



**ALLIED WORLD ASSURANCE COMPANY (EUROPE) DAC**  
**SOLVENCY AND FINANCIAL CONDITION REPORT**  
**(FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2017)**

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## Overview

*References in this Solvency Financial Condition Report (this “Report”) to the terms “we,” “us,” “our,” the “Company” or other similar terms mean the operations of Allied World Assurance Company (Europe) dac, an Irish company authorized by the Central Bank of Ireland, unless the context requires otherwise. References to the term “Allied World Switzerland” means only Allied World Assurance Company Holdings, GmbH, and to the term “Allied World Group” means Allied World Switzerland and its subsidiaries. The Allied World Group is majority held by Fairfax Financial Holdings Limited (“Fairfax”). References to “\$” are to the lawful currency of the United States.*

*This Report has been compiled in accordance with the E.U. (Insurance and Reinsurance) Regulations 2015, the European Commission Delegated Regulation 2015 / 35 and the guidelines issued by the European Insurance and Occupational Pensions Authority (“EIOPA”) (collectively, the “Solvency II Regulations”).*

We will make available, free of charge through our website ([www.awac.com](http://www.awac.com)), this Report as soon as reasonably practicable after we electronically file our annual regulatory returns with the Central Bank of Ireland (the “Central Bank”). This Report has been reviewed and approved by the Board of Directors of the Company (the “Board”).

## Summary

### Company background:

We are an Irish incorporated company authorized by the Central Bank to conduct non-life insurance business pursuant to the E.U. (Insurance and Reinsurance) Regulations 2015. We, through our head office in Dublin and branch offices in the United Kingdom and Switzerland, provide innovative property, casualty and specialty insurance and reinsurance solutions to clients worldwide.

### Business and performance:

The Company reported gross premium written of \$149.2 million in 2017 compared to \$147.5 million in 2016 and an underwriting loss of \$13.5 million in 2017 compared to a loss of \$1.6 million in 2016. The 2017 underwriting result was impacted by Hurricanes Harvey, Irma and Maria (“HIM events”) whilst also including a \$6.7 million foreign exchange loss compared to a \$5.5 million gain in 2016. Net investment return for 2017 was \$26.6 million compared to \$13.0 million for 2016. Profit on operating activities after taxation for 2017 amounted to \$11.5 million compared to \$10.1 million in 2016. Further details on the Company’s performance in 2017 are included in Section A of this Report.

### System of governance:

The Board has ultimate responsibility for ensuring that the Company complies with applicable regulatory requirements. The Board has established an effective system of governance to ensure the sound and prudent management of the Company’s business. Further details on the Company’s system of governance are included in Section B of this Report.

### Risk profile:

Risks relevant to the Company’s business and operations are outlined in Section C of this Report. The primary risk for the Company is underwriting risk. We have established an effective enterprise risk management (“ERM”) framework that is integrated into the management of our business to manage and monitor relevant risks.

### Valuation for solvency purposes:

The Company reconciles the valuation of its assets and liabilities included in its statutory financial statements to those assets and liabilities produced in accordance with Solvency II Regulations. These reconciliations for the years ended December 31, 2017 and 2016 are reviewed in Section D of this Report.

### Capital management:

As at December 31, 2017, the Company’s solvency coverage ratio, solvency capital requirement (the “SCR”) and the minimum capital requirement (the “MCR”) were 392%, \$97.0 million and \$24.2 million respectively, compared with 478%, \$84.7 million and \$21.2 million as at December 31, 2016, respectively. As at December 31, 2017, the Company had



Tier 1 eligible own funds of \$380.4 million compared with \$404.8 million as at December 31, 2016.

Details on the composition of the SCR and Tier 1 eligible own funds are included in Section E of this Report.

Recent developments:

On July 6, 2017, Fairfax acquired the Company's then ultimate parent, Allied World Assurance Company Holdings, AG. As part of the acquisition, Allied World Assurance Company Holdings, AG merged with and into a subsidiary of Fairfax in accordance with Swiss law and under which the Fairfax subsidiary became the surviving entity and was renamed Allied World Assurance Company Holdings, GmbH. Allied World Assurance Company Holdings, GmbH is majority held by Fairfax.

Exit of United Kingdom from E.U. ("Brexit"):

As part of our Brexit contingency plans, we have continued to monitor developments in relation to Brexit, including guidance and consultation papers issued by the U.K. Prudential Regulation Authority (the "PRA") and guidance issued by EIOPA. We desire to retain our U.K. London branch office and it may become necessary to obtain a non-life insurance authorisation for this branch from the PRA to continue writing U.K. business post-Brexit. We have also provided updates to the Central Bank and the PRA on our Brexit contingency plans during 2017.

## A. Business and Performance

### A.1 Business

#### Company information:

The Company is a designated activity company with its registered office at 3<sup>rd</sup> Floor, Georges Quay Plaza, Georges Quay, Dublin 2, D02 E440, Ireland (Registration number: 361888). The Company's branch offices are located at 20 Fenchurch Street, 19<sup>th</sup> Floor, London EC3M 3BY, U.K. and Park Tower, 15<sup>th</sup> Floor, Gubelstrasse 24, 6300 Zug, Switzerland. The Company is authorised by the Central Bank (PO Box 559, New Wapping Street, North Wall Quay, Dublin 1).

The Company's immediate parent company is Allied World Assurance Holdings (Ireland) Ltd, a company incorporated in Bermuda. The Company's ultimate parent into which the results of the Company are consolidated is Fairfax.

#### Group supervisor:

The Delaware Department of Insurance (841 Silver Lake Blvd., Dover, DE 19904, U.S.A.) acts as the group supervisor for the Fairfax group of insurance subsidiaries, which includes the Allied World Group. In accordance with Delaware law, Fairfax files an annual group Own Risk Solvency Assessment and an annual Enterprise Risk Management Report. Fairfax prepares annual audited financials in accordance with Canadian International Financial Reporting Standards.

#### External auditor:

The Company's external auditor is PricewaterhouseCoopers, Chartered Accountants and Statutory Audit Firm (One Spencer Dock, North Wall Quay, Dublin 1, Ireland).

#### Our strategy:

Our business objective is to generate attractive returns on equity while preserving our capital. We seek to achieve this objective by executing the following strategies:

- *Capitalize on profitable underwriting opportunities.* Our management and underwriting teams are positioned to identify business with attractive risk/reward characteristics. We pursue a strategy that emphasizes profitability, not market share. Key elements of this strategy are prudent risk selection, appropriate pricing and adjusting our business mix to remain flexible and opportunistic. We seek ways to take advantage of underwriting opportunities that we believe will be profitable.
- *Exercise underwriting and risk management discipline.* We believe that we exercise underwriting and risk management discipline by: (i) maintaining a diverse spread of risk across product lines and geographic regions, (ii) managing our aggregate property

catastrophe exposure through the application of sophisticated modelling tools, (iii) monitoring our exposures on non-property catastrophe coverages, (iv) adhering to underwriting guidelines across our business lines and (v) fostering a culture that focuses on enterprise risk management and strong internal controls.

- *Employ a diversified investment strategy.* We believe that we follow a diversified investment strategy designed to emphasize the preservation of capital, provide adequate liquidity for the prompt payment of claims and generate a positive return. Our investment portfolio consists primarily of investment-grade, fixed-maturity securities of short-to medium-term duration.

#### Material lines of business and geographical areas:

We provide innovative property, casualty and specialty insurance and reinsurance solutions to clients worldwide.

- The focus of the direct insurance business is on mid-sized to large European and multinational companies domiciled outside North America, and smaller commercial clients within certain target European markets.
- The focus of the reinsurance business is predominantly on a medium- to short-tail global book of marine non-proportional reinsurance business, generally on a combined risk and catastrophe basis.

#### Distribution:

As a commercial insurer, we primarily offer products through independent insurance intermediaries, including retail brokerage firms and excess and surplus lines wholesale brokers. We typically pay a commission to agents and brokers for business that we accept from them. Due to a number of factors, including transactional size and complexity, the distribution infrastructure of the reinsurance marketplace is characterized by relatively few intermediary firms.

