

ALLIED WORLD ASSURANCE COMPANY, LTD
FINANCIAL CONDITION REPORT
(FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2018)

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Overview

This Financial Condition Report is in respect of Allied World Assurance Company, Ltd (“Allied World Bermuda” or the “company”) for the financial year ending December 31, 2018.

References in this report to the terms “Allied World”, “Holdings”, “we,” “us,” “our,” the “company” or other similar terms mean Allied World Assurance Company Holdings, GmbH and its subsidiaries, including Allied World Bermuda (collectively, the “Allied World Group”). Amounts are expressed in millions of United States dollars, except for share, per share, percentage and ratio information.

This Financial Condition Report has been compiled in accordance with the Insurance (Public Disclosure) Rules 2015, as amended, of Bermuda.

We will make available, free of charge through our website (www.awac.com), this Financial Condition Report as of May 14, 2019. A printed version is also available for any person who sends a request to Allied World Assurance Company, Ltd, 27 Richmond Road, Pembroke HM 08, Bermuda, Attention: Legal & Compliance Department.

1. Business and Performance

A. Name of Insurer

Allied World Bermuda was incorporated in Bermuda on November 13, 2001 and is licensed as a Class 4 insurer by the Bermuda Monetary Authority (the “Authority”).

B. Insurance Supervisor

Bermuda Monetary Authority
43 Victoria Street
Hamilton HM 12
Bermuda

C. Approved Auditor

PricewaterhouseCoopers Ltd.
Washington House, 4th Floor
16 Church Street
Hamilton HM 11
Bermuda

D. Ownership Details

Allied World Bermuda is a wholly-owned subsidiary of Allied World Assurance Company Holdings, Ltd, a Bermuda holding company that is wholly-owned by Holdings (“Bermuda Holdings”).

Holdings is a Swiss-based holding company headquartered in Switzerland, whose subsidiaries provide innovative property, casualty and specialty insurance and reinsurance solutions to clients worldwide. Holdings was formed in Bermuda in 2001 and the Allied World Group has continued to maintain significant insurance and reinsurance operations there following Holding’s redomestication to Switzerland in 2010.

Effective as of August 17, 2017, Fairfax (Switzerland) GmbH, a company incorporated under the laws of Switzerland and a subsidiary of Fairfax Financial Holdings Limited, a corporation existing under the laws of Canada and traded on the Toronto Stock Exchange under the symbols FFH and FFH.U (“Fairfax”), merged with Allied World Assurance Company Holdings, AG, with Fairfax (Switzerland) GmbH being the surviving entity and thereafter renamed “Allied World Assurance Company Holdings, GmbH”.

Each of 1102952 B.C. Unlimited Liability Company (“1102952”) and Fairfax Financial Holdings (Switzerland) GmbH (“FFH Switzerland”) is a holding company subsidiary of Fairfax that was incorporated for the purpose of the acquisition of Allied World. 1102952, a British Columbia unlimited liability company, is a wholly-owned subsidiary of Fairfax. FFH Switzerland, a Swiss limited liability company, is owned approximately 67.8% by 1102952, approximately 20.4% by OCM Goldfish Inc. and approximately 11.8% by other minority investors.

Mr. Vivian Prem Watsa has been the Chairman and Chief Executive Officer of Fairfax since 1985. He beneficially owns and controls approximately 43% of the shares in Fairfax, and therefore holds an indirect control interest of approximately 29% in Allied World.

Please refer to the Group Structure Chart below.

E. Group Structure

Please see the Organizational Chart attached as Exhibit A hereto.

F. Insurance Business Written by Segment and by Geographic Region

We have two business segments: Global Insurance and Global Reinsurance. These segments and their respective lines of business and products may, at times, be subject to different underwriting cycles. We modify our product strategy as market conditions change and new opportunities emerge. We do this by developing new products, targeting new industry classes or de-emphasizing existing lines. Our diverse underwriting skills and flexibility allow us to concentrate on the business lines where we expect to generate the greatest returns. Each of our segments utilizes significant gross limit capacity.

The table below illustrates our gross premium written by business segment:

Segment	2018	2017
Global Insurance	\$2,408.8	\$2,171.2
Global Reinsurance	556.3	568.8
Total	\$2,965.1	\$2,740.0
Intercompany*	61.7	72.4

Total (including Intercompany)	\$3,026.8	\$2,812.4
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The table below illustrates our gross premium written by underwriting location:

Location	2018	2017
United States	\$1,992.2	\$1,885.8
Bermuda	497.0	422.1
Asia Pacific	286.6	276.1
Europe	158.5	131.2
Canada	30.8	24.8
Total	\$2,965.1	\$2,740.0
Intercompany*	61.7	72.4
Total (including Intercompany)	\$3,026.8	\$2,812.4

* Intercompany premium assumed by Allied World Bermuda from other members of the Fairfax group of companies.

G. Performance of Investments and Material Income and Expenses

i. Investments

To help ensure adequate liquidity for the payment of claims, we take into account the maturity and duration of our investment portfolio and our liability profile. In making investment decisions, we consider the impact of various catastrophic events to which we may be exposed. The majority of our assets are invested in fixed income markets. We have investments in other invested assets, comprised of interests in hedge funds, private equity funds and other private securities.

The following table shows the return by investment type for Allied World Bermuda:

Investment Type	2018			2017		
	Balance	Return	Return %	Balance	Return	Return %
U.S. Government Securities and Agencies	\$2,897.4	\$67.0	2.3%	\$3,760.5	\$24.3	0.6
Non-U.S. Government Securities and Agencies	338.9	(3.2)	(1.0)	380.2	16.8	4.4
State, Municipalities and Political Divisions	1.3	2.0	156.1	81.7	1.1	1.3
Corporate Securities:						
Financials	255.3	1.1	0.4	79.8	27.0	33.8
Industrials	1,317.3	11.6	0.9	744.6	39.9	5.4
Utilities	235.2	5.5	2.3	80.0	4.6	5.8
Asset-backed Securities	12.6	(0.5)	(4.0)	65.8	25.3	38.4
Mortgage-backed Securities:						

Agency MBS	-	-	-	-	7.0	-
MBS	-	-	-	-	1.8	-
CMBS	-	-	-	-	22.9	-
Equities	802.0	(200.4)	(25.0)	826.6	27.5	3.3
Hedge Funds and Private Equity	658.4	39.2	6.0	497.3	3.1	0.6
Other Private Securities	46.8	0.9	1.9	45.6	(14.0)	(30.7)
Total	\$6,565.2	(76.9)		\$6,562.1	187.3	
Cash and Cash Equivalents		9.0			11.2	
Derivatives		17.5			(5.8)	
Expenses		(31.0)			(20.7)	
Total Portfolio Return		(\$81.3)	(1.2)		\$172.0	2.6

The total return of our investment portfolio combines net investment income and realized investment gains or losses.

The investment strategy of Allied World Bermuda continues to be refined within the context of the Fairfax group of companies. In 2018, a number of portfolio managers were replaced resulting in continued changes in investment mix and results. In addition, the 2018 total return was significantly impacted by a large decline in the valuation of equity investments during the year, particularly in the fourth quarter, which resulted in significant unrealized losses. This was partially offset by the total return from hedge funds.

ii. Material Income and Expenses

The company derives its revenues primarily from premiums on insurance policies and reinsurance contracts, net of any reinsurance or retrocessional coverage purchased. Net premium written during 2018 increased due to the overall increase in gross premium written, primarily in our Global Insurance segment.

