100%
AW Underwriters, Inc.	Delaware	100%
Allied World Specialty Insurance Company	Delaware	100%
Allied World Surplus Lines Insurance Company	Arkansas	100%
Vantapro Specialty Insurance Company	Arkansas	100%

Affiliated Management and Service Agreements

The following agreements, approved by the Delaware Department of Insurance, were in effect between the Company and its parent, affiliates, and subsidiaries as of December 31, 2014:

Intercompany Reinsurance Agreements

The Company is party to a multiline quota share agreement with its Bermuda affiliate, Allied World Assurance Company, Ltd (AWAC), as well as an intercompany pooling agreement with four of the U.S. Companies, both of which are discussed in the “Reinsurance” section of this report.

Intercompany Service Agreements

The Company is party to a service and expense sharing agreement with affiliates AWUS, AWNAC and AWSLIC, whereby AWUS and AWNAC (Service Providers) provide the following services to the Company and AWSLIC: reinsurance administration, accounting, underwriting, operational and facilities, including equipment and supplies, personnel, claims, actuarial, rental space, and legal services. The Company, acting as a Service Provider provides the following services to AWUS and AWNAC: underwriting, operational and facilities, including equipment and supplies, rental space, and risk

management services. Effective August 13, 2014, the agreement was amended to include VSIC as a client.

The Company is a party to certain intercompany service agreements with its wholly-owned insurance subsidiaries, AWSLIC and VSIC. Under the terms of the agreements, the Company has the responsibility, power and authority to act on AWSLIC and VSIC's behalf to solicit and produce applications for policies, provide insurance underwriting functions in connection with the issuance of policies, issue, bind and execute policies, report claims and administer, settle and maintain records of claims submitted for payment under policies, negotiate, bind and execute agreements of ceded reinsurance with respect to policies, and perform administrative, finance, and accounting services in connection with the foregoing functions.

Administrative Services and Cross Services Agreements

The Company is party to three separate administrative services agreements with AWAC Services Inc., AWAC Services (Ireland) Ltd, and AWAC Services Company (Bermuda), Ltd (collectively, AWAC Services). Under the agreements, AWAC Services charges the Company for certain services provided, including but not limited to, investment/asset management, administrative services, claims, actuarial, human resources and internal audit services. The Company reimburses AWAC Services for the costs incurred plus ten percent. Costs are billed to the Company quarterly. The initial term of these agreements is one year with automatic renewal of one year periods.

The Company is party to two separate administrative cross services agreements with AWAC Services Inc. and AWAC Services Company (Bermuda), Ltd. (collectively, AWAC Service Co.). Under the agreements, the Company charges AWAC Service Co.

for certain services performed including but not limited to accounting and finance, human resources and information technology services, and for equipment including computer hardware and software and phones. AWAC Service Co. reimburses the Company for the costs incurred plus ten percent. Costs are billed to the Company quarterly. The initial term of these agreements is one year with automatic renewal of one year periods.

The Company incurred expenses of \$5,679,119 in 2014 related to services provided by AWAC Services and AWAC Service Co. under these administrative and cross services agreements. The amounts represent the Company's 25% share of the amended and restated pooling agreement with four affiliates as described above.

The Company is also named in various intercompany service agreements, whereby employees of the Company perform services for various other affiliates as outlined in the agreements. Under these agreements, the employee's time to the various affiliates may be allocated or detailed, along with payment of services to the Company for the services provided.

Tax Allocation Agreement

The Company is party to a Tax Allocation Agreement (Agreement) with other members of the consolidated group. This Agreement provides that estimated tax payments are made quarterly as if the Company were filing its own federal income tax return for such taxable year. The method of allocation among affiliates is subject to the written tax sharing agreements and based on separate return calculations with current credit for net losses to the extent the losses provide a benefit in the consolidated tax return. Any separate tax liability owed by the Company is payable to its parent within

ten days of the filing date. The Company's parent will pay separate tax return refunds within thirty days of filing, except as otherwise noted.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2014, the Company, along with its intercompany pooling affiliates, collectively write direct commercial property and casualty insurance in the 50 United States and the District of Columbia and represent the U.S. Companies. The Company is domiciled in the State of Delaware and is licensed to write property and casualty insurance on an admitted basis in 52 jurisdictions, including the District of Columbia and Puerto Rico. The Company also has a Canadian branch, which is licensed in all provinces and territories in Canada.