Certain of our products are also underwritten and distributed through third-party program administrators. Before delegating underwriting authority, we consider the integrity, experience and reputation of each program administrator, as well as the potential profitability of the business and availability of reinsurance. Once a program is established, we conduct regular ongoing reviews and audits of the program administrator and the claims administration if it has been outsourced. We do not believe that the loss of any one program or relationship with any one program administrator would have a material adverse effect on our business, and no single program accounts for 2% or more of our total revenues.

#### Significant events:

With the exception of the acquisition of Allied World Switzerland by Fairfax, Brexit and except as otherwise disclosed in this Report, there were no other significant business or other events that occurred during 2017 that had a material impact on the Company.



## A.2 2017 Performance

Gross premium written for 2017 were \$149.2 million, an increase of \$1.7 million from 2016, primarily due to an increase in our property writings during the year. Net premium written for 2017 were \$13.7 million compared with \$13.8 million for 2016. Ceded premium written for 2017 were \$135.6 million compared to \$133.7 million for 2016. The Company's ceded premium coverage ratio for 2017 remained unchanged from 2016 at 91%.

<b>Gross Premiums Written by Assured Country (\$ m's)</b>						
			<u>2017</u>	<u>2016</u>		
Ireland			8.6	6.0		
Other E.U. countries			107.1	102.9		
Other non-E.U. countries			33.5	38.6		
			<b>149.2</b>	<b>147.5</b>		

  

<b>2017 Underwriting Result by Line of Business (\$ m's)</b>						
	<u>Aviation</u>	<u>Property</u>	<u>Liability</u>	<u>Credit and surety</u>	<u>Treaty reinsurance</u>	<u>Total</u>
Gross premiums written	16.2	25.9	77.5	9.6	20.0	<b>149.2</b>
Gross earned premium	19.1	22.2	77.7	12.1	19.7	<b>150.8</b>
Gross operating expenses and acquisition costs	(6.4)	(10.6)	(32.6)	(4.9)	(6.6)	<b>(61.1)</b>
Gross movement in incurred claims	(14.4)	(4.9)	(10.3)	(23.2)	(19.0)	<b>(71.8)</b>
Outward reinsurance movements	0.6	(9.4)	(40.2)	13.2	4.4	<b>(31.4)</b>
Underwriting profit / (loss)	<b>(1.1)</b>	<b>(2.7)</b>	<b>(5.4)</b>	<b>(2.8)</b>	<b>(1.5)</b>	<b>(13.5)</b>

  

<b>2016 Underwriting Result by Line of Business (\$ m's)</b>						
	<u>Aviation</u>	<u>Property</u>	<u>Liability</u>	<u>Credit and surety</u>	<u>Treaty reinsurance</u>	<u>Total</u>
Gross premiums written	19.0	12.6	83.4	13.2	19.3	<b>147.5</b>
Gross earned premium	21.6	11.6	89.2	12.6	18.6	<b>153.6</b>
Gross operating expenses and acquisition costs	(6.5)	(2.9)	(25.7)	(5.0)	(8.8)	<b>(48.9)</b>
Gross movement in incurred claims	(24.8)	10.0	(40.7)	(11.1)	(6.9)	<b>(73.5)</b>
Outward reinsurance movements	8.2	(16.2)	(21.2)	1.8	(5.4)	<b>(32.8)</b>
Underwriting profit / (loss)	<b>(1.5)</b>	<b>2.5</b>	<b>1.6</b>	<b>(1.7)</b>	<b>(2.5)</b>	<b>(1.6)</b>

Net claims incurred in 2017 amounted to \$6.7 million compared to \$7.5 million in 2016, an improvement primarily driven by increased favourable prior accident year net loss reserve releases. However, the current year was impacted adversely by the HIM events with a \$1.5 million net loss.

Administrative expenses were \$31.5 million for 2017 compared to \$31.7 million for 2016. Included in administration expenses was \$4.0 million in connection with the acceleration of share-based payments as a result of the acquisition of Allied World Switzerland by Fairfax.

The result for the year included net acquisition income of \$16.9 million compared to \$17.4 million in 2016 and a foreign exchange loss of \$6.7 million compared to a gain of \$5.5 million in 2016 due to a weakening of the \$ against GBP£ and EUR€.

### A.3 Investment Performance

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. All assets are invested in accordance with the “prudent person principle” as required under Regulation 141 of the Solvency II Regulations. The majority of assets in our investment portfolio are invested in investment-grade, fixed-maturity securities of short-to medium-term duration.

Net investment return for 2017 was \$26.6 million compared to \$13.0 million for 2016. The improved return was due to an increase in unrealized gains and a decrease in realized losses for the year compared to 2016.

<b>2017 Investment Performance (\$ m's)</b>			
	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>Variance %</u></b>
Income from financial investments	15.7	16.6	-5.4%
Realized (losses) on financial investments	(0.1)	(5.9)	98.3%
Unrealized gains on financial investments	11.5	2.6	342.3%
Investment expenses	(0.4)	(0.3)	-25.0%
Net investment return	<b>26.7</b>	<b>13.0</b>	<b>105.4%</b>

  

<b>2017 Investment Performance (Gross) - by Asset Class (\$ m's)</b>			
	<b><u>Average market value</u></b>	<b><u>Portfolio return</u></b>	<b><u>Portfolio return%</u></b>
Government bonds	79.3	4.5	5.7%
Corporate bonds	16.9	0.6	3.6%
Collective investments undertakings	5.7	0.2	3.5%
Collateralized securities	23.6	0.7	3.0%
Loans and mortgages	253.6	21.1	8.3%
	<b>379.1</b>	<b>27.1</b>	<b>7.1%</b>

<b>2016 Investment Performance (Gross) - by Asset Class (\$ m's)</b>			
	<u>Average market value</u>	<u>Portfolio return</u>	<u>Portfolio return%</u>
Government bonds	69.3	(3.0)	-4.3%
Corporate bonds	28.9	0.9	3.1%
Collateralized securities	47.7	1.4	2.9%
Loans and mortgages	250.0	14.0	5.6%
	<b>395.9</b>	<b>13.3</b>	<b>3.4%</b>

Loans and mortgages represent a promissory note held by the Company. Annual investment income on this promissory note is approximately \$21.0 million.

#### A.4 Performance of other activities

##### Operating expense, acquisition costs and foreign exchange:

<b>Operating Expenses and Acquisition Costs (\$ m's)</b>		
	<u>2017</u>	<u>2016</u>
Acquisition costs	23.3	22.6
Change in deferred acquisition costs	(0.4)	0.2
Administrative expenses	31.5	31.6
Foreign exchange loss / (gain)	6.7	(5.5)
Gross operating and acquisition costs	<b>61.1</b>	<b>48.9</b>
Reinsurers share of broker commissions	(39.8)	(40.2)
<b>Net operating and acquisition costs</b>	<b>21.3</b>	<b>8.7</b>

Acquisition costs, comprised of commissions, brokerage fees and insurances taxes, are costs that are directly related to the acquisition of new and renewal business. Deferred acquisition costs are expensed as the premiums to which they relate are earned.

Administrative expenses represent the necessary costs to maintain the Company's daily operations and administer its business and primarily consist of compensation expenses, building (rent and related) expenses and professional fees.

##### Lease commitments:

The Company leases office space in Dublin and London; it also sublets office space at its London office. Administrative expenses for the year ended December 31, 2017 included \$2.6 million of lease-related expenses (2016: \$2.6 million).

## B. System of Governance

### B.1 General information on the system of governance

Our corporate governance framework is reflective of the nature, scale and complexity of the Company's business and complies with the Central Bank's Corporate Governance Requirements for Insurance Undertakings 2015 and the system of governance requirements of the Solvency II Regulations.