For the year ended December 31, 2018, the company recorded net favorable prior year reserve development, primarily related to better-than-expected emergence on the 2017 catastrophe losses and a reduction in unallocated loss adjustment expenses. This was partially offset by net adverse prior year reserve development in the casualty line of business (primarily related to the 2012, 2014 and 2015 accident years) and the professional liability line of business (primarily related to the 2012 accident year). During the year ended December 31, 2018, the company incurred net losses, before reinstatement premiums, of \$213.2 million in catastrophe-related losses. The net losses incurred from Hurricane Florence, Typhoon Jebi, Typhoon Mangkhut, Hurricane Michael, and the Woolsey and Camp California wildfires were \$26.7 million, \$37.5 million, \$14.0 million, \$50.4 million, \$24.0 million, and \$60.6 million, respectively.

For the year ended December 31, 2017, the company recorded net unfavorable prior year reserve development primarily related to higher-than-expected claims development within the professional liability line of business for the 2012 and 2013 accident years. This was partially offset by net favorable prior year reserve development in the casualty reinsurance and specialty

reinsurance lines of business. During the year ended December 31, 2017, the company incurred net losses, before reinstatement premiums, of \$506.6 million in catastrophe-related losses. The net losses incurred from Hurricane Harvey, Hurricane Irma, Hurricane Maria, earthquakes in Mexico, Typhoon Hato, Cyclone Debbie and the Southern and Northern California wildfires were \$116.6 million, \$137.0 million, \$113.4 million, \$9.1 million, \$34.0 million, \$9.4 million, \$47.8 million and \$39.3 million, respectively.

2. Governance Structure

A. Board and Senior Executive Structure, Roles, Responsibilities and Segregation of Responsibilities

i. Allied World Bermuda's Board of Directors

Name	Position
Scott A. Carmilani	Director
Wesley D. Dupont	Director
Michael McCrimmon	Director
Scott Hunter	Director (independent non-executive)

ii. Allied World Bermuda's Senior Executives

Name	Position
Colm Singleton	Head of Bermuda Office Senior Vice President, Head of Bermuda and Global Markets Claims Group
Michael McCrimmon	Vice Chairman
Thomas McKeivitt	Executive Vice President, Bermuda Reinsurance
Michael Hoffmann	Global Chief Underwriting Officer, Insurance
Johann Hunter	Vice President, Bermuda Controller

iii. Board Leadership Structure

The Board of Directors of Allied World Bermuda (the "Board") is comprised of three executive directors and one non-executive director. The Chairman of the Board is the Chief Executive Officer of the Allied World Group.

As part of the Allied World Group, the Board is subject to the Allied World Group's corporate governance framework and the Code of Business Conduct and Ethics of the Allied World Group. In addition, as part of the Fairfax group of companies, the Board is subject to the corporate governance framework and the Code of Business Conduct and Ethics of the Fairfax group of companies.

iv. Risk Oversight

The Board has oversight of the following:

- Risks that may directly or indirectly impact the company’s financial statements;
- The company’s business and operational risks; and
- The company’s investment risks.

The Board of Directors of Holdings (the “Holdings Board”) reviews and recommends the overall firm-wide risk appetite statement applicable to the Allied World Group and, as it pertains to Allied World Bermuda, the Board oversees compliance with this statement by management of Allied World Bermuda.

The Board receives reports from senior management who have day-to-day risk management responsibilities, including reports from the Chief Executive Officer; the Chief Financial Officer; the Corporate Chief Operating Officer & Chief of Staff; the Chief Actuary; the General Counsel; the Chief Information Officer; the Head of Internal Audit and the company’s independent auditors. These reports address various aspects of risk assessment and management relating to the company’s financial statements. The Board meets with the company’s senior management as part of its oversight of the company’s underwriting, pricing and claims risks. Throughout the year, the Board will also receive reports from other operational areas. To assist it in its oversight of the company’s investment risk exposures, the Board receives reports from our senior investment personnel and external investment managers and advisors.

v. Remuneration Policy and Practices and Performance-based Criteria Governing the Board, Senior Executive and Employees

Compensation Philosophy. For consistency, the Holdings Board oversees the compensation programs for all employees of the Allied World Group. The insurance and reinsurance industry is very competitive, cyclical and often volatile, and our success depends in substantial part on our ability to attract and retain talented, high-achieving employees who will remain motivated and committed to the company during all insurance industry cycles. We have a strong pay-for-performance philosophy and believe that an effective executive compensation program is one that:

- Rewards strong company and individual performance;
- Aligns the interests of the employees with Allied World Bermuda; and
- Balances the objectives of pay-for-performance and retention;

The objectives for the Allied World Group’s compensation programs are to:

- Drive and reward employee performance that supports the business objectives and financial success;
- Attract and retain talented and highly-skilled employees; and

- Remain competitive with other insurance and reinsurance companies, particularly those companies with which the Allied World Group competes for talent.

Director Compensation. The non-executive director of the Board annually receives a reasonable fixed fee for his director services. The executive directors are not compensated for their services and are not otherwise involved in deciding their own compensation as employees.

Components of Executive Compensation. The components of the Allied World Group’s executive compensation programs and the terms of each are shown in the table below:

Element	Type	Terms
Cash	Base Salary	<ul style="list-style-type: none"> • The fixed element of each employee’s annual cash compensation.
	Annual Cash Bonus	<ul style="list-style-type: none"> • A cash incentive opportunity based upon the achievement of annual goals. • Company performance is used to fund the bonus pool. • Individual performance is also used to determine the allocation of the bonus pool.
Equity-Based Incentive Compensation	Fairfax Restricted Stock (time-vested)	<ul style="list-style-type: none"> • An opportunity to earn shares of restricted stock in Fairfax, which generally vest 100% on the fifth anniversary of the date of grant.
Retirement	401(k) Plan	<ul style="list-style-type: none"> • A qualified savings plan that provides participants with the opportunity to defer a portion of their compensation, up to the U.S. Internal Revenue Service (“IRS”) tax code limitations, and receive a company matching contribution.
	Supplemental Executive Retirement Plan	<ul style="list-style-type: none"> • A plan that supplements the 401(k) plan by providing, on a non-qualified basis, for deferral of compensation in excess of the IRS tax code limitations.
Other	Perquisites	<ul style="list-style-type: none"> • Certain other benefits provided to certain executives.

Compensation Oversight and Process. The Holdings Board has established a number of processes to assist it in ensuring that the Allied World Group’s compensation programs are achieving their objectives. Among those are:

- Assessment of the Allied World Group’s performance on both an absolute and relative basis;
- Assessment of individual performance via interactions with the employees;
- Assessment of risks associated with the Allied World Group’s compensation programs;

- Pay-for-performance analysis; and
- Assessment of benefits and perquisites.