Plan of Operation

For the year ending 2014, the Company reported total direct premiums written in the amount of \$219,711,997. Approximately 46.8% or \$102,715,675 of the Company's direct written premium was written in the following five (5) states and Canada: New York (12.7%), Texas (9.9%), Canada (6.3%), Illinois (6.3%), Pennsylvania (6.0%), and New Jersey (5.5%). Direct premiums written in the other 46 jurisdictions amounted to \$116,996,322.

The Company's insurance policies were placed through a network of approximately 266 insurance intermediaries, including excess and surplus lines wholesalers and regional and national retail brokerage firms. A significant portion the Company's \$219.7 million of direct premiums written were produced within a relatively small number of intermediary firms. Following are the Company's top five producing

brokers: American Professional Agency (\$39.3 million), Marsh & McLennan Companies, Inc. (\$18.7 million), Massamont Agency (\$13.2 million), Professional Government Underwriters, Inc. (\$13.2 million), and R-T Specialty (\$12.1 million).

In addition to writing direct business, the Company also acquires business through the use of Program Administrators. At year end 2014, the U.S. Companies were engaged in eight active programs accounting for 94.2% of the program business, with the remaining 5.8% spread among smaller active programs, offering a variety of products including professional liability, excess casualty and primary general liability. Business written through a program was serviced by the program administrator, but the Companies maintained administrative control including claims (although this may have been outsourced in certain situations), review of underwriting, financial condition, IT capabilities and ongoing audits and reviews. During 2014, the Company wrote over \$66.0 million through programs which accounted for approximately 30.5% of its total direct writings.

The Company has become a significant writer of primary professional liability and other specialty liability coverage for small firms. Professional liability products include policies covering directors and officers, employment practices and fiduciary liability insurance, as well as, errors and omissions liability coverages for a variety of service providers, including law firms, technology companies, insurance companies, insurance agents and brokers, and municipalities. In addition, the Allied World Group of U.S. Companies offer both primary and excess liability and other casualty coverages to the healthcare industry, including hospitals and hospital systems, managed care organizations, care organizations and other medical service providers.

The general casualty products provide both primary and excess liability coverage, and focus on complex risks in a variety of industries including construction, real estate, public entities, retailers, manufacturing, transportation, and finance and insurance services.

The direct property insurance operations provide direct coverage of physical property and business interruption coverage for commercial property risks, as well as, general property products from underwriting platforms in the United States, covering risks for retail chains, real estate, manufacturers, hotels and casinos, and municipalities.

REINSURANCE

Effective October 20, 2008, the Company entered into a Multiple Line Non-Obligatory Quota Share Reinsurance Agreement with its Bermuda affiliate, AWAC. Under this agreement, the Company cedes seventy percent (70%) of all direct and assumed policy liabilities effective on or after October 20, 2008. This represents the Company's gross liability including incurred but not reported (IBNR) on each policy, less known and unknown recoveries from all other reinsurance.

Effective October 1, 2011, pursuant to an Amended Cession Letter approved by the Department, AWSIC's Canadian branch (AWSIC Canada) increased its cession to AWAC of its gross liabilities from twenty-five percent (25%) to seventy percent (70%). Under the terms of the agreement, AWSIC Canada cedes to AWAC, and AWAC obligates itself to accept from AWSIC Canada, a participation at any attachment point of AWSIC Canada's gross liability on covered business.

Pursuant to an Amended Cession Letter approved by the Department between the Company and AWAC, ceded business written in the State of Florida is reflected at a rate

of fifty percent (50%), notwithstanding the seventy percent (70%) cession rate that applies to the Company's gross liability for business written in all other U.S. jurisdictions.

Effective January 1, 2012, the Company became party to an amended and restated intercompany pooling agreement to include five of the U.S. Companies, whereby all business after affiliated and unaffiliated reinsurance, is ceded to affiliate, AWIC. AWIC then retains 45% of the pooled companies' business, with the remainder retroceded to the U.S. Companies, as follows: AWSIC (25%), AWUS (10%), AWNAC (10%), and AWSLIC (10%). Under the terms of the agreement, the Company cedes 100% of all net underwriting assets and liabilities to AWIC after third party reinsurance and the 70% quota share cessions to AWAC. In turn, AWIC cedes to the Company its participation percentage share of the pooled business. The pooling agreement was approved by the Department July 12, 2012.