#### Board of Directors:

The Board is the ultimate administrative, management and supervisory body of the Company and is responsible for determining the mission, vision, values and culture of the Company, while ensuring that appropriate controls and procedures are maintained by the Company. The Board is also responsible for the effective, prudent and ethical oversight of the Company and is ultimately responsible for ensuring that risk and compliance are properly managed in the Company. The following individuals are members of the Board:

- Mr. Lee Dwyer, Managing Director
- Mr. Sean Hehir, independent non-executive director
- Mr. Scott Hunter, independent non-executive director
- Mr. Neil Macmillan, independent non-executive director
- Mr. Jim O'Mahoney, independent non-executive director and Chairman of the Board

#### Audit Committee:

The Board has established an Audit Committee, which is comprised of three independent non-executive directors that satisfy the director independence criteria of the Central Bank. The primary purposes of the Audit Committee are to assist the Board with the oversight of the integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements; and the performance of the Company's internal audit function and external auditor. The following individuals are members of the Audit Committee:

- Mr. Sean Hehir, Chairman
- Mr. Scott Hunter
- Mr. Neil Macmillan

### Management Committees:

The Company has also established a number of management-based committees, including the Executive Management Committee, the Underwriting Committee, the Loss Reserve Committee, the Risk Management Committee, and the Operations Committee.

### Key functions:

Each of the Company's key control functions (*i.e.*, the compliance, internal audit, risk management and actuarial functions) has the necessary authority, resources and operational independence to carry out their tasks and operate in accordance with the Solvency II Regulations. Each of the Company's key functions periodically reports to the Board.

### Remuneration:

The Company's Remuneration Policy confirms the policies, practices and procedures applicable to the remuneration of the employees and directors of the Company. The Company's remuneration practices do not promote excessive risk taking.

- Executive compensation philosophy and goals are set by the board of directors of Allied World Switzerland.
- The non-executive directors of the Board annually receive a fixed standard market fee for their director services. Executive directors are not compensated for their director services and are not otherwise involved in deciding their own compensation as employees.
- The pool for base salary increases is set annually during the budgeting process. Promotions, market adjustments and cases of exceptional performance supporting a base salary change beyond the merit pool are considered on a case-by-case basis.
- The funding available for an employee's discretionary cash bonus is generally derived from three components: corporate performance, department performance and individual performance.
- The weight of each component toward the whole is tied to the employee's relative level within the Company. The highest level employees have bonuses more heavily weighted toward corporate results, as their positions are of broader leverage and scope, and they are in a position to most directly influence overall performance. Staff level contributors have the majority of their bonus tied to individual performance, since these positions tend not to be of broad enough scope to influence overall results.
- In addition, the board of directors of Allied World Switzerland determines on an annual basis what percentage of an individual's award will be granted in the form of either Fairfax equity or cash. Equity awards generally vest 100% on the fifth anniversary of the grant date.

### Directors' remuneration:

Directors' fees were \$0.2 million for each of the years ended December 31, 2017 and 2016.

### Related party transactions:

There were no related-party transactions outside the ordinary conduct of business during the years ended December 31, 2017 and 2016.

## B.2 Fit and proper requirements

The Company's Fitness and Probity Policy provides that each person appointed to a position that is designated by the Central Bank as a controlled function or pre-approval controlled function (a "PCF") must satisfy the standards of fitness and probity prescribed by the Central Bank. All such appointments are made following the successful completion of the Company's fitness and probity assessment process, which includes background checks, and assessments of competency, character and financial soundness, among others. Each PCF appointment requires the prior approval of the Board and the Central Bank.

## B.3 Risk management system including the own risk and solvency assessment

### Risk management system:

Although the assumption of risk is inherent in our business, we believe that we have developed a strong ERM that is integrated into the management of our business. Our ERM framework consists of numerous systems, processes and controls designed by our senior management, with oversight by our management-based Risk Management Committee and the Board, and implemented across the Company to identify, quantify, monitor and, where possible, mitigate internal and external risks that could materially impact our operations, financial condition and reputation.

The key elements of our ERM framework include the:

- Risk strategy and governance framework;
- Risk Register;
- Risk appetites and tolerances (and relevant monitoring procedures);
- Risk policies;
- Own risk and solvency assessment (the "ORSA") policy, procedures and reports;
- Standard formula model (per the Solvency II Regulations) (the "SFM"), which is used to determine regulatory solvency capital requirements; and

- Economic capital model (the “ECM”), which is used to assess economic capital needs and for risk based decision-making.

Our ERM framework supports our Company-wide, risk based, decision-making processes by providing reliable and timely risk information. Our primary ERM objectives are to ensure the sustainability of the Company and to maximize our risk-adjusted returns on capital. Our ERM framework is a dynamic process, with periodic updates being made to reflect organisational processes, changes in risk profiles and recalibration of models, as well as staying current with changes within our industry and the global economic environment. Utilising the ECM, the SFM and the ORSA, we review the relative interaction between risks impacting us from various sources, including our underwriting practices and the investments we make.

Our management’s ERM efforts are overseen by the Board, which reviews and recommends the overall Company-wide risk appetite as well as overseeing management’s compliance therewith. The Board reviews our risk management methodologies, standards, tolerances and risk strategies, and reviews management’s processes for monitoring and aggregating risks across our organisation.

Implementation of risk management system:

The output from the ERM framework, including the ECM and regulatory solvency assessments using the SFM, are integrated into the management and strategic decision-making processes as follows:

- Determining the appropriate amount of capital to be held and allocating risk-adjusted capital to the business unit level in order to deploy capital to business units which provide greatest risk-adjusted return;
- Quarterly reporting and monitoring of risk profile – reviewing distributions by risk category and comparing against risk tolerance statements;
- Completing ORSAs;
- Evaluating the impact of potential changes to the Company’s outwards reinsurance purchases;
- Evaluating new product opportunities and significant merger and acquisition opportunities;
- Internal strategic asset allocation studies; and
- Assessing risk-based rates of return for pricing certain types of business.

### The ORSA process:

The ORSA is a top-down strategic analysis process that integrates risk management, capital management and strategic planning to determine the current and future capital requirements of the Company. The output of the process provides the Company with a view of own solvency needs in the form of an annual report that is submitted to and approved by the Risk Management Committee and the Board, and filed with the Central Bank. Quarterly updates are submitted to the Risk Management Committee and the Board. The 2017 ORSA:

- Confirmed the Company's continuous compliance with capital requirements under the Solvency II Regulations, and that the rules relating to technical provisions under Solvency II Regulations have not been breached.
- Is premised upon a forward-looking assessment of the risks to which the Company is exposed and associated required level of capital to meet its liabilities and fulfil its business objectives/strategy.
- Utilized a quantitative view of the Company's modelled solvency needs using the SFM, which was supplemented by a qualitative description of risks, where appropriate.
- Confirmed that the Company has sufficient information to identify the risks it faces in the short and long term and to be able to project capital needs over the business planning period. The agreed projections reflect likely changes in the risk profile and business strategy over the planning period.
- Demonstrated that the Company had sufficient capital and realistic plans in place to raise more in relation to the proposed business plan (should such need arise). In conducting this assessment, the quality, volatility and loss-absorbing capacity of the Company's own funds were considered.

The Company completes an ORSA annually and will also complete an ORSA without delay following any significant change in its risk profile. During 2017, there were no material changes to the Company's business and performance, systems of governance, risk profile, asset and liabilities valuations required under the Solvency II Regulations and capital management. It was determined that the acquisition of the Allied World Group by Fairfax did not necessitate producing an updated ORSA.

### Determining own solvency needs:

The Company's regulatory solvency capital requirement is determined using the SFM and its economic capital needs are based on the modelled output of the ECM. The Risk Management Committee reviews various aspects of the ECM and the SFM, including any material changes to the relevant capital modelling processes and the modelled output each quarter, along with standard risk monitoring output. Both the ECM and the SFM are subject



to a regular cycle of validation, including the validation of key methodologies and assumptions.

