ALLIED WORLD ASSURANCE COMPANY, AG

FINANCIAL CONDITION REPORT

(FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2017)

Contents

Overview

References in this Financial Condition Report to the terms "we," "us," "our," the "Company" or other similar terms mean Allied World Assurance Company, AG, a Swiss company authorized by the Swiss Financial Market Supervisory Authority ("FINMA"), unless the context requires otherwise. References to the term "Allied World Switzerland" means Allied World Assurance Company Holdings, GmbH, the parent of the Company, and to the term "Allied World Group" means Allied World Switzerland and its subsidiaries. The Allied World Group is majority owned by Fairfax Financial Holdings Limited. References to "$" are to the lawful currency of the United States. References to "CHF" are to the lawful currency of Switzerland.

This Financial Condition Report (this "Report") has been compiled in accordance with FINMA's Circular 2016/2 (Insurer Public Disclosure).

We will make available, free of charge through our website (www.awac.com), this Report as soon as reasonably practicable but no later than April 30, 2018. This Report has been reviewed and approved by the Board of Directors of the Company (the "Board").

Summary

We are a Swiss incorporated company authorized by FINMA to conduct insurance business. We, through our head office in Zug and Bermuda branch office, provide innovative property, casualty and specialty insurance and reinsurance solutions to clients in Switzerland and worldwide. Further details on the Company's business activities are included in Section A of this Report.

The Company reported gross premium written of $95.5 million in 2017 compared to $86.6 million in 2016 and an underwriting loss of $17.2 million in 2017 compared to an underwriting profit of $12.0 million in 2016. The Company reported a net loss of $14.8 million in 2017 compared to a net profit of $15.2 million in 2016. Further details on the Company's performance in 2017 are included in Section B of this Report.

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 C of this Report.

Risks relevant to the Company's business and operations are outlined in Section D 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.

In Section E of this Report, we describe the principles and methods used for valuation of the different asset classes. We also discuss the market-value assessment of the insurance provisions for solvency purposes.

As of December 31, 2017, the Company's Swiss Solvency Test (the "SST") ratio was 142% compared to 183.0% as of December 31, 2016. The target capital of $152.1 million has decreased by $19.7 million from the prior year. The risk-bearing capital amounts to $209.2 million for 2017 and $301.0 for 2016. Details of the composition of the target capital and risk-bearing capital are included in Sections F and G of this Report.

The annual quantitative reporting templates and the Swiss statutory financial statements for the year ended December 31, 2017 and report of the external auditor thereon, are included in the appendices hereto.

Recent Events:

On July 6, 2017, Fairfax Financial Holdings Limited ("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 Fairfax (Switzerland) GmbH 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.

A. Business Activity

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 insurance and reinsurance 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 ERM 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, including government bonds.

Material Lines of Business and Geographic Areas:

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

- The focus of the reinsurance business is predominantly on property catastrophe reinsurance business and medium- to short-tail casualty reinsurance business with mainly European exposure.

- The focus of the direct insurance business, which is predominantly written from the Company's Bermuda branch, is on large multinational companies domiciled in North America. From our Swiss head office, we write Swiss risks for multinational programs.

Distribution:

As a commercial insurer, we primarily offer products through independent 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.

Company & Branch Information:

The Company is a public limited company ("Aktiengesellschaft") with its registered office at Park Tower, 15th Floor, Gubelstrasse 24, 6300 Zug, Switzerland (CHE-115.661.837). The Company's Bermuda branch office is located at 27 Richmond Road, Pembroke HM 08, Bermuda and is licensed as a Class 3A insurer by the Bermuda Monetary Authority.

The Company is a wholly-owned subsidiary of Allied World Switzerland.

Intra-group Transactions:

Pursuant to 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, including accounting and treasury, investment management, information technology, catastrophe modelling, claims, internal audit, global placement coordination, human resources, legal and compliance, risk management, ceded reinsurance and operations.

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

External Auditor:

The Company's external auditor is PricewaterhouseCoopers AG, an auditing firm subject to public supervision (Birchstrasse 160, 8050 Zurich, Switzerland).

Significant Events:

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

B. 2017 Performance

Underwriting Results:

The following table summarizes the net underwriting results for the years ended December 31, 2017 and 2016. Details by line of business can be seen in Appendix A “Annual Quantitative Reporting Templates”.

Net underwriting results for the year ended December 31, 2017 and 2016 ($ m’s)

	Total		Direct Swiss business Total		Direct non-Swiss business Total		Indirect business Total	
	2016	2017	2016	2017	2016	2017	2016	2017
Gross premium written	86.6	95.5	0.9	0.9	35.8	38.1	49.9	56.6
Premium Ceded	(28.1)	(31.7)	(0.4)	(0.5)	(17.7)	(20.4)	(10.0)	(10.8)
Net premium written	**58.5**	**63.8**	**0.5**	**0.4**	**18.1**	**17.7**	**39.9**	**45.8**
Change in gross unearned premiums	6.4	(6.0)	0.4	0.1	-	(1.6)	6.1	(4.6)
Change in ceded unearned premiums	2.5	0.8	(0.1)	(0.1)	2.7	0.8	(0.1)	0.1
Net premium earned	**67.4**	**58.6**	**0.8**	**0.5**	**20.9**	**16.9**	**45.9**	**41.1**
Other income from insurance business	-	-	-	-	-	-	-	-
Total income from underwriting business	**67.4**	**58.6**	**0.8**	**0.5**	**20.9**	**16.9**	**45.9**	**41.1**
Losses and loss expenses paid, gross	(35.8)	(35.6)	-	-	(23.9)	(13.4)	(11.9)	(22.2)
Losses and loss expenses paid, ceded	6.3	3.6	-	-	6.2	3.4	-	0.2
Change in reserves for losses and loss expenses, gross	(26.0)	(50.4)	(0.1)	0.5	(21.7)	(40.4)	(4.2)	(10.5)
Change in reserves for losses and loss expenses, ceded	13.0	21.0	(0.1)	(0.2)	11.8	18.8	1.2	2.4
Net losses and loss expenses	**(42.5)**	**(61.4)**	**(0.2)**	**0.3**	**(27.6)**	**(31.6)**	**(14.9)**	**(30.1)**
Acquisition costs and administrative expenses, gross	(19.0)	(21.9)	(0.4)	(0.5)	(7.1)	(5.3)	(11.5)	(16.1)
Acquisition costs and administrative expenses, ceded	6.1	7.6	0.2	0.2	5.4	6.5	0.6	1.0
Net acquisition costs and administrative expenses	(12.9)	(14.3)	(0.2)	(0.3)	(1.7)	1.2	(10.9)	(15.1)
Other underwriting expenses for own account	-	-	-	-	-	-	-	-
Total expenses from underwriting business	**(55.4)**	**(75.7)**	**(0.4)**	**(0.0)**	**(29.3)**	**(30.4)**	**(25.8)**	**(45.2)**
Net underwriting (loss)/profit	**12.0**	**(17.1)**	**0.4**	**0.5**	**(8.4)**	**(13.5)**	**20.1**	**(4.1)**
Investment income	5.9	7.2						
Investment expenses	(1.8)	(2.7)						
Net investment income	**4.1**	**4.5**						
Capital and interest income from unit-linked life insurance	-	-						
Other financial income	-	-						
Other financial expenses	-	-						
Operating result	**16.1**	**(12.6)**						
Interest expenses for interest-bearing liabilities	(0.7)	(0.7)						
Other income	1.8	-						
Other expenses	-	(0.1)						
Extraordinary income/expenses	-	-						
Net profit / loss before taxes	**17.1**	**(13.4)**						
Direct taxes	(1.9)	(1.4)						
Net Profit / loss	**15.2**	**(14.8)**						

Gross premium written for 2017 was $95.5 million, an increase of $8.9 million from 2016, primarily due to an increase in our Swiss crop and casualty reinsurance business and our Bermuda direct insurance business. Net premium written for 2017 was $63.8 million compared with $58.5 million for 2016. Ceded premium for 2017 was $31.7 million compared to $28.1 million in 2016, which was mainly driven by higher retention for the Bermuda direct insurance business.