In determining the level of compensation for employees of the Allied World Group, both quantitative and qualitative factors of the Allied World Group's and each employee's performance are analyzed. The Holdings Board primarily uses formulaic factors to assess the Allied World Group's performance. However, due to the potential volatility of the insurance and reinsurance industry, and thus the Allied World Group's financial results, the Holdings Board believes that it is appropriate to also use non-formulaic factors to assess Allied World Group and individual performance.

vi. Supplementary Pension or Early Retirement Schemes for Members, the Board and Senior Executives

Employees of the company are offered the opportunity to participate in various savings and retirement plans, with the specific plan in which an employee participates being based on certain eligibility criteria. The company contributes to such employees' accounts as well in the form of a matching contribution. These plans allow participants to save for retirement in a tax-effective way at minimal cost to the company.

vii. Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executives

During the financial period, Allied World Bermuda declared dividends in an aggregate amount of \$225.7 million payable to Bermuda Holdings.

B. Fitness and Propriety Requirements

i. Fit and Proper Process in Assessing the Board and Senior Executives

Director Nominees. 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, including whether such attributes or background would contribute to the diversity of the Board;
- 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 any committees.

The Board determines whether or not the candidate meets the company's general qualifications and specific qualities for directors and whether or not additional information is required.

The Board does not have a specific policy regarding diversity. Instead, in addition to the general qualities that the Board requires of all nominees and directors, such as high personal and professional ethics, values and integrity, the Board strives to have a diverse group of directors with differing experiences, qualifications, attributes and skills to further enhance the quality of the Board. As we are an insurance and reinsurance company that (i) sells products that protect other companies and individuals from complex risks, (ii) has a significant investment portfolio and (iii) faces operational risks similar to those at other international companies, the Board believes that having a group of directors who have the range of experience and skills to understand and oversee this type of business is critical. The Board does not believe that each director must be an expert in every aspect of our business, but instead strive to have well-rounded, collegial directors who contribute to the diversity of ideas and strengthen the Board's capabilities as a whole. Through their professional careers and experiences, the Board believes that each director has obtained certain attributes that further the goals discussed above.

Senior Executives. The Chief Executive Officer of the Allied World Group is ultimately responsible for senior executive hires. As part of the hiring process, our Human Resources Department evaluates a person's professional qualifications and performs background screening for all senior executives. All directors, officers and employees of Allied World Bermuda must comply with the respective Codes of Business Conduct and Ethics of the Allied World Group and the Fairfax group of companies. To assist the company in ensuring compliance, all directors, officers and employees are required to complete a compliance certification annually.

ii. Professional Qualifications, Skills, and Expertise of the Board and Senior Executives

Board of Directors

Scott A. Carmilani was elected President and Chief Executive Officer of Holdings in January 2004 and was appointed Chairman of the Holdings Board in January 2008. Mr. Carmilani has led the Allied World Group through a period of considerable and successful growth and expansion, including the listing of Holdings' predecessor entity on the New York Stock Exchange (the "NYSE") in 2006, which culminated in the Allied World Group's acquisition by Fairfax in July 2017. In addition to leading the Allied World Group through a period of sound and sustainable growth to become a global provider of insurance and reinsurance products and services, Mr. Carmilani has overseen the consistent delivery of positive financial results and impressive returns to shareholders. Mr. Carmilani has also led the Allied World Group's senior leadership team and actively participates in the Allied World Group's management-based committees.

Prior to his work at the Allied World Group, Mr. Carmilani was 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, Pennsylvania, 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. Mr. Carmilani is currently a member of the board of trustees of the Visiting Nurse Association (VNA) Health Group, Inc. of New Jersey.

Wesley D. Dupont is CEO, Global Legal & Strategy of Holdings and was initially appointed as General Counsel and Corporate Secretary of Holdings and the Allied World Group in December 2005. His role has expanded significantly since then due to his impressive track record of overseeing Holdings' and the Allied World Group's management of legal, compliance, claims, internal audit, tax, government affairs and human resources functions. Mr. Dupont played a key role in taking Holdings' predecessor entity public and its listing on the NYSE in 2006. During his tenure as Corporate Secretary, Mr. Dupont was instrumental in ensuring that appropriate governance structures, including internal controls, were established for Holdings and the Allied World Group, including the financial and regulatory reporting processes. Mr. Dupont has also played an integral role in relation to the establishment, build-out and oversight of Holdings' and the Allied World Group's risk management framework.

In November 2003, Mr. Dupont began working for American International Company Limited, a subsidiary of AIG, and began providing legal services to Allied World Holdings pursuant to an administrative services contract. Through that contract, Mr. Dupont served as Allied World Holdings' Senior Vice President, General Counsel and Secretary from April 2004 until November 30, 2005. 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.

Michael McCrimmon is Vice Chairman of Allied World Assurance Company, Ltd, and provides senior oversight of the company's global property lines of business. Mr. McCrimmon joined Allied World Assurance Company, Ltd in early 2002 as Vice President of Property based in Bermuda and in 2005 was promoted to Senior Vice President with responsibility to manage the Bermuda and London Property/Energy teams. Mr. McCrimmon then served as President, North American Property & Bermuda Branch Manager until January 2019, at which time Mr. McCrimmon assumed his current role as Vice Chairman where he continues to be a key leader and advisor to the Bermuda management team. Mr. McCrimmon has been employed in the insurance industry since 1984 when he started his career at INA/Cigna Corporation in Toronto, Canada. In 1987, he joined AIG Canada where he remained for 15 years during which time he held various management positions within the Canadian operation with the focus on Property and Energy lines of business. Mr. McCrimmon's last role with AIG was as the Property Underwriting Manager for Canada managing the property/energy portfolio across three branch offices.

Scott Hunter has served as an independent director of various Allied World Group companies since 2006. He has served as a Non-Executive Director for Allied World Assurance Company Holdings, AG and currently sits on the board of Allied World Assurance Company, Ltd and Allied World Assurance Company (Europe) dac. From 1981 until 2002, Mr. Hunter was Managing Partner of a public accounting practice in Bermuda whose clients included numerous insurance/reinsurance and asset management companies. His practice represented Arthur Andersen from 1986 to 2002 and KPMG from 1982 to 1986. During Mr. Hunter's public practice career, he served as lead client partner on all of his firm's significant clients. He also holds a number of board appointments within Colonial Group International Limited. Mr. Hunter is a Fellow of the Institute of Chartered Accountants of Bermuda, Justice of the Peace and is a graduate of Brown University.

Senior Executives

Colm Singleton was appointed Head of Bermuda Office in January 2019 and also serves as Senior Vice President, Head of Bermuda and Global Markets Claims Group. In his capacity as Head of Bermuda Office, Mr. Singleton is responsible for the overall leadership of the company's Bermuda office. In his capacity as Senior Vice President, Head of Bermuda and Global Markets Claims Group, Mr. Singleton is responsible for overseeing all of Allied World's Bermuda and Global Markets claims operations. Mr. Singleton joined the company in 2008 as Senior Vice President, Chief Claims Officer. Prior to joining the company, Mr. Singleton worked as an attorney at Freshfields Bruckhaus Deringer, a large multinational law firm, where he specialized in dispute resolution for financial institutions, including claims disputes.

Michael McCrimmon, Vice Chairman – see biography above.