#### B.4 Internal controls system

Our internal controls system is a critical component for the safe and sound operation of the Company, and comprises a coherent, comprehensive and continuous set of mechanisms designed to secure at least the following:

- The Company operates effectively and efficiently, and within agreed risk tolerances, as it pursues its objectives;
- Availability and reliability of financial and non-financial information; and
- Compliance with applicable laws and regulations.

We have implemented both entity-wide and process-specific control procedures that help management ensure that the day-to-day operations are appropriately controlled. A mix of internal controls is required to ensure a robust internal controls environment throughout the Company. 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.

Management is responsible and assumes ownership of the internal controls system. They set the “tone at the top” for integrity and ethics and ensuring a positive control environment and also assign responsibility for the establishment of specific internal controls procedures. Management is accountable to the Board, which provides guidance and oversight. The Board, coupled with effective upward communication channels and capable financial, legal, risk management, actuarial, claims, human resources and internal audit functions, is a key element of our robust internal controls system.

#### Compliance function:

The Company’s compliance function promotes an organizational culture committed to integrity, ethical conduct and compliance with the law, and sets standards, policies and procedures that provide reasonable assurance that the Company achieves its financial, operational and strategic objectives consistent with its compliance obligations. In support of that mission, the compliance function:

- Works proactively with business partners to develop policies, procedures and processes that enable the Company to achieve its strategic objectives in a manner consistent with its ethical standards and applicable law;

- Drives the organization toward a business culture that builds and actively promotes compliance and encourages and requires employees to conduct business with honesty and integrity in an ethical and law-abiding fashion;
- Promotes open and free communication regarding the Company's ethical and compliance obligations, including mechanisms that allow for anonymity or confidentiality so that the organization's employees may report or seek guidance regarding potential or actual wrong-doing without fear of retaliation;
- Provides training and guidance regarding applicable laws, regulations and the Company's policies, and clearly communicate ethical guidance;
- Identifies compliance risks affecting the Company and works to minimize those risks;
- Prevents or promptly detects and resolves issues of misconduct or non-compliance to the extent possible; and
- Takes whatever steps may reasonably be necessary to enhance and protect the Company's reputation for integrity and ethics throughout its business community.

## B.5 Internal audit function

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 Audit Committee 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.

## B.6 Actuarial function

The Company's actuarial function is responsible for co-ordinating the calculation of technical provisions in accordance with Solvency II:

- Ensuring the appropriateness of the methodologies, underlying models and assumptions made in the calculation of technical provisions;
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions; and
- Providing the Board with an annual actuarial opinion on technical provisions and an actuarial report thereon.

The head of the actuarial function also provides the Board with an annual opinion on the Company's underwriting policy and reinsurance arrangements, and also contributes to the Company's risk management system, particularly with respect to the risk modelling underlying the calculation of capital requirements. The head of the actuarial function also provides the Board with an actuarial opinion on the Company's annual ORSA. The Board also receives an annual actuarial function report, which summarises key aspects of each of these deliverables.

On a quarterly basis, the actuarial function reports on the loss reserve balances and any significant developments to the Company's Loss Reserve Committee (a management committee) and the Audit Committee.

## B.7 Outsourcing

The Company's Outsourcing Policy applies to services arrangements established by the Company with third parties and relevant subsidiaries of Allied World Switzerland. 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 Company when functions or activities are outsourced. The Outsourcing Policy also sets out the procedures to be followed when establishing services arrangements, including arrangements that relate to the performance of the following key functions or core business of the Company (*e.g.*, actuarial, risk management, internal audit, compliance, new product development, underwriting, investment management and claims handling).

Contemplated outsourced services arrangements, in particular for core functions, will not proceed unless certain preconditions have been met, including that the system of governance of the Company will remain effective; the operational risk of the Company will not be unduly increased; the ability of any relevant supervisory authority to monitor the compliance of the Company with its legal and regulatory obligations will not be impaired; and the continuous and satisfactory service to policyholders will be maintained.

The Company retains responsibility for all outsourced functions, processes, services and activities performed in accordance with established services arrangements.

The following functions are fully outsourced to subsidiaries of Allied World Switzerland and Fairfax: internal audit (AWAC Services Company (Ireland) Limited (“AWS Ireland”)), investment management (AWAC Services Company (“AWS U.S.”), Hamblin Watsa Investment Counsel Ltd. and Fairfax) and information technology (AWS Ireland and AWS U.S.). Pursuant to relevant intra-group services agreements, certain of the Company’s functions receive support from individuals and/or teams employed by certain subsidiaries of Allied World Switzerland.

#### [B.8 Any other information](#)

The Company has assessed the adequacy of its system of governance and has concluded that it provides for the sound and prudent management of its business, and that it is proportionate to the nature, scale and complexity of the risks inherent in the Company’s business.

## C. Risk Profile

The Company utilises various tools to assist in the identification and assessment of risks in order to provide the Company with a holistic view of its risk profile and enable the organisation to assess the relationships between material risks.

### C.1 Underwriting risk

Underwriting risk is the risk of fluctuations in benefits payable to policyholders and cedents, and includes:

- Premium risk, which is the risk that non-catastrophe related losses are greater than expected. The Company monitors premium risk by assessing the results of stress tests and scenarios and modelled output from the ECM.
- Catastrophe risk, which is the risk that a single natural catastrophe event (or series of such events) of significant magnitude, usually over a short period of time, leads to a significant deviation in actual claims from the total expected claims. Catastrophe risk is also a source of concentration risk for the Company. Catastrophe risk is monitored by assessing the Company's aggregate probable maximum losses ("PMLs") and aggregate risk exposures against the risk appetites and tolerances set by the Board.
- Reinsurance risk is the inability of the Company to obtain reinsurance coverage at a reasonable cost. Outwards reinsurance is utilised by the Company to mitigate underwriting risk, in particular catastrophe risk, by transferring such risk to third-party reinsurers.

The business planning process assists with the management and mitigation of underwriting risk by:

- Using underwriting authorities and guidelines to avoid writing risks outside of the Company's risk appetite;
- Setting geographic and class premium volume limits to ensure diversity within the Company's risk portfolio;
- Using the ECM to model returns on capital employed to manage risk versus reward; and
- Using pricing models (which are independently developed by pricing actuaries and consider trends, macroeconomic variables, market cycle fluctuations, regulatory and judicial changes and other variables) to manage price adequacy and underwriting risk.

Reserve risk: Reserve risk is the risk that actual losses and related expenses exceed estimated losses and loss reserves are inadequate. Reserve risk is monitored using the ECM, which incorporates stochastic loss reserving techniques to assess potential deteriorations in loss reserves.

## C.2 Market risk

Market risk is the risk of fluctuations in the value of or income from invested assets, including fluctuations due to movements in interest rates, foreign exchange rates, credit spreads, credit defaults and/or equity volatility. The Company's assets are invested in accordance with the "prudent person principle" as required under Regulation 141 of the Solvency II Regulations.

The Company has primarily invested in investment-grade, fixed-maturity securities of short-to medium-term duration. The Company's primary market risk stems from fluctuations in interest rates, which is monitored using the ECM and also by assessment of stress tests and scenarios.

The Company has a multicurrency investment portfolio and associated currency risk is mitigated by reviewing the Company's assets and liabilities and matching these by currency where possible.

## C.3 Credit risk

Credit risk is the risk that payments due to the Company from third parties are not made in accordance with contractual and regulatory-required deadlines (*e.g.*, the Company's third-party reinsurers and insurance brokers are unable to pay claims and premiums, respectively). Credit risk is managed by ensuring there is no significant concentration risk with any one or small group of contractual counterparties and by monitoring the credit rating of its material contractual counterparties, including all third-party reinsurers.

## C.4 Liquidity risk

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations as they fall due or can only make such payments at an excessive cost.

The expected profit included in future premiums as at December 31, 2017 is \$12.2 million compared to \$12.8 million as at December 31, 2016.