Net losses and loss expenses in 2017 amounted to $61.4 million compared to $42.6 million in 2016. The net loss ratio for the year increased to 105% compared to 63% in 2017, driven primarily by hurricanes that hit the Caribbean and the southern part of the United States during the second half of 2017, which resulted in aggregate net losses of $7.9 million. The losses from those hurricanes mainly impacted the direct property line of business in the Company’s Bermuda Branch.

Acquisition costs, comprised of commissions and brokerage fees, are costs that are directly related to the acquisition of new and renewal business. Administrative expenses represent the necessary costs to maintain the Company's daily operations and administer its business and primarily consist of salary expenses, maintenance costs and professional fees. Net acquisition costs and administrative expenses were $14.3 million for 2017 compared to $12.8 million for 2016. Net acquisition costs increased by $1.7 million in 2017 primarily due to the increase in gross premium written. Administrative expenses marginally increased by $1.2 million.

Investment Results:

The following table shows a breakdown of the investment income and expenses by asset classes for the years ended December 31, 2017 and 2016.

Investment income and expenses for the years ended December 31, 2017 and 2016 ($ m's)						
	2017			**2016**		
	Debt Securities	**Real Estate**	**Total**	**Debt Securities**	**Real Estate**	**Total**
Investment income	5.3	0.8	**6.1**	5.0	0.8	**5.8**
Realized gains	1.1	-	**1.1**	-	0.2	**0.2**
Total investment income	**6.4**	**0.8**	**7.2**	**5.0**	**1.0**	**6.0**
Amortization/depreciation	(0.1)	(0.6)	**(0.7)**	(0.4)	(0.6)	**(1.0)**
Realized losses	(1.4)	-	**(1.4)**	(0.1)	-	**(0.1)**
Other investment expenses	(0.5)	-	**(0.5)**	(0.7)	-	**(0.7)**
Total investment expenses	**(2.0)**	**(0.6)**	**(2.6)**	**(1.2)**	**(0.6)**	**(1.8)**
Total net investment return	**4.4**	**0.2**	**4.6**	**3.8**	**0.4**	**4.2**

To help ensure adequate liquidity for the payment of claims, we take into account the maturity, 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. Our investment portfolio consists primarily of investment-grade, fixed-maturity securities of short- to medium-term duration, including a substantial allocation to government bonds and mixed-use real estate.

Total net investment return for 2017 was $4.6 million compared to $4.2 million for 2016. The improved return was due to an increase in interest income of $0.3 million on fixed maturity investments and other investments. Rental income from real estate remained unchanged from 2016 at $0.8 million and there were no realized gains or losses on real estate during 2017. Due to a change in the composition of the Company's debt securities, we realized net losses of $0.3 million in fixed maturity investments and other investments. Other investment expenses mainly consist of custody and investment fees for internal and external asset management.

C. Corporate Governance & Risk Management

Our corporate governance framework is reflective of the nature, scale and complexity of the Company's business.

Board of Directors:

The Board is the ultimate administrative, management and supervisory body of the Company and is responsible for 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. Scott A. Carmilani, Chairman
- Mr. Wesley D. Dupont, Allied World Group director
- Mr. Martin Frey, independent non-executive director

During 2017, Messrs. Thomas A. Bradley and Marshall J. Grossack retired from the Board and Allied World Switzerland.

Management:

The Company's management team is comprised of:

- Ms. Marie-Laure Queneuder, Managing Director and Chief Underwriting Officer
- Mr. Christoph Murg, Vice President, Finance and Treasurer
- Mr. Eric Pizarro, Senior Vice President, Head of Capital Modelling, with responsibility for the risk management function (pending FINMA approval)
- Mrs. Sarah Mitchell, Vice President, Assistant General Counsel, with responsibility for the compliance function (pending FINMA approval)

Risk Management:

Although the assumption of risk is inherent in our business, we believe that we have developed a strong ERM framework that is integrated into the management of our business. Our ERM framework consists of numerous systems, processes and controls with oversight by our management and the Board. It is 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);
- Own risk and solvency assessment (the "ORSA") policy, procedures and reports;
- Swiss Solvency Test model (the "SST"), which is used to determine regulatory solvency capital requirements, and is comprised of FINMA's standard capital model, StandRe, and external vendor models for natural catastrophe risk; and
- Economic capital model (the "ECM"), which is used to determine economic capital requirements.

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 organizational processes, changes in risk profiles and recalibration of models, as well as to stay current with changes within our industry and the global economic environment. Utilising the ECM, 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 and oversees management's compliance therewith. The Board reviews risk management methodologies, standards, tolerances and strategies, and reviews management's processes for monitoring and aggregating risks across our organization.

The output from the ERM framework, including the SST and ECM, are integrated into the management and strategic decision-making processes and completion of the ORSA.

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 Board.

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 Company's 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, checks for compliance with agreed exposure limits and operating guidelines, and following-up on non-compliance.

The Board is responsible for, and assumes ownership of, the internal controls system. They set the "tone at the top" for integrity and ethics to ensure a positive control environment, and they assign responsibility for the establishment of specific internal controls procedures. 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. It also sets standards, policies and procedures to provide reasonable assurance that the Company achieves its financial, operational and strategic objectives in accordance 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 wrongdoing without fear of retaliation;

- Provides training and guidance regarding applicable laws, regulations and the Company's policies, and clearly communicates 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.

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 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.

D. Risk Profile

The Company utilizes 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 organization to assess the relationships between material risks. We have identified the following as the main categories of risk within our business:

- *Insurance risk*: Risk of fluctuations in benefits payable to policyholders and cedents, including premium risk, catastrophe risk and reserve risk. This is the primary risk for the Company.

- *Credit risk*: This primarily emanates from the ceding of claims and expenses on policies we write to other reinsurers. The ceding of claims and expenses 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 which we cede business.

- *Market risk*: The Company's largest exposures are to interest rate risk, spreads, foreign exchange rate risk and real estate. The Company does not have exposure to equity risk, hedge funds or other alternative investments.

- *Operational risk*: Encompasses a wide range of risks related to our operations, including corporate governance, claims settlement processes, regulatory compliance, employment practices, human resources and information technology exposures (including disaster recovery, cyber-security and business continuity planning).

- *Other risk:* The primary contributors to this risk 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 strategies.

The Company utilizes various tools to assess these material risks, including the SST and ECM, external vendor models for natural catastrophe risk, the ORSA, the Risk Register, and stress and scenario testing.

The Company underwrites catastrophe exposures which, by definition, are a source of concentration risk. Catastrophe risk is quantified and monitored using third-party catastrophe models and mitigated using outwards reinsurance.

The Company has two significant risk concentrations other than the catastrophic risk noted above. The Company owns real estate in Zug valued at $40.6 million. The Company also holds $235.3 million of U.S. dollar-denominated U.S. government bonds. Each of these risk concentrations has been considered via scenarios within the SST.

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, establishment of risk controls, etc.).