Thomas McKeivitt, Executive Vice President, Bermuda Reinsurance, oversees Allied World's Bermuda reinsurance operations. Mr. McKeivitt joined Allied World in 2002 as Vice President, Property Treaty Reinsurance and was promoted to Senior Vice President in 2006 and to his current role in 2009. Mr. McKeivitt has over 20 years' experience in the insurance/reinsurance industry. Prior to joining Allied World, he worked for Odyssey America Re as Vice President in the Property Treaty Department and prior to that held positions at Constitution Re, General Re and Aetna Life and Casualty. Mr. McKeivitt is a graduate of the University of Rochester and holds a Bachelor's degree in Economics and Political Science.

Michael Hoffmann has been Chief Underwriting Officer of Insurance Operations at Allied World Assurance Company Holdings, GmbH from December 2014 to April 2019. Mr. Hoffmann served as Chief Underwriting Officer of Bermuda Holdings and Allied World Assurance Company, Ltd. Mr. Hoffmann served as an International Product Line Manager of General Casualty and Senior Vice President of Bermuda Operations of Allied World Assurance Company Holdings, AG. Mr. Hoffmann has over 20 years of experience in the insurance industry and was a casualty treaty reinsurance underwriter for Chubb Re (Bermuda) Ltd., writing both traditional casualty treaty and alternative market treaty reinsurance prior to his work with Allied World. He has also held various positions within Chubb Atlantic in Bermuda and Chubb Insurance in the U.S. where he underwrote primary

casualty as well as lead umbrella and excess casualty business. Mr. Hoffmann graduated from Swarthmore College with a Bachelor of Arts degree.

Johann Hunter was appointed Vice President, Bermuda Controller of Allied World Bermuda, effective as of August 1, 2017. Mr. Hunter joined Allied World Bermuda in 2008. Prior to joining Allied World, Mr. Hunter held various managerial audit roles at both PricewaterhouseCoopers Ltd. in Bermuda and RSM International in South Africa. Mr. Hunter holds a Bachelor of Commerce (Accounting) Degree and a Postgraduate Diploma in Accounting from the University of Johannesburg in South Africa. Mr. Hunter is also a member of the Chartered Professional Accountants of Bermuda and the South African Institute of Chartered Accountants.

C. Risk Management and Solvency Self-Assessment

i. Risk Management Process and Procedures to Identify, Measure, Manage and Report on Risk Exposures

The Allied World Group actively maintains a risk register that identifies the top reasonably foreseeable material risks for both the Allied World Group as a whole and for Allied World Bermuda specifically. The likelihood and potential impact of each risk pre- and post-mitigation is assessed and risk controls and owners are identified. The Allied World Group also maintains a list of internal risk scenarios that could have a significant impact on the value of the Allied World Group, including Allied World Bermuda. The risk scenarios are reviewed regularly, and the impact to the value of the organization is calculated at least annually or more frequently if there are significant changes to the organization's risk profile. The Allied World Group maintains an economic capital model ("ECM") to stochastically quantify the potential impact that risks such as premium, reserving, catastrophe, reinsurer default and asset/market uncertainty could have on the company. The model utilizes internally developed risk distributions as well as output from third-party vendor models such as external catastrophe models and economic scenario generator ("ESG") models. The ECM simulates possible outcomes for each risk and subsequently correlates and aggregates these risks. Results of catastrophe models and the ECM are compared against the various risk tolerance statements and are presented to the Board as a standard agenda item during its ordinary meetings to enable the Board to review and evaluate the organization's risks relative to its tolerances.

ii. Risk Management and Solvency Self-Assessment Systems Implementation

The results of the ECM and solvency assessments are integrated into the management and strategic decision making processes. In particular, the ECM is used in the following applications either on an ongoing basis or as otherwise needed from time to time:

- Determining the appropriate amount of capital to be held at the Allied World Group and legal entity level;
- Reporting and monitoring of risk profile – reviewing distributions by risk category and comparing against risk tolerance statements;

- Evaluating risk-adjusted returns for various business units and product lines;
- Evaluating potential changes to reinsurance purchases;
- Evaluating new product opportunities, when applicable;
- Evaluating significant merger and acquisition opportunities, when applicable;
- Internal strategic asset allocation studies, when applicable; and
- Assessing risk-based rates of return for pricing certain types of business.

The model is used as a tool in all of these areas on an ongoing basis and is fully integrated with strategic risk management.

iii. Relationship Between the Solvency Self-Assessment, Solvency Needs, and Capital and Risk Management Systems

The ECM stochastically quantifies the potential impact that risks such as premium, reserving, catastrophe, reinsurer default and asset/market uncertainty could have on the company. The ECM forms the basis of the solvency self-assessment and utilizes internally developed risk distributions as well as output from third-party vendor models such as external catastrophe models and ESG models. The ECM simulates possible outcomes for each risk and subsequently correlates and aggregates these risks.

The ECM is also used for determining the internal capital requirement at the Allied World Group level and legal entity level. Allied World's solvency needs are the greater of the capital required based on the ECM and the capital required based on the regulatory solvency formula.

iv. Solvency Self-Assessment Approval Process

The solvency self-assessment is based on results of the ECM. The Corporate Chief Operating Officer & Chief of Staff approves the design, maintenance and use of the model. The Board oversees the enterprise risk management of Allied World Bermuda. The Board reviews various aspects of the model as part of its regular meetings. The capital modeling function has conducted training on the capital model structure, assumptions and uses for senior executives in the company.

Standard risk monitoring output is reviewed by the Risk Management Committee and the Board during their respective meetings. Any significant changes to the model are discussed during these meetings as are any issues arising from the model.

The company's senior executives have been educated on the model and understand the key assumptions/elements of the model as well as the implications and limitations of its outputs.

The company subjects the model to a regular cycle of validation that may include external as well as internal validation. On a semi-annual basis, the company validates key model inputs and outputs to ensure consistency with source values and the appropriateness of movements against the prior period. The company tests forecast underwriting and profitability results against actual results. Additional validations have been and will be added as the model evolves. External validation is also sought to review the appropriateness of highly material areas of the ECM.

D. Internal Controls

i. Internal Control System

The internal control system ensures that Allied World is managed in a sound and prudent manner by having in place systems for identifying, assessing, monitoring and mitigating its risks.

Allied World has implemented both entity-wide and process-specific control procedures. A mix of internal controls is required to ensure a robust internal controls environment throughout the organization. The Allied World Group's control activities are procedures that help management ensure that the day-to-day operations are appropriately controlled. They occur throughout the organization, at all levels and in all departments. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, segregation of duties, checking for compliance with agreed exposure limits and operating guidelines and following-up non-compliance. The control activities are proportionate to the risks coming from the controlled activities and processes and ensure that any areas of potential conflicts of interest are identified and managed appropriately.

Management is ultimately responsible and assumes ownership of the internal control system. They set the "tone at the top" that affects integrity and ethics, and ensures a positive control environment and assign responsibility for establishment of specific internal controls procedures.

ii. Compliance Function

The corporate compliance function of the Allied World Group aims to serve the best interests of the company, its employees, customers and other applicable constituents by promoting an organizational culture committed to integrity, ethical conduct and compliance with the law, and by setting standards, policies and procedures that provide reasonable assurance that the company achieves its financial, operational and strategic objectives consistent with its compliance obligations. This is executed through the following activities:

- A legal and compliance risk assessment involving senior management is performed annually, in which key compliance risks across the Allied World Group are identified and prioritized and a strategy to manage those risks is developed and implemented.