## C.5 Operational risk

Operational risk is the loss resulting from inadequate or failed internal processes, people and systems. It also includes legal risks that arise from failure to comply with relevant laws or regulations and risks arising from inadequate contingency plans as addressed in business continuity plans.

## C.6 Other material risks

Other material risks are group and strategic risk. Group risk is the adverse impact on the Company as a result of corporate group interactions and/or reputation. Strategic risk arises from the inability to implement or achieve appropriate business plans and/or strategy.

### Risk concentrations:

As detailed in the underwriting risk section, catastrophe risk underwritten by the Company is a source of concentration risk and is mitigated using outwards reinsurance and managed by regular management reviews of the PMLs.

With the exception of certain intra-group reinsurance agreements and a promissory note issued by an affiliate of the Company, there are no other incidences of material risk concentration.

### Risk mitigation:

We use three forms of risk mitigation: (1) avoidance of risk, (2) transference of risk (*e.g.*, reinsurance purchasing), and (3) limitation of risk (*e.g.*, setting risk appetite limits and tolerances, and establishment of risk controls, etc.).

### Risk scenarios and stress testing:

The Company assesses risk scenarios and the results of risk stress testing, including reverse stress and sensitivity tests. The Company maintains a list of internal risk scenarios that could have a significant impact to the value of the Company. The risk scenarios are reviewed regularly, and the impact to the Company is calculated at least annually or more frequently if there are significant changes to the Company's risk profile. The impact across multiple risk categories and lines of business is considered when determining the value for each scenario.

During 2017, 18 scenarios and stress tests were identified, four of which related to large natural catastrophes that could impact multiple lines of business simultaneously and another four involved sensitivity tests in relation to future premium income and expected loss ratios. The scenario and stress tests performed included the assessment of the potential impact of an underestimation of initial expected loss ratio for liability business; a repeat of the historic catastrophe losses suffered by the industry in 1990; exposures for which there is no market-recognised third-party vendor catastrophe model; an underestimation of loss reserves; impact of default of material reinsurers; necessary liquidity to pay claims as a result of unexpected increases in the value of claims; and Allied World Switzerland and its subsidiaries becoming insolvent.

The results of the scenario and stress tests were in line with expectation and within approved risk appetite and tolerances, and considered, where relevant, future management actions. Results did not require changes to the Company's risk strategy and/or mitigation arrangements and the Company's solvency ratio coverage remained above the prescribed threshold.

## D. Valuation for Solvency Purposes

### D.1 Assets

Balance sheet extract (in \$) December 31, 2017 and December 31, 2016:

<b>Balance Sheet – Assets (\$ m's)</b>				
	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>Solvency II</u>	<u>Statutory</u>	<u>Solvency II</u>	<u>Statutory</u>
	<u>value</u>	<u>accounts</u>	<u>value</u>	<u>accounts</u>
	<u>value</u>	<u>value</u>	<u>value</u>	<u>value</u>
<b>Assets</b>				
Deferred acquisition costs	-	13.2	-	12.1
Property, plant and equipment held for own use	6.9	6.9	8.1	8.1
Investments (other than assets held for index-linked and unit-linked contracts)	134.4	134.0	106.0	105.6
<i>Government Bonds</i>	<i>117.9</i>	<i>117.6</i>	<i>41.2</i>	<i>41.1</i>
<i>Corporate Bonds</i>	<i>9.7</i>	<i>9.6</i>	<i>24.4</i>	<i>24.2</i>
<i>Collateralised securities</i>	<i>6.9</i>	<i>6.9</i>	<i>40.4</i>	<i>40.3</i>
Collective investments undertakings	5.7	5.7	-	-
Loans and mortgages	271.1	257.1	264.0	264.0
Reinsurance recoverables from non-life excluding health	368.8	511.7	355.1	501.3
Insurance and intermediaries receivables	17.1	55.2	11.5	52.3
Reinsurance receivables	30.3	23.4	33.2	22.2
Receivables (trade, not insurance)	5.4	5.4	10.5	10.5
Cash and cash equivalents	17.5	17.5	24.7	24.7
Any other assets, not elsewhere shown	0.8	15.2	1.04	1.4
<b>Total assets</b>	<b>858.1</b>	<b>1,045.3</b>	<b>814.2</b>	<b>1,002.2</b>

The Company's financial statements have been prepared in accordance with the provisions of the Companies Acts 2014 and FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and FRS 103 "Insurance Contracts" ("FRS 103") issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland.

The Company recognised and valued assets and liabilities for Solvency II purposes in accordance with FRS 102 and FRS 103 valuation methods. Valuations above are consistent with the Solvency II Regulations with the exception of "Property, plant and equipment held



for own use” (“PP&E”), which is valued at cost less depreciation and impairment. Given the nature and age of PP&E, using the revaluation model under the Solvency II Regulations would not result in a materially different valuation.

All investments are carried at fair value. Differences arising between the Solvency II Regulations and the Company’s statutory position are due to the inclusion of accrued interest for Solvency II valuation. For statutory purposes, accrued interest is included in other assets.

Investments in government bonds, corporate bonds, collateralized securities, collective investment undertakings and loans and mortgages are valued at fair value. Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm’s length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Company applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions may generate different results. Fair values are subject to a control framework designed to ensure that input variables and output are assessed independently of the risk taker.

#### Solvency II versus statutory valuation of assets:

As part of the revised methodologies for calculating Solvency II technical provisions, a number of items on our balance sheet are adjusted for from a statutory perspective:

- Deferred acquisition costs are not recognised under the Solvency II Regulations but instead future cash flows from acquisition costs are incorporated into the Solvency II technical provisions; and
- A portion of insurance and intermediary’s receivables are incorporated into the Solvency II technical provisions calculation based on expected cash flows and due dates.

As a result of the aforementioned cash flow adjustments in respect of the Solvency II technical provisions, certain reinsurance balances have been reclassified.

Outside of factors outlined in Section D2, which addresses technical provisions, there are no other sources of uncertainty relevant to the valuation of the Company’s assets.

## D.2 Technical provisions

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. In addition, there is a risk margin to reflect the uncertainty inherent 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 EIOPA for each reporting period.

The technical provisions include a claims provision, a premium provision and a risk margin:

- The claims provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to claim events prior to the valuation date,
- The premium provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums due) relating to future exposure arising from policies under which the (re)insurer is obligated at the valuation date, and
- The risk margin is intended to be the balance that another (re)insurer taking on the liabilities at the valuation date would require over and above the best estimate. It is calculated using a cost-of-capital approach.

The claims and premium provisions are calculated both gross and net of outwards reinsurance. The risk margin is calculated net of reinsurance.

The best estimate for the premium provision is calculated by using the unearned element of premium on an Irish GAAP basis, adjusting for bound but not incepted business as at 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.

The best estimate for the loss and loss expense provision is calculated in accordance with accounting principles generally accepted in Ireland (“Irish GAAP”) and FRS 103. Loss reserves calculated applying Irish GAAP (the “GAAP Reserves”) form the starting point for the calculation of the technical provisions required under the Solvency II Regulations and, as part of this process, the GAAP Reserves are subjected to a series of adjustments, including removal of prudence margins; incorporation of expected reinsurance counterparty defaults; incorporation of events not in data; other adjustments related to consideration for expenses, etc.; and discounting of cash flows.

The level of uncertainty associated with technical provisions is the extent to which future cash flows can be estimated. There is the inherent uncertainty in insurance claims that historical experience will not be entirely predictive of future claims:

- Such uncertainty is higher for longer-tailed lines of business. Direct and assumed liability lines take longer to develop and are, therefore, more susceptible to this type of uncertainty; specifically, excess casualty and professional lines.
- The selection of Initial Expected Loss Ratios (“IELR”) which are largely based on the Company’s pricing assumptions expectations and experience to date are also a key area of uncertainty.

There is also a certain level of uncertainty associated with outside factors such as changes in the market conditions, interest rates, litigation patterns and outcomes, etc.