Risk Scenarios and Expected Shortfall:

We assess the risk profile quantitatively through the Solvency Capital Requirement ("SCR") of the SST.

Expected shortfall from SST by risk category as of December 31, 2017 ($ m's)	
	Expected Shortfall
1) Distribution based model	
Insurance risk	(132.9)
Market risk	(13.8)
(insurance and market risk)	**(134.0)**
2) Aggregation with scenarios	
(insurance and market risk)	**(134.2)**
3) Expected Result (financial result, technical result)	
Expected insurance result	4.2
Expected financial performance over 1 year risk free	1.2
(Insurance and market risk) incl. expected result	**(128.7)**
4) Aggregation with credit risk	
Credit risk	(8.0)
Capital for insurance, market and credit risks (SCR)	**(136.7)**

The insurance risk calculation incorporates 27 scenarios specified by FINMA and three scenarios defined by the Company. The reinsurance portfolio, and in particular reinsurance property catastrophe business, is the main driver of insurance risk for the Company. The primary driver of catastrophic risk stems from perils within Europe. Catastrophe risk is quantified with an external vendor model.

Market risk, credit risk and risk aggregation are quantified according to methodologies and assumptions specified by FINMA.

There have been no significant changes in the risks to which the Company is exposed during 2017.

The Company does not attempt to quantify the operational risks to which it is exposed. It does however seek to reduce the likelihood and severity of operational risks through its ERM framework, as described above. Taking into account the controls in place that mitigate operational risks, there is a low likelihood of an operational risk loss of any significance.

E. Valuation for Solvency Purposes

Market Value Assessment of Assets:

The following table shows the assets used for solvency purposes as of December 31, 2017:

Assets used for solvency purposes as of December 31, 2017 ($ m's)			
	Statutory	**Market Value**	**Difference**
Real estate	40.6	40.6	-
Fixed-income securities	292.3	290.9	1.4
Other investments	27.4	27.7	(0.3)
Other investments	*27.4*	*27.7*	*(0.3)*
Total investments	**360.3**	**359.2**	**1.1**
Other assets			
Cash and cash receivables	25.3	25.3	0.0
Receivables from insurance business	22.1	21.9	0.2
Other receivables	1.8	1.8	0.0
Other assets	2.4	2.4	0.0
Total other assets	51.6	51.4	0.2
Total market-consistent value of assets	**411.9**	**410.6**	**1.3**

The statutory amounts shown above are consistent with the Company's audited statutory financial statements as of December 31, 2017. Fixed maturity investments, reinsurance recoverables (shown as negative liabilities), real estate and (re)insurance balances receivable are presented differently compared to the audited statutory financial statements. The differences are reconcilable. The presentation above is consistent with that used in the SST for the year ended December 31, 2017.

The market value assessment of assets for solvency purposes has resulted in the following differences with the valuation shown in the audited financials.

- *Fixed maturity investments*: For solvency purposes, all investments are carried at their current market value. For statutory purposes, these are carried at a maximum value equal to their amortized cost, less impairment. Under this valuation principle, the value of the investments (including other investments) exceeded their market value by $1.4 million as of December 31, 2017.

Investments in fixed maturity securities and other investments 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 in such cases, the Company applies valuation techniques to measure such instruments. These valuation techniques make maximum use of observable market data, where relevant. 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. The Company has minimal exposure to financial assets or liabilities for which there are no quoted prices in an active market.

The Company's statutory financial statements have been prepared in accordance with the revised Swiss accounting and financial reporting legislation, Art. 957 to 962 Code of Obligation and the relevant insurance supervisory law, particularly with the revised Insurance Supervisory Ordinance and the revised Insurance Supervisory Ordinance – FINMA.

The Company has access to additional assets in the event that its solvency ratio falls below 101%. A security assignment agreement exists between the Company and Allied World Assurance Company, Ltd ("Allied World Bermuda"), pursuant to which Allied World Bermuda will provide, through a security assignment account (the "Security Assignment Account"), amounts sufficient to raise the solvency ratio to 101%. As of December 31, 2017, the Company's solvency ratio exceeded 101% and as a result the value of the security assignment account was not required to be included in the statutory or market value assets shown above.

Statutory Technical Provisions:

Under the Swiss insurance regulatory regime, the statutory technical provisions are the sum of the following balance sheet items:

- Reserves for losses and loss expenses,
- Unearned premiums reserves, and
- Equalization reserves.

The claims and premium components are calculated both gross and net of outwards reinsurance, while the equalization reserves component is calculated net of outwards reinsurance.

The reserves for losses and loss expenses are the undiscounted best estimate of all future cash flows relating to claim events prior to the valuation date. It accounts for both claims reported but not yet settled, and claims incurred but not yet reported.

For ultimate loss projections, we have relied on commonly used actuarial methods, including loss development, Bornhuetter-Ferguson and expected ratio methods. In general, we have selected a combination of paid and reported development methods (shorter-tail lines of business) with the Bornhuetter-Ferguson method (longer-tail lines of business) for the older years and the expected ratio method for the more recent years. We have generally selected methods based on the reported losses rather than paid losses due to the additional information contained within the reported data and a stable case estimation process over time.

When selecting development patterns, we have been careful to investigate any trends in development over time. When trends have been identified, we have sought to understand the reason for the trends, and have selected an appropriate history for the weighted average selection. For longer-tail lines of business, we have largely based our loss development pattern selections on industry benchmarks due to insufficient loss development experience.

The unearned premium component is the undiscounted best estimate of the unearned portion relating to the future exposure arising from policies under which the (re)insurer is obligated at the valuation date. It is calculated using the pro rata temporis method.

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. This is particularly true of excess casualty and professional lines.

- The selection of initial expected loss ratios, which are largely based on the Company's pricing assumptions expectations and experience to date, are also a key area of uncertainty.

This uncertainty is the rationale for maintaining the equalization reserve, because these technical provisions, by their nature, cannot be quantified precisely and are subject to random fluctuations. This reserve is calculated as the margin to bring the held net unpaid loss and loss expenses (usually considered as best estimate) to the 80th percentile of the distribution of all possible outcomes based on stochastic simulations.

The breakdown of the insurance reserves indicating gross amount, reinsurers' share and the amount for own account as of December 31, 2017 and 2016 is shown in the following table:

Insurance reserves as of December 31, 2017 and 2016 ($ m's)

	2017	2016
Reserves for losses and loss expenses, gross	222.3	170.6
Reserves for losses and loss expenses, ceded	(61.9)	(40.9)
Reserves for losses and loss expenses, net	**160.4**	**129.7**
Unearned premium, gross	36.1	30.1
Unearned premium, ceded	(11.8)	(11.0)
Unearned premium, net	**24.3**	**19.1**
Equalization reserve	**18.5**	**16.2**
Total insurance reserve, net	**203.2**	**165.0**

The Company's Responsible Actuary provides an independent opinion on the technical provisions on an annual basis. His opinion is documented in the Responsible Actuary Report, which is presented to and discussed with the Board on an annual basis.