- Policies and procedures are developed to address the identified risks and are communicated to all employees as applicable.
- A corporate compliance training schedule is designed based on the results of the risk assessment process in order to ensure all employees have appropriate resources to help them understand their compliance responsibilities.
- Monitoring procedures and compliance audits are scheduled based on the results of the risk assessment process and are also performed to address certain compliance issues as they arise.

In addition, from a regulatory compliance perspective, a designated regulatory compliance team is in place for each jurisdiction in which we do business. These teams handle all regulatory compliance matters for their assigned geographic areas and have developed policies and procedures as needed to ensure that applicable regulatory compliance requirements are met.

E. Internal Audit

The company's internal audit function provides an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the company. It assists the company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the company's risk management, control and governance processes. The company's internal audit function governs itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.

The company's internal audit function reports to the Board on the design and effectiveness of internal controls. In addition, the internal audit function tests how well existing internal controls are functioning, and recommends any necessary changes and improvements. This includes performing examinations of operating and financial controls; conducting efficiency and effectiveness reviews; conducting reviews of compliance with laws and other external regulations; and evaluating the design and execution of internal controls and the company's Risk Register.

The company's internal audit function is free from interference from any element in the organization in order to maintain the necessary independence, including on matters of audit selection, scope, procedures, frequency, timing or report content. The company's internal audit function has no direct operational responsibility or authority over any of the activities audited. The company's internal audit function does not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair an internal auditor's judgment.

F. Actuarial Function

Allied World Bermuda is required by applicable insurance laws and regulations in the countries in which it operates and accounting principles generally accepted in the United States (“U.S. GAAP”) to establish loss reserves to cover our estimated liability for the payment of all losses and loss expenses incurred with respect to premiums earned on the policies and treaties that it writes. These reserves are balance sheet liabilities representing estimates of losses and loss expenses that we are required to pay for insured or reinsured claims that have occurred as of or before the balance sheet date. They are used as a starting point in the calculation of technical provisions in the economic balance sheet. It is our policy to establish these losses and loss expense reserves as well as technical provisions using prudent actuarial methods after reviewing all information known to us as of the date they are recorded. For further information on the derivation of technical provisions, see Section 4.B. below.

On a quarterly basis, the actuarial department presents the reserve balances supplemented with commentary on any significant developments to senior management, and any significant changes to the reserving methodology must be presented to and approved by senior management. The changes would also be presented to the Board. The reserve balances are presented and discussed with the Board as a standing agenda item during its meetings.

G. Outsourcing

The Allied World Group has a group-wide Outsourcing Policy that applies to services arrangements established by certain subsidiaries of the Allied World Group with third parties or on an intercompany basis. The Outsourcing Policy and its procedures have been designed to ensure continuity with respect to the sound and prudent management of the business and operations of the Allied World Group when functions or activities are outsourced. The Outsourcing Policy also sets out the procedures to be followed when establishing applicable services arrangements.

Contemplated outsourced services arrangements to which the Outsourcing Policy applies will not proceed unless certain preconditions have been met, including that the system of governance of the applicable Allied World Group entity will remain effective; the operational risk of such entity will not be unduly increased; the ability of any relevant supervisory authority to monitor the compliance of such entity with its legal and regulatory obligations will not be impaired; and the continuous and satisfactory service to policyholders will be maintained.

The applicable Allied World Group entity retains responsibility for all outsourced functions, processes, services and activities performed in accordance with established services arrangements. All material third-party contracts are sent to the Legal & Compliance Department for review prior to execution.

For all significant third parties that provide services relating to financial reporting, a Service Organization Control Report (commonly referred to as a “SOC1 Report”) is obtained and reviewed to ensure that the control procedures at the third party are equivalent to those that would be in place had the applicable Allied World Group entity been performing that process internally. The SOC1 Report Complementary User Entity Controls are reviewed to ensure

they are addressed by controls within the Allied World Group. The review of the controls in place at the third party are summarized in an internal memo signed off by the relevant process owner.

Key functions that have been outsourced by Allied World Bermuda include:

- Investment Management;
- Payroll Processing;
- IT Datacenter and Disaster Recovery Site Host; and
- IT Network Security.

3. Risk Profile

A. Material Risks to which the Insurer is Exposed During the Reporting Period

Allied World utilizes various tools to assist in the identification and assessment of risks in order to provide the organization with a holistic view of its risk profile and enable the organization to assess the relationships between material risks. Overall underwriting risk, market risk and credit risk is primarily measured via the ECM. Underwriting risk is subdivided into premium risk and reserve risk. Premium risk is conceptually the uncertainty in the ultimate losses related to the premium that will earn over the subsequent 12 months. Reserve risk is the uncertainty in the ultimate claim settlement values for the loss reserves as of the evaluation date. Credit risk to reinsurers is measured within the ECM. Credit risk within the investment portfolio is measured as part of market risk based on economic scenarios. Liquidity risk is measured via stress scenarios. There have been no material changes during the reporting period.

B. Risk Mitigation

The company mitigates the various risks that it faces in a myriad of ways, with numerous controls in place to minimize the chance and magnitude of any operational risk losses. The larger risk categories faced by Allied World Bermuda – insurance risk, credit risk and market risk – are mitigated in a variety of ways, including the following:

- Underwriting risk and catastrophe risk, as a subset of underwriting risk, is controlled through the tolerance levels, limits and authorities that are in place. Underwriting guidelines define the general risk appetite within each segment of business written. Individual underwriters have limited authority with regard to capacity, types of risk and policy wording. Overall tolerances and limits with regard to catastrophe exposure and accumulation of certain types of casualty exposure are in place and are monitored regularly. Where deemed prudent, reinsurance is purchased to further mitigate insurance risk. The effectiveness of those reinsurance purchases is determined via the ECM.

- Credit risk stemming from reinsurance recoverables is monitored closely. Procedures are in place to mitigate losses related to uncollectible reinsurance by minimizing concentrations to any one counterparty and through selectivity of counterparties utilized.
- Market risk is mitigated by closely monitoring the overall risk position of the investment portfolio on a regular basis and by maintaining risk levels within predefined limits. On occasion, derivatives are purchased to further mitigate investment risk.