The Company does not apply the matching adjustment; the volatility adjustment; the transitional risk free interest rate term structure; and the transitional deduction as outlined in the Solvency II Regulations.

The following table shows the Company’s GAAP Reserves compared to the technical provisions as at December 31, 2017 and December 31, 2016:

<b>Irish GAAP Reserves to Solvency II Technical Provisions as at December 31 (\$m's)</b>		
	<u>2017</u>	<u>2016</u>
<b>Irish GAAP reserves</b>	<b>36.4</b>	<b>31.3</b>
Margin included in Irish GAAP reserves	(5.7)	(5.6)
Future premiums	(11.3)	(14.9)
Legally obliged business	(4.1)	(3.7)
ULAE	0.1	0.2
Non-ULAE	3.4	3.6
Bad debt	1.2	3.0
Binary events	0.7	0.6
Discounting	(2.6)	(2.5)
<b>Total Solvency II best estimate - net</b>	<b>18.1</b>	<b>12.0</b>
Solvency II risk margin	7.9	4.7
<b>Solvency II Technical provisions - total</b>	<b>26.0</b>	<b>16.7</b>

As at December 31, 2017 and December 31, 2016, the Solvency II technical provisions were as follows:

Technical Provisions as at December 31, 2017 (\$m's)				
SII line of business	Total best estimate - gross	Total best estimate - net	<u>Risk margin</u>	Technical provisions - total
<i><u>Direct business and accepted proportional reinsurance</u></i>				
Marine, aviation and transport insurance	3.3	(1.1)	0.8	(0.3)
Fire and other damage to property insurance	7.1	0.3	0.8	1.1
General liability insurance	284.6	18.7	3.9	22.6
Credit and suretyship insurance	18.2	(2.4)	0.5	(1.9)
<i><u>Accepted non-proportional reinsurance</u></i>				
Non-proportional casualty reinsurance	15.9	1.0	0.2	1.2
Non-proportional marine, aviation and transport reinsurance	55.1	5.1	1.4	6.5
Non-proportional property reinsurance	2.7	(3.5)	0.3	(3.2)
	<b>386.9</b>	<b>18.1</b>	<b>7.9</b>	<b>26.0</b>
Technical Provisions as at December 31, 2016 (\$m's)				
SII line of business	Total best estimate - gross	Total best estimate - net	<u>Risk margin</u>	Technical provisions - total
<i><u>Direct business and accepted proportional reinsurance</u></i>				
Marine, aviation and transport insurance	7.5	(0.7)	0.3	(0.4)
Fire and other damage to property insurance	4.5	(0.6)	0.4	(0.2)
General liability insurance	276.0	19.9	2.5	22.4
Credit and suretyship insurance	11.3	(4.0)	0.3	(3.7)
<i><u>Accepted non-proportional reinsurance</u></i>				
Non-proportional casualty reinsurance	18.8	(0.1)	0.1	0.0
Non-proportional marine, aviation and transport reinsurance	43.9	0.4	0.8	1.2
Non-proportional property reinsurance	5.1	(2.9)	0.3	(2.6)
	<b>367.1</b>	<b>12.0</b>	<b>4.7</b>	<b>16.7</b>

The Company recovered \$56.3 million under reinsurance contracts during 2017 compared to \$92.0 million in 2016, the majority of which was recovered from a related group entity. There have been no material changes in the relevant assumptions used in the calculation of the technical provisions from December 31, 2016 to December 31, 2017.

### D.3 Other liabilities

Balance sheet extract (in \$) December 31, 2017 and December 31, 2016:

<b>Balance Sheet – Liabilities (\$m's)</b>				
	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>Solvency II value</u>	<u>Statutory accounts value</u>	<u>Solvency II value</u>	<u>Statutory accounts value</u>
<b>Liabilities</b>				
Technical provisions – best estimate	386.9	556.4	367.1	538.0
Technical provisions – risk margin	7.9	-	4.7	-
Deferred tax liabilities	2.5	0.3	2.8	0.4
Insurance and intermediaries payables	3.3	3.3	2.2	2.2
Reinsurance payables	10.5	25.2	4.0	15.0
Payables (trade, not insurance)	26.6	26.6	28.6	28.6
Any other liabilities, not elsewhere shown	-	23.2	-	22.5
<b>Total liabilities</b>	<b>437.7</b>	<b>635.0</b>	<b>409.4</b>	<b>606.7</b>

#### Solvency II versus statutory valuation of liabilities:

As part of the revised methodologies for calculating Solvency II technical provisions, a number of items on our balance sheet have been adjusted from a statutory perspective:

- Reinsurance payables were adjusted to account for future cash flows and their effect on technical provisions;
- Ceded deferred acquisition income was not recognised under the Solvency II Regulations but instead future cash flows from acquisition income were incorporated into the technical provisions; and
- As a result of changes to the balance sheet after applying principles of the Solvency II Regulations, the Company has recognised an additional deferred tax liability.

There are no liabilities included in respect of pension-related employee benefits or leasing arrangements.

Outside of factors outlined in Section D2, which addresses technical provisions, there are no other sources of uncertainty relevant to the valuation of the Company's liabilities.



#### D.4 Alternative methods for valuation

Unless otherwise stated, the Company does not use any alternative methods for valuation.

#### D.5 Any other information

N/A

## E. Capital Management

### E.1 Own funds

The Company's capital management process is governed by its Capital Management Policy, which confirms the key components of, and the roles and responsibilities of directors, officers and employees with respect to, the management of the Company's capital. The Company seeks at all times to hold sufficient capital to meet its current and projected business activities, and to comply with all applicable laws and regulation. The Capital Management Policy sets out the Company's approach to:

- Classification of capital items used to meet its solvency capital requirements;
- Capital management, including monitoring and reporting procedures;
- Medium-term capital plans; and
- Dividend distributions.

Furthermore, the Company's medium-term capital plans reflect projected capital requirements as set out in the ORSA. The Board reviews material changes to the Company's capital position, including any issuance, distribution or maturity of any element of the own funds.

Own funds are comprised as follows:

<b>Own Funds (\$ m's)</b>		
	<b><u>2017</u></b>	<b><u>2016</u></b>
Ordinary share capital	10.0	10.0
Reconciliation reserve	17.1	44.8
Other own fund items approved by the supervisory authority as basic own funds *	353.3	350.0
<b>Basic own funds</b>	<b><u>380.4</u></b>	<b><u>404.8</u></b>
<b>Reconciliation reserve:</b>		
Statutory retained earnings brought forward	35.5	65.4
Profit on ordinary activities after taxation for the financial year	11.5	10.1
Solvency II reconciliation reserve	10.1	9.3
Dividends paid during the financial year	-	(40.0)
Foreseeable dividend	(40.0)	-
	<b><u>17.1</u></b>	<b><u>44.8</u></b>

\* A capital cash contribution of \$3.3 million was made to the Company in connection with the acceleration of share-based payments as a result of the acquisition of Allied World Switzerland by Fairfax.

The eligible amount of own funds to cover the SCR and the Minimum Capital Requirement (“MCR”) is \$420.4 million. This balance is comprised entirely of Tier 1 basic own funds and is consistent with the prior year.

The Company has not recognised a deferred tax asset on the loss absorbing capacity of technical provisions.

The following table reconciles the differences (reconciliation reserve) between the equity in the financial statements and the excess of the assets over liabilities as calculated in accordance with the Solvency II Regulations.

<b>Reconciliation of Basic Own Funds to the Financial Statements (\$ m's)</b>		
	<u>2017</u>	<u>2016</u>
<b>Total equity in financial statements</b>	410.3	395.5
Deduct items not recognised in financial statements:		
<i>Difference in the valuation of technical provisions</i>	12.3	11.8
<i>Difference in the valuation of other liabilities</i>	(2.2)	(2.5)
<b>Solvency II – Excess of assets over liabilities</b>	<b>420.4</b>	<b>404.8</b>
Foreseeable dividend*	(40.0)	-
<b>Solvency II - Basic own funds</b>	<b>380.4</b>	<b>404.8</b>

\* On April 27, 2018, the Board approved a dividend of \$40.0 million. This dividend reduced the Company’s Tier 1 eligible own funds from \$420.4 million to \$380.4 million and the solvency coverage ratio from 434% to 392%.