Market Value Assessment of Technical Provisions and Other Liabilities:

The following table shows the liabilities used for solvency purposes as of December 31, 2017:

Liabilities used for solvency purposes as of December 31, 2017 ($ m's)				
	Original Currency	**Statutory**	**Market Value**	**Difference**
Reserves - loss and LAE	Multiple	222.3	208.3	14.0
Ceded reserves - loss and LAE	Multiple	(61.9)	(57.1)	(4.8)
Reserves - UPR	Multiple	36.1	32.8	3.3
Ceded reserves - UPR	Multiple	(11.8)	(12.2)	0.4
Equalization reserve	$	18.5	-	18.5
Other long term debt	$	22.5	22.5	0.0
Insurance payables	$	3.1	2.9	0.2
Accrued liabilities	$	1.6	1.6	0.0
Deferred tax	$	0.0	1.4	(1.4)
Other payables	$	3.2	1.1	2.1
Total liabilities		**233.7**	**201.3**	**32.3**

The Company does not have any major risk concentrations on the liability side. Its insurance and reinsurance portfolios are well diversified with business written in Switzerland and Bermuda. Regarding retrocession, the Company has agreements with over 30 reinsurance companies.

Market values for insurance liabilities have been calculated based on the following information:

- Estimated undiscounted loss reserves, gross and net of reinsurance, by reporting line of business;
- Estimated undiscounted unearned premium reserves, gross and net of reinsurance, by reporting line of business;
- Estimated expected profitability (*i.e.*, loss and cost ratios) for the business underwritten but not fully earned; and
- Estimated payment patterns by reserving line of business.

For the best estimate of the net loss and allocated loss adjustment expense ("ALAE"), we have relied on the undiscounted best estimate from the Company's Responsible Actuary.

The net best estimates (including unallocated loss adjustment expense ("ULAE")) for each line are discounted using an average of the FINMA mandated discount rates for CHF, EUR, GBP and $, weighted by the proportion of undiscounted reserves in that currency (after conversion to $).

The net unearned premium reserve for each line is calculated as the net unearned premium, less the expected profit in the net unearned premium. The expected profit is calculated from the planned 2018 net combined loss ratio for the given line of business. As for the loss and ALAE reserves, the discount factor is a weighted value based on the proportions from the underlying currencies of CHF, EUR, GBP and $.

The differences between the statutory and market valuations are driven by:

- The discounting effect of the gross and ceded loss and LAE reserves on the market valuation;

- The discounting effect and adjustment for profitability of unearned premiums on the market valuation;

- The inclusion of equalization reserves in the Company's statutory balance sheet (as of December 31, 2017, the equalization reserves amounted to $18.5 million and are not included in the market valuation of liabilities); and

- A deferred tax liability of $1.4 million. Deferred tax liabilities reflect the tax impact of temporary differences between the valuation of assets and liabilities for financial reporting purposes.

The Company does not use any alternative methods for valuation.

Mortgage and other long-term debt are valued at nominal value. The market values used for solvency purposes agree with the financials for all other liability classes.

The principles and methods stated above are used to assign market consistent values to the positions of assets and liabilities. The balance sheet is not exposed to any exceptional risks or concentration of risks that create significant uncertainties in these valuations. The market valuations are therefore a reasonable assessment of the capital available to meet the minimum capital required by the SST target capital.

F. Capital Management

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 regulations. The Company strives to maintain an SST ratio in excess of 120%. As a part of the ORSA process, the Company evaluates scenarios that could threaten its solvency over a three-year time horizon.

The breakdown of the statutory own funds as of December 31, 2017 and 2016 is shown in the following table:

Statutory own funds (shareholders' equity) as of December 31, 2017 and 2016 ($ m's)		
	2017	**2016**
Share capital	10.1	10.1
Organizational fund	-	-
Capital reserve from tax capital contributions	40.9	40.4
Other statutory capital reserve	100.9	100.9
Retained earnings	26.1	40.9
Total statutory own funds	**178.0**	**192.3**

The following table contains a reconciliation of statutory own funds as outlined above and market value risk-bearing capital as of December 31, 2017 and 2016:

Risk-bearing capital as of December 31, 2017 and 2016 ($ m's)		
	2017	**2016**
Total statutory own funds	**178.0**	**192.3**
Security assignment	-	89.6
Re-evaluation of investments	(1.1)	(4.0)
Equalization reserves	18.5	16.2
Re-evaluation of technical reserves	12.9	10.9
Re-evaluation of receivables/payables	2.3	-
Deferred taxes	(1.4)	(4.0)
Risk-bearing capital	**209.2**	**301.0**

The difference in risk-bearing capital is due primarily to the exclusion of the "Security Assignment Account". The Security Assignment Account remains in place; however, from January 1, 2017, its value can no longer be credited to risk-bearing capital above the amount needed to raise the Solvency Ratio to 101%.

G. Solvency

The calculation of non-catastrophe insurance risk capital was undertaken according to FINMA's specifications for the SST standard model for reinsurers ("StandRe"). In following these specifications, we have relied primarily on the Company's own experience to model non-catastrophe risk. In addition, we have included 26 scenarios specified by FINMA and three scenarios specified by the Company. Aggregation within insurance risk follows StandRe requirements. Natural catastrophe risk was modelled with an external vendor model.

The StandRe methodology differs significantly from that used by the Company for the 2017 SST calculation. In particular, there are material changes to the required scenarios and the aggregation assumptions. The Company has, however, continued to model its largest risk, natural catastrophe, with the same external model; as a result, insurance risk has not changed significantly from the 2017 SST.

Market risk, credit risk and aggregation with insurance risk were calculated in accordance with the principles prescribed by FINMA.

Components of the Target Capital:

The following are the components of target capital (as specified in the SST standard template) as of December 31, 2017 and 2016:

Target capital as of December 31, 2017 and 2016 ($ m's)		
Expected shortfall @ 99%	**2017**	**2016**
Insurance risk	(132.9)	(141.3)
Market risk	(13.8)	(20.0)
(insurance and market risk)	**(134.0)**	**(142.6)**
(insurance and market risk) including scenarios	**(134.2)**	**(144.8)**
Expected Results		
Insurance result	4.2	(0.4)
Financial result	1.2	3.7
Expected shortfall (insurance and market risk) including expected results	**(128.7)**	**(141.4)**
Credit risk	(8.0)	(14.3)
Risk margin	(15.4)	(16.1)
Total target capital	**(152.1)**	**(171.8)**

The decrease in market risk is primarily due to an increase in the proportion of assets held in U.S. government securities and the exclusion of the market risk arising from the Security Assignment Account as it does not benefit risk-bearing capital. Credit risk has decreased for the same reasons.

Components of Market Risk:

The table below shows the major components of market risk as of December 31, 2017 and 2016:

Market risk as of December 31, 2017 and 2016 ($ m's)		
Market Risk (Expected shortfall @ 99%)	**2017**	**2016**
Interest rate risk	(3.5)	(11.9)
Market Risk w/o interest rate risk	(13.1)	(18.3)
Interest rate CHF	(0.7)	(0.2)
Interest rate EUR	(2.4)	(3.3)
Interest rate $	(4.9)	(14.8)
Interest rate GBP	(1.4)	(1.2)
Spreads	(3.3)	(12.0)
FX-risk total	(9.2)	(9.1)
Equity	0.0	0.0
Real estate	(8.4)	(8.3)
Hedge funds	0.0	0.0
Private equity	0.0	0.0
Participations	0.0	0.0
Total	**(13.8)**	**(20.0)**

Components of Insurance Risk:

The table below shows the components of insurance risk, along with a comparison to the prior year in order to highlight significant movements as of December 31, 2017 and 2016:

Insurance Risk as of December 31, 2017 and 2016 ($ m's)		
Insurance Risk (ES @ 99%)	**2017**	**2016**
Reserve risk	(53.8)	(38.9)
Premium risk	(117.1)	(119.1)
Diversification	38.0	16.7
Total insurance risk	**(132.9)**	**(141.3)**

As noted above, the insurance risk calculation for the 2018 SST under StandRe specifications includes a large number of scenarios that were not included in the 2017 SST. This is the main reason for the increase in reserve risk. Premium risk is driven by natural catastrophe risk, which was modelled with the same external model in both years.