Effective April 1, 2013, the Company was party to a Commutation and Release Agreement (Agreement) with insurance affiliate AWAC to commute AWAC's shares of interest and liabilities. The commutation relates to the commutation of risks ceded to AWAC by AWSIC under pre-acquisition reinsurance treaties as a former member of the Darwin companies.

Assumed Reinsurance

The Company had no significant assumed reinsurance business in 2014. Excluding intercompany pooling, the Company reported immaterial assumed premium of \$3.0 million in their 2014 Annual Statement.

Ceded Reinsurance

The Company cedes business to the Pooling Agreement, to AWAC through the Multiline Quota Share Agreement, both discussed above, and to various third party reinsurers. Excluding these intercompany agreements, in 2014, ceded reinsurance totaled \$43,891,611 and represented approximately 19.7% of gross written premiums. The Company's reinsurance program includes fixed and variable quota share treaty reinsurance as well as excess of loss treaty reinsurance from third party reinsurer's on its property business, general casualty business, professional lines, healthcare, specialty and program business. Facultative reinsurance is also used when necessary to maintain limits within underwriting guidelines.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Delaware Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Reconciliation of Capital and Surplus Account

The narrative on the reserve related balances is presented in the "Comments on Financial Statements" section of this report.

Allied World Specialty insurance Company

Assets
December 31, 2014

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$ 276,546,621	\$ -0-	\$ 276,546,621
Common stocks	183,243,301		183,243,301
Cash and short-term investments	97,657,723		97,657,723
Other invested assets	13,800,000		13,800,000
Receivable for securities	84,022		84,022
Investment income due and accrued	3,698,243		3,698,243
Uncollected premiums and agents' balances in course of collection	45,849,050	912,287	44,936,763
Deferred premiums, agents' balances and installments booked but deferred	47,145,436		47,145,436
Amounts recoverable from reinsurers	48,497,244		48,497,244
Funds held by or deposited with reinsured companies	157,787		157,787
Other amounts receivable under reinsurance contracts	10,368,660		10,368,660
Current federal and foreign income tax recoverable and interest thereon	311,724		311,724
Net deferred tax asset	15,100,281	6,307,002	8,793,279
Electronic data processing equipment and software	1,459,471	1,459,471	
Furniture and equipment	4,636,088	4,636,088	
Receivables from parent, subsidiaries and affiliates	7,736,335		7,736,335
Aggregate write-ins:			
Other accounts receivable	2,845,773	55,930	2,789,843
DBA Receivable	6,242,880		6,242,880
Total Assets	<u>\$ 765,380,638</u>	<u>\$ 13,370,778</u>	<u>\$ 752,009,860</u>

Liabilities, Surplus and Other Funds
December 31, 2014

		<u>Notes</u>
Losses	\$ 139,232,483	1
Reinsurance payable on paid losses and loss adjustment expenses	2,047,639	
Loss adjustment expenses	51,819,011	1
Commissions payable, contingent commissions and other similar charges	2,049,064	
Other expenses	18,015,602	
Taxes, licenses and fees	554,708	
Unearned premiums	60,624,589	
Ceded reinsurance premiums payable	46,628,509	
Amounts withheld or retained by company for account of others	181,883	
Provision for reinsurance	316,698	
Payable to parent; subsidiaries and affiliates	28,626,853	
Aggregate write-ins for liabilities:		
Deferred Commission	3,724,933	
Other Liabilities	792,371	
Total liabilities	<u>\$ 354,614,343</u>	
Common capital stock	\$ 3,500,000	
Gross paid in and contributed surplus	183,188,330	
Unassigned funds (surplus)	<u>210,707,180</u>	
Surplus as regards policyholders	<u>\$ 397,395,510</u>	
Totals	<u><u>\$ 752,009,853</u></u>	