C. Material Risk Concentrations

The company believes that it has material risk concentrations in the following:

i. Ceded Reinsurance

The ceding of policies we write to other reinsurers is a principal risk management activity, and it requires careful monitoring of the concentration of our reinsured exposures and the creditworthiness of the reinsurers to whom we cede business. The company believes that as of December 31, 2018, its reinsurers are able to meet, and will meet, all of their obligations under their respective agreements. Of the premiums ceded during the year ended December 31, 2018, approximately 45% was ceded to four reinsurers. The company actively manages its reinsurance exposures by generally selecting reinsurers having a credit rating of “A-” or higher. Approximately 97% of ceded reserves were recoverable from reinsurers who had an A.M. Best rating of “A” or higher as of December 31, 2018.

ii. Investments

The company’s investment portfolio is managed pursuant to guidelines that follow prudent standards of diversification. The guidelines limit the allowable holdings of a single issue and issuers. The company believes that there are no significant concentrations of credit risk associated with its investment portfolio. As of December 31, 2018, substantially all of the company’s cash and investments were held with one custodian.

iii. Insurance Balances Receivable

Insurance balances receivable primarily consist of net premiums due from insureds and reinsureds. The company believes that the counterparties to these receivables are able to meet, and will meet, all of their obligations. The company’s credit risk is further reduced by the contractual right to offset loss obligations or unearned premiums against premiums receivable.

iv. Funds Held

The company has also entered into a collateralized property catastrophe quota share reinsurance contract with Aeolus Re, Ltd., a Bermuda-based property catastrophe reinsurer (“Aeolus Re”), whereby the company assumes property catastrophe business underwritten by Aeolus Re. The company provided a multi-year capital commitment to support the business being underwritten by Aeolus Re. To the extent that capital is not utilized to

support the business being underwritten by Aeolus Re, as all obligations have been settled, the capital is returned to the company. To the extent the losses are in excess of the premiums written, the capital is utilized to pay the claims. The capital commitment is recorded in “funds held” on the consolidated balance sheets. The funds held balance as of December 31, 2018 and December 31, 2017 was \$546.6 million and \$407.6 million, respectively. For the year ended December 31, 2018 and December 31, 2017, the premiums written assumed by the company through the collateralized property catastrophe quota share reinsurance contract with Aeolus Re were \$49.1 million and \$35.1 million, respectively.

D. Investment in Assets in Accordance with the Prudent Person Principles of the Code of Conduct

The company adheres to an Investment Policy Statement that is consistent with the prudent person principle in accordance with the Authority’s Insurance Code of Conduct. The objectives of the investment portfolio are to: ensure preservation of invested capital for policyholder protection, always providing sufficient liquidity for the payment of claims and other policy obligations and operating items; invest with a value approach over a long-term time horizon; and comply with regulatory guidelines and legislation applicable to investments.

E. Stress Testing and Sensitivity Analysis to Assess Material Risks

Allied World Bermuda conducts stress and scenario tests required by the Authority. Based on the latest stress testing results, management of the company believes that it has sufficient capital and liquidity to comply with the contractual obligations of the organization and regulatory requirements upon experiencing losses within its risk tolerance.

The following stress and scenario tests were evaluated according to the specifications of the Authority:

i. Financial Market Scenarios

- Severe Decline in Equity Prices
- Alternative Investments and Real Estate
- General Widening of Credit Spreads
- Combination of above three scenarios
- Foreign Currency Shocks
- Escalation of European Sovereign Risk
- Inflation Risk

ii. Underwriting Loss – Modelled Realistic Disaster Scenarios

- Northeast Hurricane
- Carolinas Hurricane
- Miami-Dade Hurricane
- Pinellas County Hurricane
- Gulf (Texas) Windstorm
- Los Angeles Earthquake
- San Francisco Earthquake
- New Madrid Earthquake
- European Windstorm
- Japanese Typhoon
- Japanese Earthquake

iii. Underwriting Loss – Non-modelled Realistic Disaster Scenarios

- Aviation Collision
- Marine Collision in Prince William
- US Oil Spill
- US Tornadoes
- Australian Flooding
- Australian Wildfires

iv. Other Scenarios

- Rating Downgrade
- Worst-case Annual Aggregate Catastrophe Loss Scenario
- Cyber Risk

4. Solvency Valuation

A. Valuation Basis, Assumptions and Methods to Derive the Value of Each Asset Class

The company has adopted the valuation principles outlined by the Authority's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing. The assets and liabilities (other than technical provisions) were assessed and included in the Economic Balance Sheet at fair value in line with the U.S. GAAP principles adopted by the company. The significant economic valuation principles used for assets are as follows:

i. Cash and Cash Equivalents

Cash and cash equivalents include amounts held in banks, time deposits, commercial paper, discount notes and U.S. Treasury Bills with maturities of less than three months from the date of purchase.

ii. Investments

The following describes the valuation techniques used by the company to determine the fair value of financial instruments held as of the balance sheet date.

U.S. government and government agencies: Comprised primarily of bonds issued by the U.S. Treasury, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. The fair values of the company's U.S. government securities are based on quoted market prices in active markets. The company believes that the market for U.S. Treasury securities is an actively traded market given the high level of daily trading volume. The fair values of U.S. government agency securities are priced using the spread above the risk-free yield curve.

Non-U.S. government and government agencies: Comprised of fixed income obligations of non-U.S. governmental entities. The fair values of these securities are based on prices obtained from international indices.

States, municipalities and political subdivisions: Comprised of fixed income obligations of U.S. domiciled state and municipality entities. The fair values of these securities are based on prices obtained from the new issue market.

Corporate debt: Comprised of bonds issued by or loan obligations of corporations that are diversified across a wide range of issuers and industries. The fair values of corporate debt that are short-term are priced using spread above the LIBOR yield curve, and the fair value of corporate debt that are long-term are priced using the spread above the risk-free yield curve. The spreads are sourced from broker-dealers, trade prices and the new issue market.

Asset-backed: Principally comprised of bonds backed by pools of automobile loan receivables, home equity loans, credit card receivables and collateralized loan obligations originated by a variety of financial institutions. The fair values of asset-backed securities are priced using prepayment speed and spread inputs that are sourced from the new issue

market or broker-dealer quotes. Also included in the asset-backed category are mortgage-backed securities, which are comprised of residential and commercial mortgages originated by both U.S. government agencies (such as the Federal National Mortgage Association) and non-U.S. government agencies. The fair values of mortgage-backed securities originated by U.S. government agencies and non-U.S. government agencies are based on a pricing model that incorporates prepayment speeds and spreads to determine appropriate average life of mortgage-backed securities.

Equity securities: Comprised of U.S. and foreign common and preferred stocks and mutual funds. Prices are obtained from market exchanges in active markets. The company's remaining equity interest in an equity security that it no longer accounts for under the equity method of accounting is the fair value based on the enterprise value of that security, which is not a publicly traded company. Also, subsequent to the company being acquired by Fairfax, the company has acquired certain securities that are valued by Fairfax by using unobservable inputs. When fair value is determined by Fairfax, the fair value is determined by reference to various valuation measures for comparable companies and transactions, including relevant valuation multiples.

Other invested assets: Comprised of funds invested in a range of diversified strategies. In accordance with U.S. GAAP, the fair values of the funds are based on the net asset value of the funds as reported by the fund manager. The company does not measure its investments that are accounted for using the equity method of accounting at fair value, unless an other-than-temporary impairment is recorded.

Real estate: Comprised of a commercial real estate investment. The fair value of the real estate investment was considered its carrying value given that this investment was purchased in 2018.

iii. Derivative Instruments

The fair value of foreign exchange contracts and interest rate futures and swaps are priced from quoted market prices for similar exchange-traded derivatives and pricing valuation models that utilize independent market data inputs.

iv. Long-Term Debt

Long-term debt is comprised of an external surplus note. The fair value of the long-term debt is based on the value of the debt using current interest rates.