Consistent with the position in the prior year, none of the Company’s own funds are subject to transitional arrangements, and the Company has no ancillary own funds. No deductions are applied to own funds and there are no material restrictions affecting their availability and transferability.



## E.2 SCR and MCR

As at December 31, 2017, the following are the components of the SCR, which is calculated applying the standard formula in accordance with the Solvency II Regulations:

<b>Standard Formula SCR as at December 31 (\$m's)</b>		
<b><u>Risk</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Market risk	65.9	60.1
Counterparty default risk	25.3	16.4
Life underwriting risk	-	-
Health underwriting risk	-	-
Non-life underwriting risk	18.9	16.7
Diversification	(24.7)	(19.5)
Intangible asset risk	-	-
<b>Basic SCR</b>	<b>85.4</b>	<b>73.7</b>
Operational risk	11.6	11.0
<b>Solvency SCR</b>	<b>97.0</b>	<b>84.7</b>

The SCR has increased from \$84.7 million at December 31, 2016 to \$97.0 million at December 31, 2017 and the MCR from \$21.2 million to \$24.2 million over the same period.

The Company uses the SFM for calculation of the SCR and all calculations in the risk and sub-modules are in accordance with the Solvency II Regulations. We have not simplified the relevant parameters, nor have we applied Company-specific parameters in the calculation of the SCR.

The primary driver of the market risk component is the concentration risk associated with the promissory note, which is described in Section D1.

The MCR is the greater of the absolute floor of the MCR and the combined MCR as prescribed by the Solvency II Regulations.

## E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

N/A

## E.4 Differences between the standard formula and any internal model used

N/A

E.5 Non-compliance with the MCR and non-compliance with the SCR

*N/A*

E.6 Any other information

*N/A*

## Appendices

### Annual quantitative reporting templates

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Template code	Template name
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-life technical provisions
S.19.01.21	Non-life insurance claims
S.23.01.01	Own funds
S.25.01.21	Solvency capital requirement - Only standard formula
S.28.01.01	Minimum capital requirement - Non-composite

S.02.01.02 - Balance Sheet Assets - December 31, 2017

Balance sheet

	Solvency II value	
		C0010
<b>Assets</b>		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	6,934,576
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	140,094,860
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	134,377,325
Government Bonds	R0140	117,850,892
Corporate Bonds	R0150	9,662,473
Structured notes	R0160	
Collateralised securities	R0170	6,863,960
Collective Investments Undertakings	R0180	5,717,535
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	271,081,324
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	271,081,324
Reinsurance recoverables from::	R0270	368,832,594
Non-life and health similar to non-life	R0280	368,832,594
Non-life excluding health	R0290	368,832,594
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	-
Insurance and intermediaries receivables	R0360	17,057,539
Reinsurance receivables	R0370	30,346,256
Receivables (trade, not insurance)	R0380	5,428,236
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	17,505,711
Any other assets, not elsewhere shown	R0420	811,919
<b>Total assets</b>	<b>R0500</b>	<b>858,093,015</b>

## S.02.01.02 - Balance Sheet Liabilities

	Solvency II value	
		C0010
<b>Liabilities</b>		
Technical provisions – non-life	R0510	394,791,025
Technical provisions – non-life (excluding health)	R0520	394,791,025
Technical provisions calculated as a whole	R0530	
Best Estimate	R0540	386,860,556
Risk margin	R0550	7,930,469
Technical provisions - health (similar to non-life)	R0560	
Technical provisions calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	
Technical provisions - health (similar to life)	R0610	
Technical provisions calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	
Technical provisions calculated as a whole	R0660	
Best Estimate	R0670	
Risk margin	R0680	
Technical provisions – index-linked and unit-linked	R0690	
Technical provisions calculated as a whole	R0700	
Best Estimate	R0710	
Risk margin	R0720	
Other technical provisions	R0730	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	2,512,861
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	3,331,004
Reinsurance payables	R0830	10,494,653
Payables (trade, not insurance)	R0840	26,554,097
Subordinated liabilities	R0850	
Subordinated liabilities not in Basic Own Funds	R0860	
Subordinated liabilities in Basic Own Funds	R0870	
Any other liabilities, not elsewhere shown	R0880	
<b>Total liabilities</b>	R0900	437,683,641
<b>Excess of assets over liabilities</b>	R1000	420,409,374







S.17.01.02 - Non-life Technical Provisions - December 31, 2017

Non-life Technical Provisions

	Direct business and accepted proportional reinsurance				Accepted non-proportional reinsurance			Total Non-Life obligation	
	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance		
	C0070	C0080	C0090	C0100	C0150	C0160	C0170		
<b>Technical provisions calculated as a whole</b>									
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole									
<b>Technical provisions calculated as a sum of BE and RM</b>									
<b>Best Estimate</b>									
Premium provisions									
Gross	R0060	- 5,176,580	2,595,199	16,291,132	5,241,796	244,629	4,970,374	- 3,581,992	20,584,559
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	- 2,594,035	2,461,284	14,329,952	7,023,832	565,206	5,676,168	- 477,021	26,985,385
Net Best Estimate of Premium Provisions	R0150	- 2,582,546	133,915	1,961,181	- 1,782,036	- 320,576	- 705,794	- 3,104,971	- 6,400,827
<b>Claims provisions</b>									
Gross	R0160	8,479,865	4,517,833	268,301,723	12,923,261	15,623,710	50,098,805	6,330,801	366,275,998
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	6,991,620	4,381,052	251,621,733	13,544,626	14,346,225	44,256,736	6,705,218	341,847,209
Net Best Estimate of Claims Provisions	R0250	1,488,245	136,781	16,679,991	- 621,365	1,277,485	5,842,068	- 374,417	24,428,789
<b>Total Best estimate - gross</b>	R0260	3,303,284	7,113,032	284,592,856	18,165,058	15,868,339	55,069,178	2,748,809	386,860,556
<b>Total Best estimate - net</b>	R0270	- 1,094,301	270,697	18,641,171	- 2,403,401	956,909	5,136,274	- 3,479,388	18,027,962
<b>Risk margin</b>	R0280	787,346	754,110	4,011,048	475,107	166,620	1,412,542	323,696	7,930,469
<b>Amount of the transitional on Technical Provisions</b>									
Technical provisions calculated as a whole	R0290								
Best Estimate	R0300								
Risk margin	R0310								
<b>Technical provisions - total</b>									
Technical provisions - total	R0320	4,090,630	7,867,142	288,603,904	18,640,165	16,034,959	56,481,720	3,072,505	394,791,025
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	4,397,585	6,842,335	265,951,685	20,568,459	14,911,430	49,932,904	6,228,197	368,832,594
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	- 306,955	1,024,806	22,652,219	- 1,928,294	1,123,529	6,548,816	- 3,155,691	25,958,431

Non-life insurance claims information - December 31, 2017

Total Non-Life Business

Accident year / Underwriting year 

Z0010	(0) Accident year
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Gross Claims Paid (non-cumulative)

(absolute amount)	Year	Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											404,313,405
N-9	R0160	20,135,486	41,262,417	28,017,900	20,626,536	4,108,463	3,900,168	4,314,773	1,321,564	10,437,210	466,689	
N-8	R0170	5,478,422	9,121,898	6,283,457	2,624,758	2,042,185	641,796	762,135	17,960,718	618,574		
N-7	R0180	59,385,050	44,640,426	14,566,619	10,807,466	4,858,950	2,178,140	6,534,785	1,632,324			
N-6	R0190	19,948,928	21,591,118	23,413,838	32,900,015	840,495	1,580,173	924,098				
N-5	R0200	1,367,242	8,866,270	19,448,552	5,092,924	15,975,883	3,620,916					
N-4	R0210	2,019,539	7,985,788	8,815,293	2,437,812	9,895,859						
N-3	R0220	15,093,265	13,700,226	6,408,155	5,444,527							
N-2	R0230	15,294,829	9,698,492	13,459,514								
N-1	R0240	31,946,561	12,923,215									
N	R0250	12,569,683										