Statement of Income
December 31, 2014

UNDERWRITING INCOME

Premiums earned	\$ 100,619,060
-----------------	----------------

DEDUCTIONS

Losses incurred	\$ 49,443,739
Loss adjustment expenses incurred	20,906,973
Other underwriting expenses incurred	28,728,419
Total underwriting deductions	99,079,131
Net underwriting gain or (loss)	\$ 1,539,929

INVESTMENT INCOME

Net investment income earned	\$ 9,579,169
Net realized capital gains or (losses)	4,653,582
Net investment gain or (loss)	\$ 14,232,751

OTHER INCOME

Net gain or (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premiums	
Aggregate write-ins for miscellaneous income	(46,292)
Total other income	(46,292)
Net income before dividends to policyholders and before federal income taxes	15,726,388
Dividends to policyholders	-
Net income after dividends to policyholder but before federal income taxes	15,726,388
Federal and foreign income taxes incurred	2,455,263
Net income	\$ 13,271,125

Reconciliation of Capital and Surplus
December 31, 2009 to December 31, 2014

Capital and Surplus, December 31, 2009		<u>\$ 283,293,611</u>
Net income	109,285,590	
Change in net unrealized capital gains or (losses)	16,764,189	
Change in net unrealized foreign exchange gain (loss)	(2,969,885)	
Change in net deferred income tax	(8,616,732)	
Change in non-admitted assets	7,024,512	
Change in provision for reinsurance	(316,698)	
Surplus adjustments: Paid in	4,171,926	
Dividends to stockholders	(13,700,000)	
Aggregate write-ins for gains and losses in surplus	<u>2,458,987</u>	
Capital and Surplus, December 31, 2014		<u>\$ 397,395,501</u>

COMMENTS ON FINANCIAL STATEMENTS

(Note 1) Losses		\$ 139,232,483
Loss adjustment expenses		\$ 51,819,011

The Delaware Department of Insurance contracted INS Consultants, Inc. (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2014. The Consulting Actuary's analysis was performed using a risk-focused approach according to the guidelines contained in the Handbook. The conclusions set forth in the Consulting Actuary's report were based on information provided by the Company, including the 2014 Annual Statement. The Statement of Actuarial Opinion and the Actuarial Report for the Company were signed by G. Christopher Nyce, FCAS, MAAA, associated with the outside firm KPMG, LLP.

Based on work performed, the Consulting Actuary found the Company's carried net and gross loss and LAE reserves, as of December 31, 2014, to be reasonably stated. No financial adjustment to Company reserves was required for examination purposes.

SUBSEQUENT EVENTS

There were no significant events that occurred subsequent to the examination date that would have an impact on the Company's financial statements.

SUMMARY OF RECOMMENDATIONS

No examination report recommendations were noted as a result of this examination.

CONCLUSION

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

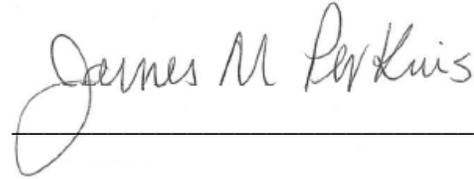
<u>Description</u>	<u>December 31, 2009</u>	<u>December 31, 2014</u>	<u>Increase (Decrease)</u>
Assets	\$700,837,662	\$752,009,860*	\$51,172,198
Liabilities	417,544,050	354,614,343	(62,929,707)
Aggregate write-ins for other than special surplus funds	2,581,281		(2,581,281)
Common capital stock	3,500,000	3,500,000	
Gross paid in and contributed surplus	179,016,404	183,188,330	4,171,926
Unassigned funds (surplus)	<u>98,195,927</u>	<u>210,707,180</u>	<u>112,511,253</u>
Surplus as regards policyholders	<u>283,293,612</u>	<u>397,395,510</u>	<u>114,101,898</u>
Total liabilities, capital and surplus	<u>\$700,837,662</u>	<u>\$752,009,853*</u>	<u>\$51,172,191</u>

*difference due to rounding

Allied World Specialty insurance Company

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

Respectfully submitted,

A handwritten signature in cursive script that reads "James M. Perkins". The signature is written in black ink and is positioned above a horizontal line.

James M. Perkins, CFE
Examiner-In-Charge
State of Delaware Department of Insurance