B. Valuation Basis, Assumptions and Methods to Derive the Value of Technical Provisions

Insurance technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure with an appropriate illiquidity adjustment. In addition, there is a risk margin to reflect the inherent uncertainty contained in the underlying cash flows which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the Authority for each reporting period.

The best estimate for the loss and loss expense provision is calculated by using U.S. GAAP reserves as the starting point and then performing a series of adjustments:

- Removal of prudence margins;
- Incorporation of expected reinsurance counterparty defaults;
- Incorporation of events not in data;
- Other adjustments related to consideration for investment expenses, etc.; and
- Discounting of cash flows.

The best estimate for the premium provision is calculated by using the unearned premium reserve on a U.S. GAAP basis, adjusting for bound but not incepted business as at December 31, 2018 and December 31, 2017 and applying expected future loss ratios, expense ratios and appropriate claims pay-out patterns to derive cash flows, which are then discounted.

At December 31, 2018 and December 31, 2017, the total technical provisions are as follows:

Technical Provision	2018	2017
Loss Provision	\$4,275.9	\$4,619.9
Premium Provision	80.1	81.0
Risk Margin	421.4	449.2
Total	\$4,777.4	\$5,150.1

C. Description of Recoverables from Reinsurance Contracts

The company purchases reinsurance from third-party reinsurance companies to reduce its net exposure to losses. Reinsurance provides for recovery of a portion of gross losses and loss expenses from these reinsurers. The company remains liable to the extent that its reinsurers do not meet their obligations under the related reinsurance contracts. The company therefore regularly evaluates the financial condition of its reinsurers and monitors concentration of credit risk. The company believes that as of December 31, 2018, its reinsurers are able to meet, and will meet, all of their obligations under their respective agreements.

The following tables show the reinsurance recoverable by A.M. Best Financial Strength Ratings classification at the end of the reporting period. This methodology has been selected to align with the ratings bands used by the Authority.

A.M. Best Rating	Reinsurance Recoverable*	
	2018	2017
Superior (A++, A+)	\$1,314.1	\$1,145.0
Excellent (A, A-)	544.4	598.4
Good (B++, B+)	0.1	4.7
Subtotal	\$1,858.6	\$1,748.1

NR	31.4	47.7
Total	\$1,890.0	\$1,795.8

* This represents the insurance technical provision for the reinsurance recoverable on loss reserves determined in accordance with the insurance prudential standards issued by the Authority.

D. Valuation Basis, Assumptions and Methods to Derive the Value of Other Liabilities

Similar to the valuation principles for assets, the company’s liabilities follow the valuation principles outlined by the Authority’s “Guidance Note for Statutory Reporting Regime” which values liabilities on a fair value basis. All other liabilities (with the exception of investment derivative instruments) are valued on a U.S. GAAP basis, and settlements not expected to be settled within a year are discounted using the prescribed discount rates provided by the Authority as at December 31, 2018. Investment derivative instruments are valued at quoted market prices. In the absence of an active market, prices are based on observable market inputs.

E. Any Other Material Information

No additional material information to report.

5. Capital Management

A. Eligible Capital

i. Description of the Capital Management Policy and Process to Determine Capital Needs for Business Planning, How Capital is Managed and any Material Changes During the Reporting Period

The primary capital management objectives of the company are:

- To maintain a strong capital base to support the development of its business and to meet regulatory and rating agency capital requirements at all times;
- To enable the company to achieve its target ratings considering its risk profile; and
- To optimize the capital structure and efficiently allocate capital.

The company recognizes the impact on shareholder returns of the level equity capital employed and seeks to return excess capital to its parent on a timely basis without compromising the other objectives listed above.

The company evaluates its ability to increase capital, if needed, through capital and debt markets.

The company has an active capital management process to ensure it meets regulatory capital requirements and rating agency expectations while optimizing capital efficiency by returning excess capital to its parent.

To maintain a strong capital base, the company identifies, assesses, manages and monitors the various risk sources it faces in the course of business, both currently and as anticipated over a three-year planning horizon. The company produces an annual capital management plan which sets out capital targets over a three-year business planning horizon. The intention of the plan is to ensure the company meets its regulatory capital requirements and other business expectations, such as dividend payments to its parent. Surplus capital is returned via cash dividends and share repurchases.

The capital plan takes into consideration:

- The company’s risk profile, including an assessment of the current and anticipated future material risks faced by the company, the strength of the organization’s enterprise risk management, capital measures derived from proprietary and vendor models, qualitative risks, stress testing and liquidity;
- The business and strategic plan, budget and goals;
- Applicable regulations and the company’s capital management goals; and
- Multiple financial market scenarios.

The company’s capital and risk management strategy are primarily unchanged over the prior year.

ii. Eligible Capital by Tier

The following table shows eligible capital by tier:

Tier	2018	2017
Tier 1	\$2,504.0	\$2,704.6
Tier 2	550.5	371.2
Tier 3	-	-
Total	\$3,054.5	\$3,075.8

Tier 1 capital includes fully paid common shares, statutory economic surplus, less treasury shares and excess encumbered assets.

Tier 2 capital comprises the excess encumbered assets allocated from Tier 1.

iii. Eligible Capital by Regulatory Limitations

The company is required to maintain available statutory capital and surplus of an amount that is equal to or exceeds the value of its minimum margin of solvency (“MMS”).

Tier 1 capital shall not be less than 80% of the company’s MMS and Tier 2 capital shall not be more than 25% of Tier 1 capital.

The company is also required to maintain available statutory capital and surplus of an amount that is equal to or exceeds the value of its enhanced capital requirement (“ECR”). Tier 1 capital shall not be less than 60% of the company’s ECR and Tier 2 capital shall not be more than 66.67% of Tier 1 capital.

The following table shows eligible capital by regulatory limitations:

Tier	2018		2017	
	Applied to MMS	Applied to ECR	Applied to MMS	Applied to ECR
Tier 1	\$2,504.0	\$2,504.0	\$2,704.6	\$2,704.6
Tier 2	550.5	550.5	371.2	371.2
Tier 3	-	-	-	-
Total	\$3,054.5	\$3,054.5	\$3,075.8	\$3,075.8

iv. Confirmation of Eligible Capital that is Subject to Transitional Arrangements

Allied World Bermuda has not issued any senior notes that are subject to the transitional arrangements under the Eligible Capital Rules.

v. Identification of Factors Affecting Encumbrances Affecting on the Availability and Transferability of Capital to Meet the ECR

Allied World Bermuda uses trust accounts primarily to meet security requirements for inter-company and certain reinsurance transactions. We also have cash and cash equivalents and investments on deposit with various state or government insurance departments or pledged in favor of ceding companies in order to comply with reinsurance contract provisions and relevant insurance regulations. In addition, Allied World Bermuda currently has access to a \$900.0 million uncommitted letter of facility with Citibank Europe plc. This facility is used to provide security to reinsureds and is collateralized by us to the extent of letters of credit outstanding at any given time.

Security arrangements with ceding insurers may subject our assets to security interests or require that a portion of our assets be pledged to, or otherwise held by, third parties. Our letter of credit facility is fully collateralized by assets held in a custodial account at The Bank of New York Mellon pledged in favor of Citibank Europe plc. Although the investment income derived from our assets while held in trust accrues to our benefit, the investment of these assets is governed by the terms of the letter of credit facility or the investment regulations of the state or territory of domicile of the ceding insurer, which may be more restrictive than the investment regulations otherwise applicable to us. The restrictions may result in lower investment yields on these assets, which may adversely affect our profitability.