StandRe correlation assumptions are lower than those applied by the Company for the 2017 SST, which has increased the diversification credit.

The following table shows a comparison of the SST ratio components as of December 31, 2017 and 2016:

Solvency as of December 31, 2017 and 2016 ($ m's)		
	2017	**2016**
Capital for insurance, market and credit risks (SCR)	(136.7)	(155.7)
Risk margin	(15.4)	(16.1)
Target capital	**(152.1)**	**(171.8)**
Risk-bearing capital	**(209.2)**	**(301.0)**
SST Ratio	**141.7%**	**183.0%**

The reduction in the SST ratio is the result of the decrease in risk-bearing capital. This in turn is due primarily to the exclusion of the Security Assignment Account. The reduction has been mitigated by a decrease in the SCR, which has resulted from the application of StandRe, and the reductions in market and credit risk described above.

Appendices

Annual Quantitative Reporting Templates

Financial situation report: quantitative template "Performance Solo NL"

Currency: USD
Amounts stated in millions

		Total		Direct Swiss business						Direct non-Swiss business	
				Fire, natural hazards, property damage		General third-party liability		Other branches		Total	
		Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year
1	Gross premiums	86.6	95.5	0.1	-	0.1	0.1	0.7	0.7	35.8	38.1
2	Reinsurers' share of gross premiums	(28.1)	(31.7)	-	-	(0.1)	(0.1)	(0.3)	(0.3)	(17.7)	(20.4)
3	Premiums for own account (1 + 2)	58.5	63.8	0.1	-	-	0.0	0.4	0.4	18.1	17.7
4	Change in unearned premium reserves	6.4	(6.0)	(0.1)	-	0.2	(0.0)	0.3	0.2	-	(1.6)
5	Reinsurers' share of change in unearned premium reserves	2.5	0.9	-	-	-	0.0	(0.1)	(0.1)	2.7	0.8
6	Premiums earned for own account (3 + 4 + 5)	67.4	58.6	-	-	0.2	0.0	0.6	0.5	20.9	16.9
7	Other income from insurance business	-	-	-	-	-	-	-	-	-	-
8	**Total income from underwriting business (6 + 7)**	**67.4**	**58.6**	**-**	**-**	**0.2**	**0.0**	**0.6**	**0.5**	**20.9**	**16.9**
9	Payments for insurance claims (gross)	(35.8)	(35.6)	-	-	-	-	-	-	(23.9)	(13.4)
10	Reinsurers' share of payments for insurance claims	6.3	3.7	-	-	-	-	-	-	6.2	3.4
11	Change in technical provisions	(26.0)	(50.5)	-	-	-	0.0	(0.1)	0.4	(21.7)	(40.4)
12	Reinsurers' share of change in technical provisions	13.0	21.0	-	-	(0.1)	(0.0)	-	(0.2)	11.8	18.8
13	Change in technical provisions for unit-linked life insurance		-		-						
14	**Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)**	**(42.5)**	**(61.4)**	**-**	**-**	**(0.1)**	**0.0**	**(0.1)**	**0.2**	**(27.6)**	**(31.6)**
15	Acquisition and administration expenses	(19.0)	(21.9)	(0.2)	-	(0.0)	(0.0)	(0.2)	(0.4)	(7.1)	(5.3)
16	Reinsurers' share of acquisition and administration expenses	6.1	7.6	0.1	-	-	0.0	0.1	0.1	5.4	6.5
17	Acquisition and administration expenses for own account (15 + 16)	(12.9)	(14.3)	(0.1)	-	(0.0)	(0.0)	(0.1)	(0.3)	(1.7)	1.2
18	Other underwriting expenses for own account	-	-	-	-	-	-	-	-	-	-
19	**Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)**	**(55.4)**	**(75.7)**	**(0.1)**	**-**	**(0.1)**	**0.0**	**(0.2)**	**(0.1)**	**(29.3)**	**(30.4)**
20	Investment income	5.9	7.2								
21	Investment expenses	(1.8)	(2.7)								
22	**Net investment income (20 + 21)**	4.1	4.5								
23	Capital and interest income from unit-linked life insurance	-	-								
24	Other financial income	-	-								
25	Other financial expenses	-	-								
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**	16.1	(12.6)								
27	Interest expenses for interest-bearing liabilities	(0.7)	(0.7)								
28	Other income	1.8	-								
29	Other expenses	-	(0.1)								
30	Extraordinary income/expenses	-	-								
31	**Profit / loss before taxes (26 + 27 + 28 + 29 + 30)**	17.1	(13.4)								
32	Direct taxes	(1.9)	(1.4)								
33	**Profit / loss (31 + 32)**	15.2	(14.8)								

Financial situation report: quantitative template "Performance Solo NL"

		Indirect business											
		Personal accident		Motor		Marine, aviation, transport		Property		Casualty		Miscellaneous	
		Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year
1	Gross premiums	0.7	0.6	6.8	8.9	0.3	0.3	33.7	30.0	7.2	8.8	1.2	8.0
2	Reinsurers' share of gross premiums	-	-	(0.4)	(0.4)	-	-	(8.2)	(8.4)	(1.4)	(2.1)	-	-
3	Premiums for own account (1 + 2)	0.7	0.6	6.4	8.5	0.3	0.3	25.5	21.6	5.8	6.7	1.2	8.0
4	Change in unearned premium reserves	-	0.1	0.4	(0.3)	-	0.0	1.5	0.6	2.3	(2.7)	1.9	(2.3)
5	Reinsurers' share of change in unearned premium reserves	-	-	-	-	-	-	-	(0.1)	(0.1)	0.2	-	-
6	Premiums earned for own account (3 + 4 + 5)	0.7	0.7	6.8	8.2	0.3	0.3	27.0	22.1	8.0	4.2	3.1	5.7
7	Other income from insurance business	-	-	-		-	-	-		-	-	-	-
8	**Total income from underwriting business (6 + 7)**	**0.7**	**0.7**	**6.8**	**8.2**	**0.3**	**0.3**	**27.0**	**22.1**	**8.0**	**4.2**	**3.1**	**5.7**
9	Payments for insurance claims (gross)	-	-	(0.6)	(0.9)	(0.1)	(0.2)	(10.8)	(17.2)	(0.4)	(1.9)	-	(1.9)
10	Reinsurers' share of payments for insurance claims	-	-	-	-	-	-	-	0.2	-	0.0	-	-
11	Change in technical provisions	0.1	(0.2)	(5.5)	(8.5)	(0.2)	(0.1)	7.0	6.7	(3.4)	(5.2)	(2.2)	(3.2)
12	Reinsurers' share of change in technical provisions	-	-	-	-	-	-	0.7	1.0	0.5	1.4	-	
13	Change in technical provisions for unit-linked life insurance												
14	**Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)**	**0.1**	**(0.2)**	**(6.1)**	**(9.4)**	**(0.3)**	**(0.3)**	**(3.1)**	**(9.4)**	**(3.3)**	**(5.7)**	**(2.2)**	**(5.0)**
15	Acquisition and administration expenses	(0.1)	(0.2)	(1.4)	(2.6)	(0.1)	(0.1)	(7.7)	(7.8)	(1.7)	(2.3)	(0.5)	(3.0)
16	Reinsurers' share of acquisition and administration expenses	-	-	-	-	-	-	0.3	0.3	0.3	0.7	-	-
17	Acquisition and administration expenses for own account (15 + 16)	(0.1)	(0.2)	(1.4)	(2.6)	(0.1)	(0.1)	(7.4)	(7.6)	(1.4)	(1.6)	(0.5)	(3.0)
18	Other underwriting expenses for own account												
19	**Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)**	**-**	**(0.4)**	**(7.5)**	**(12.0)**	**(0.4)**	**(0.5)**	**(10.5)**	**(16.9)**	**(4.7)**	**(7.4)**	**(2.7)**	**(8.0)**
20	Investment income												
21	Investment expenses												
22	**Net investment income (20 + 21)**												
23	Capital and interest income from unit-linked life insurance												
24	Other financial income												
25	Other financial expenses												
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**												
27	Interest expenses for interest-bearing liabilities												
28	Other income												
29	Other expenses												
30	Extraordinary income/expenses												
31	**Profit / loss before taxes (26 + 27 + 28 + 29 + 30)**												
32	Direct taxes												
33	**Profit / loss (31 + 32)**												