	In Current year		Sum of years (cumulative)	
	C0170	C0180		
	R0100	-	138,223	404,313,405
R0160	466,689		134,591,205	
R0170	618,574		45,533,942	
R0180	1,632,324		144,603,760	
R0190	924,098		101,198,665	
R0200	3,620,916		54,371,788	
R0210	9,895,859		31,154,292	
R0220	5,444,527		40,646,172	
R0230	13,459,514		38,452,835	
R0240	12,923,215		44,869,776	
R0250	12,569,683		12,569,683	
<b>Total</b>	<b>R0260</b>	61,417,178	1,052,305,524	

Gross undiscounted Best Estimate Claims Provisions

Year	Development year										
	0	1	2	3	4	5	6	7	8	9	10 & +
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100										6,774,885
N-9	R0160	-	-	-	-	-	-	-	24,885,268	21,342,308	
N-8	R0170	-	-	-	-	-	-	24,236,786	19,828,233		
N-7	R0180	-	-	-	-	-	16,479,725	10,918,852			
N-6	R0190	-	-	-	-	24,888,430	26,244,079				
N-5	R0200	-	-	-	27,956,127	18,656,131					
N-4	R0210	-	-	39,130,615	28,878,771						
N-3	R0220	-	58,993,836	40,149,540							
N-2	R0230	-	91,480,845	72,631,184							
N-1	R0240	85,063,224	70,088,863								
N	R0250	85,363,487									

	Year end (discounted data)	
	C0360	
R0100	6,359,577	
R0160	19,395,498	
R0170	18,028,992	
R0180	9,854,215	
R0190	24,623,821	
R0200	16,594,939	
R0210	25,910,113	
R0220	36,650,768	
R0230	66,948,031	
R0240	63,905,635	
R0250	78,004,410	
<b>Total</b>	<b>R0260</b>	366,275,998

S.23.01.01 - Own Funds - December 31, 2017

Own funds

**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35**

Ordinary share capital (gross of own shares)  
 Share premium account related to ordinary share capital  
 Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings  
 Subordinated mutual member accounts  
 Surplus funds  
 Preference shares  
 Share premium account related to preference shares  
 Reconciliation reserve  
 Subordinated liabilities  
 An amount equal to the value of net deferred tax assets  
 Other own fund items approved by the supervisory authority as basic own funds not specified above

**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

**Deductions**

Deductions for participations in financial and credit institutions

**Total basic own funds after deductions**

**Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand  
 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand  
 Unpaid and uncalled preference shares callable on demand  
 A legally binding commitment to subscribe and pay for subordinated liabilities on demand  
 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC  
 Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC  
 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
 Other ancillary own funds

**Total ancillary own funds**

**Available and eligible own funds**

Total available own funds to meet the SCR  
 Total available own funds to meet the MCR  
 Total eligible own funds to meet the SCR  
 Total eligible own funds to meet the MCR

**SCR**

**MCR**

**Ratio of Eligible own funds to SCR**

**Ratio of Eligible own funds to MCR**

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	10,000,000	10,000,000		0	
R0030					
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	17,112,568	17,112,568			
R0140					
R0160					
R0180	353,296,806	353,296,806	0.00	0.00	0.00
R0220					
R0230					
R0290	380,409,374	380,409,374	0.00	0.00	0.00
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	380,409,374	380,409,374	0.00	0.00	0.00
R0510	380,409,374	380,409,374	0.00	0.00	
R0540	380,409,374	380,409,374	0.00	0.00	0.00
R0550	380,409,374	380,409,374	0.00	0.00	
R0580	96,960,650				
R0600	24,240,163				
R0620	3.9233				
R0640	15.6934				

**S.23.01.01 - Reconciliation Reserve - December 31, 2017**

**Reconciliation reserve**

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

**Reconciliation reserve**

**Expected profits**

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non-life business

**Total Expected profits included in future premiums (EPIFP)**

**C0060**

<b>R0700</b>	420,409,374
<b>R0710</b>	
<b>R0720</b>	40,000,000
<b>R0730</b>	363,296,806
<b>R0740</b>	
<b>R0760</b>	17,112,568
<b>R0770</b>	
<b>R0780</b>	12,223,416
<b>R0790</b>	12,223,416

S.25.01.21 - Basic Solvency Capital Requirement - December 31, 2017

Solvency Capital Requirement - for undertakings on Standard Formula

Market risk  
 Counterparty default risk  
 Life underwriting risk  
 Health underwriting risk  
 Non-life underwriting risk  
 Diversification  
 Intangible asset risk  
**Basic Solvency Capital Requirement**

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
R0010	65,924,310		
R0020	25,331,261		
R0030			
R0040			
R0050	18,939,858		
R0060	-24,840,595		
R0070			
R0100	85,354,834		

S.25.01.21 - Total Solvency Capital Requirement

Calculation of Solvency Capital Requirement

Operational risk  
 Loss-absorbing capacity of technical provisions  
 Loss-absorbing capacity of deferred taxes  
 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

Solvency capital requirement, excluding capital add-on

Capital add-ons already set

Solvency Capital Requirement

Other information on SCR

Capital requirement for duration-based equity risk sub-module  
 Total amount of Notional Solvency Capital Requirements for remaining part  
 Total amount of Notional Solvency Capital Requirements for ring fenced funds  
 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios  
 Diversification effects due to RFF nSCR aggregation for article 304

	C0100
R0130	11,605,817
R0140	
R0150	
R0160	
R0200	96,960,650
R0210	
R0220	96,960,650
R0400	
R0410	
R0420	
R0430	
R0440	

**S.28.02.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity - December 31, 2017**

**Linear formula component for non-life insurance and reinsurance obligations**

	<b>C0010</b>
MCRNL Result	<b>R0010</b> 4,827,891

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	<b>R0020</b>	0	0
Income protection insurance and proportional reinsurance	<b>R0030</b>	0	0
Workers' compensation insurance and proportional reinsurance	<b>R0040</b>	0	0
Motor vehicle liability insurance and proportional reinsurance	<b>R0050</b>	0	0
Other motor insurance and proportional reinsurance	<b>R0060</b>	0	0
Marine, aviation and transport insurance and proportional reinsurance	<b>R0070</b>	0	1,215,919
Fire and other damage to property insurance and proportional reinsurance	<b>R0080</b>	270,697	2,675,061
General liability insurance and proportional reinsurance	<b>R0090</b>	18,641,171	6,411,375
Credit and suretyship insurance and proportional reinsurance	<b>R0100</b>	0	659,776
Legal expenses insurance and proportional reinsurance	<b>R0110</b>	0	0
Assistance and proportional reinsurance	<b>R0120</b>	0	0
Miscellaneous financial loss insurance and proportional reinsurance	<b>R0130</b>	0	0
Non-proportional health reinsurance	<b>R0140</b>	0	0
Non-proportional casualty reinsurance	<b>R0150</b>	956,909	0
Non-proportional marine, aviation and transport reinsurance	<b>R0160</b>	5,136,274	1,540,130
Non-proportional property reinsurance	<b>R0170</b>	0	1,376,662

**S.28.01.01 - Overall MCR**

**Overall MCR calculation**

		C0070
Linear MCR	<b>R0300</b>	4,827,891
SCR	<b>R0310</b>	96,960,650
MCR cap	<b>R0320</b>	43,632,293
MCR floor	<b>R0330</b>	24,240,163
Combined MCR	<b>R0340</b>	24,240,163
Absolute floor of the MCR	<b>R0350</b>	4,435,387
<b>Minimum Capital Requirement</b>	<b>R0400</b>	24,240,163