As of December 31, 2018 and December 31, 2017, \$3,110.7 million and \$3,106.1 million, respectively, of cash and cash equivalents and investments were deposited, pledged or held in escrow accounts in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions and insurance laws.

In addition, as of December 31, 2018 and December 31, 2017, \$635.8 million and \$646.9 million, respectively, of cash and cash equivalents and investments were pledged as collateral for our credit facilities.

We do not currently anticipate that the restrictions on liquidity resulting from assets committed in trust accounts or to collateralize the letter of credit facilities will have a material impact on our ability to carry out our normal business activities.

vi. Identification of Ancillary Capital Instruments Approved by the Authority

Allied World Bermuda has no capital instruments that are approved by the Authority as Tier 2 ancillary capital.

vii. Identification of Differences in Shareholder’s Equity as stated in the Financial Statements versus Available Statutory Capital and Surplus

Other than the impact of employing statutory-based technical provision valuation techniques, significant differences between U.S. GAAP shareholder equity and available statutory capital and surplus include the adjustments in available statutory capital for goodwill and other intangible assets, prepayments and deferred taxes.

B. Regulatory Capital Requirements

i. ECR and MMS Requirements at the End of the Reporting Period

The following are the amounts of the ECR and MMS at the end of the reporting period:

	December 31, 2018	December 31, 2017
MMS	\$525.4	\$785.5
ECR	\$1,547.3	\$1,580.6

ii. Identification of any Non-Compliance with the MMS and the ECR

Allied World Bermuda was compliant with the MMS and ECR requirement at the end of the reporting period.

iii. Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and Their Effectiveness

Not applicable.

iv. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance

Not applicable.

C. Approved Internal Capital Model

Not applicable. Allied World Bermuda has not applied to have its internal capital model approved to determine regulatory capital requirements.

6. Subsequent Events

Not applicable.

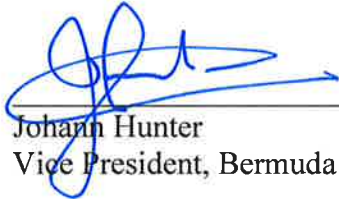
Declaration on Financial Condition Report

We declare that to the best of our knowledge and belief, as of April 30, 2019, this Financial Condition Report fairly represents the financial condition of the insurance group in all material respects.

ALLIED WORLD ASSURANCE COMPANY, LTD



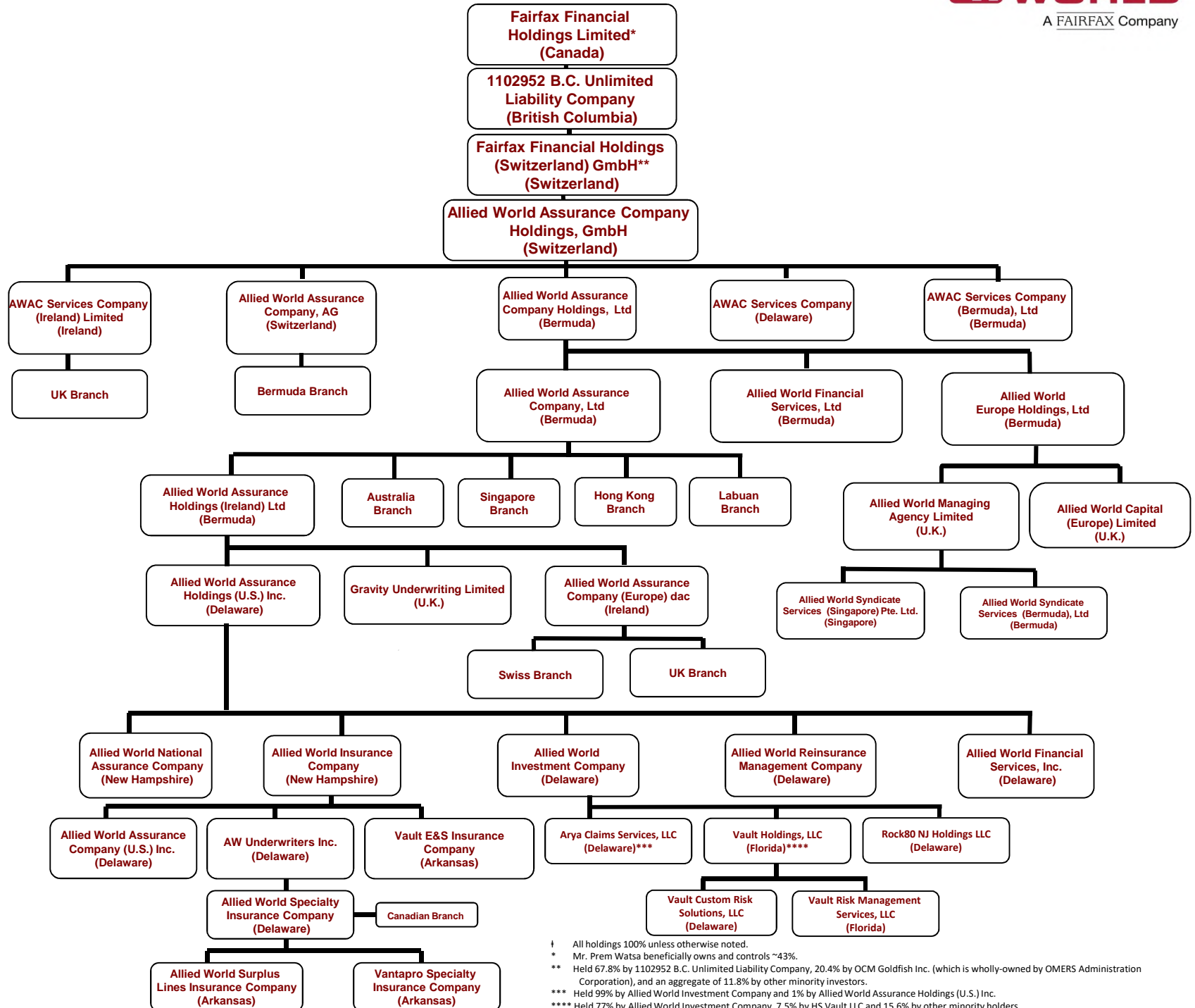
Colm Singleton
Head of Bermuda Office



Johann Hunter
Vice President, Bermuda Controller

Exhibit A
Organizational Chart

Organizational Chart[†] (as of September 5, 2018)



† All holdings 100% unless otherwise noted.
 * Mr. Prem Watsa beneficially owns and controls ~43%.
 ** Held 67.8% by 1102952 B.C. Unlimited Liability Company, 20.4% by OCM Goldfish Inc. (which is wholly-owned by OMERS Administration Corporation), and an aggregate of 11.8% by other minority investors.
 *** Held 99% by Allied World Investment Company and 1% by Allied World Assurance Holdings (U.S.) Inc.
 **** Held 77% by Allied World Investment Company, 7.5% by HS Vault LLC and 15.6% by other minority holders.