Financial situation report: quantitative template "Market-consistent Balance Sheet Solo"

Currency: USD
Amounts stated in millions

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
Market-consistent value of investments	Real estate	41.6	-	40.6
	Shareholdings	-	-	
	Fixed-income securities	256.1	-	291.1
	Loans	-	-	
	Mortgages	-	-	
	Equities	-	-	
	Other investments	52.2	-	27.5
	Collective investment schemes	-	-	
	Alternative investments	-	-	
	Other investments	52.2	-	27.5
	Total investments	349.9	-	359.2
	Financial investments from unit-linked life insurance	-	-	
	Receivables from derivative financial instruments	-	-	
Market-consistent value of other assets	Cash and cash equivalents	10.0	-	25.3
	Receivables from insurance business	20.6	-	21.9
	Other receivables	1.0	-	1.8
	Other assets	92.9	-	2.4
	Total other assets	123.6	-	51.4
Total market-consistent value of assets	Total market-consistent value of assets	473.5	-	410.5
Best estimate liabilities (BEL)	Best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)	-	-	
	Direct insurance: non-life insurance business	116.0	-	139.1
	Direct insurance: health insurance business	-	-	
	Direct insurance: unit-linked life insurance business	-	-	
	Direct insurance: other business	-	-	
	Outward reinsurance: life insurance business (excluding ALV)	-	-	
	Outward reinsurance: non-life insurance business	68.9	-	102.0
	Outward reinsurance: health insurance business	-	-	
	Outward reinsurance: unit-linked life insurance business	-	-	
	Outward reinsurance: other business	-	-	
	Reinsurers' share of best estimate of provisions for insurance liabilities	-	-	
	Direct insurance: life insurance business (excluding ALV)	-	-	
	Direct insurance: non-life insurance business	(46.9)	-	(62.6)
	Direct insurance: health insurance business	-	-	
	Direct insurance: unit-linked life insurance business	-	-	
	Direct insurance: other business	-	-	
	Outward reinsurance: life insurance business (excluding ALV)	-	-	
	Outward reinsurance: non-life insurance business	(0.1)	-	(6.7)
	Outward reinsurance: health insurance business	-	-	
	Outward reinsurance: unit-linked life insurance business	-	-	
	Outward reinsurance: other business	-	-	
Market-consistent value of other liabilities	Non-technical provisions	3.1	-	1.4
	Interest-bearing liabilities	22.0	-	22.5
	Liabilities from derivative financial instruments	-	-	
	Deposits retained on ceded reinsurance	-	-	
	Liabilities from insurance business	4.5	-	2.9
	Other liabilities	5.1	-	2.7
Total BEL plus market-consistent value of other liabilities	Total BEL plus market-consistent value of other liabilities	172.5	-	201.3
	Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	301.0	-	209.2

Financial situation report: quantitative template "Solvency Solo"

Currency: USD
Amounts stated in millions

		Ref. date previous period in CHF millions	Adjustments previous period in CHF millions	Ref. date reporting year in CHF millions
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	301.0		209.2
	Deductions	-		
	Core capital	301.0		209.2
	Supplementary capital	-		
	RBC	301.0		209.2

		Ref. date previous period in CHF millions	Adjustments previous period in CHF millions	Ref. date reporting year in CHF millions
Derivation of target capital	Underwriting risk	141.3		132.9
	Market risk	20.0		13.8
	Diversification effects	(18.7)		(12.6)
	Credit risk	14.3		8.0
	Risk margin and other effects on target capital	14.9		10.1
	Target capital	171.8		152.1

		Ref. date previous period in %	Adjustments previous period in %	Ref. date reporting year in %
SST ratio	Risk-bearing capital / target capital	183.0%		141.7%

Report of the Statutory Auditor

Allied World Assurance Company, AG

Zug

Report of the statutory auditor to the General Meeting

on the financial statements 2017

Report of the statutory auditor

to the General Meeting of Allied World Assurance Company, AG

Zug

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Allied World Assurance Company, AG, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2017.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Other Matter

The financial statements of Allied World Assurance Company, AG for the year ended 2016 were audited by another firm of auditors whose report, dated 26 April, 2017 expressed an unmodified opinion on those statements.

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zürich, Switzerland
Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

/S/ Philip Kirkpatrick	/S/ Ireen Ranneberg
Philip Kirkpatrick	Ireen Ranneberg
Audit expert Auditor in charge	

Zürich, 4 April 2018

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

ALLIED WORLD ASSURANCE COMPANY, AG
SWISS STATUTORY FINANCIAL STATEMENTS

for the year ending December 31, 2017

Allied World Assurance Company, AG

Swiss Statutory Financial Statements

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Management Report 2017

General

Allied World Assurance Company, AG (the "Company") was incorporated in Switzerland in the Canton of Zug on May 6, 2010. On March 30, 2011, the Company obtained a license from the Swiss Financial Market Supervisory Authority ("FINMA") to conduct business in non-life direct insurance and reinsurance. In 2012, the Company established a Bermuda branch in order to offer its insurance products via Bermuda throughout the United States of America ("USA"). Since April 2012, the Company is registered as a Class 3A insurer under the Bermuda Insurance Law 1978. The Company is a wholly owned subsidiary of Allied World Assurance Company Holdings, GmbH (the "Holding Company") and has its head office at Park Tower, Gubelstrasse 24, 6300 Zug, Switzerland. The Company has an annual average of less than 50 full-time positions.

Significant events during the financial year

On July 6, 2017, Fairfax Financial Holdings Limited, Canada, through Fairfax Financial Holdings Switzerland, GmbH, acquired, the Company's then ultimate parent, Allied World Assurance Company Holdings, AG, which then merged with Fairfax (Switzerland) GmbH and the surviving entity was renamed Allied World Assurance Company Holdings, GmbH.

Risk assessment

The Company maintains an entity-wide enterprise risk management framework. The risk processes address the nature and scope of business activities and the specific risks of the Company. The Board of Directors of the Company are responsible for assessing risks related to the financial reporting process and for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of the Finance Function, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's statutory financial statements in accordance with Swiss accounting and financial reporting legislation.

The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Swiss accounting and financial reporting legislation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The Board of Directors of the Company regularly meets with management, the independent registered auditors and the internal auditor; approves the overall scope of audit work and related fee arrangements; and reviews audit reports and findings.

Business year 2017

The Company reported a net loss after taxes of USD 14.8 million in 2017 compared to a net profit of USD 15.2 million in 2016. Gross written premium increased by 10.3% to USD 95.5 million of which USD 38.9 million (or 41%) was from direct insurance and USD 56.6 million (or 59%) was from reinsurance business. The Swiss operation and the Bermuda Branch recorded USD 53.3 million and USD 42.2 million of gross written premium, respectively. The combined ratio deteriorated from 82% in 2016 to 129% in 2017.

Net premiums earned totaled USD 58.6 million, which is a decrease of 13% compared to prior year due to the change in business mix. The net loss ratio for the year increased to 105% compared to 63% in 2017, driven by two reasons:

(1) During the second half of 2017, large hurricanes hit the Caribbean and the southern part of the USA, which resulted in net losses of total USD 7.9 million. The losses from those hurricanes incurred in the direct property book of business of the Bermuda Branch.
(2) In 2016, the Company changed its approach for calculating the equalization reserve to a stochastic model, resulting in a release of the equalization reserve of USD 11.7 million.

Net acquisition costs of USD 3.8 million were incurred in 2017. Administrative expenses of USD 10.5 million were incurred in 2017 and mainly consisted of personnel expenses, professional fees and depreciation. The total insurance activities resulted in an underwriting loss of USD 17.2 million.

At December 31, 2017, total assets were USD 485.3 million and total liabilities were USD 307.1 million; gross reserves for losses and loss expenses were USD 222.3 million; unearned premium reserves, gross were USD 36.1 million; and equalization reserves were USD 18.5 million. The Company maintains tied assets in the amount of USD 164.1 million (CHF 161.5 million) to support direct insurance liabilities of USD 156.3 million (CHF 153.9 million). The total portfolio of fixed maturity investments of USD 319.7 million consisted of global corporate and government bonds and one Swiss government security. Shareholder's equity at year end was USD 178.2 million.

Business Objectives

The Company is a specialty reinsurance and insurance company that seeks to write a diversified portfolio of property and casualty business through its main office in the Canton of Zug and branch office in Bermuda. Its business objective is to write and grow a profitable book of business, which is diversified by business mix and geography and which contributes positive returns on equity to the Holding Company. The insurance activities focus on mid-sized to large commercial clients in Switzerland and the United States where the Company offers general casualty and professional liability lines of business. The Company also offer property, general casualty and professional liability reinsurance products, primarily to clients in Europe and the Middle East.

Outlook

The Company aims to take advantage of the pricing improvements across the coming period, to write profitable business in Europe and to utilize the Bermuda branch to attract further new business opportunities. The Company will continue to seek specialty product opportunities within its stated business strategy that will offer the most attractive returns on its investment.

Allied World Assurance Company, AG

Swiss Statutory Balance Sheet

as of December 31, 2017 and December 31, 2016

		2017		2016	
as of December 31, (in 000's)	**Notes**	**USD**	**CHF**	**USD**	**CHF**
ASSETS					
Real estate		26,346	25,940	26,985	27,425
Fixed maturity investments		319,707	314,784	302,215	307,141
Reinsurance funds held		4,396	4,328	4,928	5,008
Cash and cash equivalents		25,305	24,916	20,134	20,462
Reinsurance recoverable	**5**	73,685	72,550	51,888	52,734
Fixed assets		14,931	14,701	15,799	16,056
Insurance balance receivable	**3**	17,746	17,472	15,791	16,049
Other receivables	**4**	1,306	1,286	146	149
Other assets		560	551	740	752
Accrued assets		1,133	1,116	1,275	1,296
Total assets		**485,115**	**477,644**	**439,901**	**447,072**
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Reserves for losses and loss expenses	**5**	222,297	218,873	170,603	173,384
Unearned premium reserves	**5**	36,119	35,563	30,070	30,560
Equalization reserve	**5**	18,540	18,255	16,198	16,462
Interest-bearing liabilities		22,505	22,158	21,970	22,328
Insurance payables	**3**	2,860	2,816	3,145	3,196
Other payables	**4**	3,179	3,130	4,280	4,350
Accrued liabilities		1,607	1,582	1,336	1,358
Total liabilities		**307,107**	**302,377**	**247,602**	**251,638**
Shareholder's equity					
Share capital	**6**	10,112	10,000	10,112	10,000
Statutory capital reserve					
Capital reserves from tax capital contribution		40,953	40,484	40,449	40,000
Total statutory capital reserves from tax capital contribution		40,953	40,484	40,449	40,000
Other statutory capital reserve		100,877	99,758	100,877	99,758
Total statutory capital reserves	**6**	**141,830**	**140,242**	**141,326**	**139,758**
Retained earnings					
Carried forward		40,861	39,575	25,624	30,631
Net (loss) / profit		(14,795)	(14,550)	15,237	15,045
Total retained earnings	**6**	**26,066**	**25,025**	**40,861**	**45,676**
Total shareholder's equity	**6**	**178,008**	**175,267**	**192,299**	**195,434**
Total liabilities and shareholder's equity		**485,115**	**477,644**	**439,901**	**447,072**

Allied World Assurance Company, AG

Swiss Statutory Income Statement

for the years ended December 31, 2017 and December 31, 2016

		2017		2016	
for the years ended December 31, (in 000's)	**Notes**	**USD**	**CHF**	**USD**	**CHF**
Gross written premium		95,513	93,929	86,605	85,510
Premium ceded		(31,713)	(31,186)	(28,078)	(27,723)
Net written premium		**63,800**	**62,743**	**58,527**	**57,787**
Change in reserves for unearned premium, gross		(6,049)	(5,948)	6,394	6,313
Change in reserves for unearned premium, ceded		853	838	2,485	2,454
Net premium earned		**58,604**	**57,633**	**67,406**	**66,554**
Total technical income from insurance activities	7	**58,604**	**57,633**	**67,406**	**66,554**
Losses and loss expenses paid, gross		(35,631)	(35,040)	(35,845)	(35,392)
Losses and loss expenses paid, ceded		3,571	3,512	6,262	6,183
Change in reserves for losses and loss expenses, gross		(48,026)	(47,229)	(37,740)	(37,263)
Change in reserves for losses and loss expenses, ceded		20,945	20,597	13,014	12,850
Change in equalization reserve		(2,343)	(2,304)	11,727	11,578
Net losses and loss expenses		**(61,484)**	**(60,464)**	**(42,582)**	**(42,044)**
Acquisition costs and administrative expenses, gross		(21,875)	(21,512)	(18,969)	(18,730)
Acquisition costs and administrative expenses, ceded		7,590	7,465	6,134	6,057
Net acquisition costs and administrative expenses	**9**	**(14,285)**	**(14,047)**	**(12,835)**	**(12,673)**
Total technical expenses from insurance activities		**(75,769)**	**(74,511)**	**(55,417)**	**(54,717)**
Investment income	**8**	7,172	7,053	5,917	5,842
Investment expenses	**8**	(2,684)	(2,640)	(1,836)	(1,812)
Investment result		**4,488**	**4,413**	**4,081**	**4,030**
Total operating result		**(12,677)**	**(12,465)**	**16,070**	**15,867**
Interest expense		(715)	(703)	(725)	(716)
Foreign exchange (loss) / gain		(68)	(69)	1,765	1,743
Net (loss) / profit before tax		**(13,460)**	**(13,237)**	**17,110**	**16,894**
Direct tax expense		(1,336)	(1,313)	(1,873)	(1,850)
Net (loss) / profit		**(14,795)**	**(14,550)**	**15,237**	**15,045**

1. Corporate information

Allied World Assurance Company, AG's (the "Company" or "Allied World") principal activity is to underwrite first and third party insurance and reinsurance risks. The Company was incorporated in Switzerland in the Canton of Zug on May 6, 2010 and is regulated by Swiss Financial Market Supervisory Authority ("FINMA") pursuant to the Insurance Supervisory Law. The Company is a wholly owned subsidiary of Allied World Assurance Company Holdings, GmbH, (the "Holding Company"). The Holding Company prepares consolidated financial statements according to the accounting principles generally accepted in the United States ("US GAAP"). On July 6, 2017, Fairfax Financial Holdings Limited, Canada acquired through Fairfax Financial Holdings Switzerland, GmbH the Company's then ultimate parent, Allied World Assurance Company Holdings, AG, which then merged with Fairfax (Switzerland) GmbH and the surviving entity was renamed Allied World Assurance Company Holdings, GmbH ("AWAC Holdings"). The Company has its head office at Park Tower, Gubelstrasse 24, 6300 Zug, Switzerland. The Company has an annual average of less than 50 full-time employees.

The balance sheet is shown as of December 31, 2017 and December 31, 2016. The income statement reflects the results of operations for the year of January 1, 2017 through December 31, 2017 and January 1, 2016 through December 31, 2016.

2. Significant accounting policies

The Company's Statutory Financial Statements are presented in accordance with the revised Swiss accounting and financial reporting legislation, Art. 957 to 962 Code of Obligation, and the relevant insurance supervisory law, particularly with regard to the revised Insurance Supervisory Ordinance and the revised Insurance Supervisory Ordinance - FINMA. The reporting and functional currency for the Company is United States Dollars ("USD"). Additionally, the Swiss Franc ("CHF") amount is shown for informational purposes. Unless otherwise stated, all amounts are rounded to the nearest thousand USD and thousand CHF.

a) <u>Cash and cash equivalents</u>

All cash and cash equivalents are considered to be cash on hand, deposits or highly liquid investments with an original maturity of three months or less at the time of purchase.

b) <u>Investments</u>

<u>Fixed maturity investments</u>

Investments in fixed maturity investments are carried at a maximum value equal to their amortized cost less impairment. Investment income comprises income received and receivable on fixed income securities, interest earned and accrued on cash and realized gains and losses on disposal of investments.

<u>Real estate</u>

Real estate held for investment and for own use is carried at cost value less depreciation.

c) Insurance reserves

The reserve for losses and loss expenses is comprised of two main elements: outstanding loss reserves (also known as “case reserves”) and reserves for losses incurred but not reported (also known as “IBNR”). Case reserves relate to known claims and represent management’s best estimate of the likely loss settlement. IBNR reserves require substantial judgment because they relate to unquantified events that, based on industry information, management’s experience and actuarial evaluation, can reasonably be expected to have occurred and are reasonably likely to result in a loss to the Company.

The unearned premium reserves represent the share of written premium for unexpired risks as at the balance sheet date.

Equalization reserves are calculated based on the business plan approved by FINMA.

d) Long term debt

Mortgage and other long term debt are valued at nominal value.

e) Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into USD at the exchange rate in effect on the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated into USD at the historical exchange rates. Foreign currency revenues and expenses are translated into USD at the exchange rates prevailing during the period.

f) Foreign currency translation

Although the Company’s reporting currency is USD, the Company also presents the financial statements in CHF. For the translation into CHF, the following methods were applied:

- Equity positions were translated at historical foreign exchange rates, whereas all other positions of the balance sheet presented were translated at the closing rate on the date of the statement of financial statements;
- Income and expenses were translated at the annual average rate; and
- All resulting exchange differences (gains and losses) were recognized in equity.

USD/CHF	**2017**	**2016**
Year-end rate	0.9846	1.0163
Annual average rate	0.9834	0.9874

g) Direct tax expenses

Direct tax expenses include Swiss and foreign income tax expenses and capital tax expense in Switzerland.

3. Insurance balance receivables and payables

The following tables show the current insurance balance receivables and payables as of December 31, 2017 and December 31, 2016.

Insurance balance receivables	2017		2016	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Receivables from intermediaries *	16,778	16,519	12,601	12,807
Receivables from (re)insurance companies	968	953	3,190	3,242
Total Insurance balance receivables	**17,746**	**17,472**	**15,791**	**16,049**

Insurance balance payables	2017		2016	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Payables to intermediaries *	228	224	2,721	2,765
Payables to (re)insurance companies	2,632	2,592	424	431
Total Insurance balance payables	**2,860**	**2,816**	**3,145**	**3,196**

*) The position from / to intermediaries includes balances to (re-)insurance companies, which act as intermediaries for the respective policy/treat

4. Other receivables and payables

The following tables show the other current receivables and payables as of December 31, 2017 and December 31, 2016.

Other receivables	2017		2016	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Receivables from third parties	28	28	-	-
Receivables from shareholder	1,160	1,142	-	-
Receivables from related parties	118	116	146	149
Total other receivables	**1,306**	**1,286**	**146**	**149**

Other payables	2017		2016	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Payables to third parties	2,690	2,649	2,552	2,594
Payables to shareholder	-	-	85	86
Payables to related parties	489	481	1,643	1,670
Total other payables	**3,179**	**3,130**	**4,280**	**4,350**

5. Insurance reserves

The breakdown of the insurance reserves indicating gross amount, reinsurers' share and the amount for own account as of December 31, 2017 and December 31, 2016 is shown in the following table:

	2017		2016	
as of December 31, (000's)	**USD**	**CHF**	**USD**	**CHF**
Reserves for losses and loss expenses, gross	222,297	218,873	170,603	173,384
Reserves for losses and loss expenses, ceded	(61,866)	(60,913)	(40,921)	(41,588)
Reserves for losses and loss expenses, net	**160,431**	**157,960**	**129,682**	**131,796**
Unearned premium, gross	36,119	35,563	30,070	30,560
Unearned premium, ceded	(11,819)	(11,637)	(10,967)	(11,146)
Unearned premium, net	**24,300**	**23,926**	**19,103**	**19,414**
Equalization reserve	**18,540**	**18,255**	**16,198**	**16,462**
Total Insurance reserve, net	**203,271**	**200,141**	**164,983**	**167,672**

In 2016, the Company changed its approach for calculating the equalization reserve to a stochastic model. The Company began writing insurance business in 2011 and the Company concluded that the available history is sufficient to start with the confidence interval based methodology. This change in methodology resulted in a release of equalization reserve of CHF 11.7 million.

6. Shareholder's equity

On the date of incorporation, the share capital of the Company amounted to CHF 0.1 million. On March 30, 2011, the Company obtained a license to conduct business in both the direct insurance and reinsurance markets (with the exception of life assurance activities) and changed its principal activities accordingly.

At that time, the Company also issued 9,900 fully paid-in registered shares at a par value of CHF 1,000 each. Total share capital after this capital increase amounts to 10,000 fully paid-in registered shares at a par value of CHF 1,000 each, totaling CHF 10.0 million as shown in the table below. Additionally, Allied World Assurance Company, Ltd, Bermuda, contributed CHF 40.5 million to the Company on March 30, 2011. As of March 31, 2011 the Company is directly owned by the Holding Company. On March 30, 2012, the Holding Company further contributed an amount of CHF 99.3 million to the Company's capital.

On July 7, 2017, a capital cash contribution of USD 0.5 million (CHF 0.5 million) was made to the Company in connection with the acceleration of share-based payments as a result of the acquisition of Allied World Assurance Company Holdings, AG by Fairfax Financial Holdings Limited.

The following table details movements in shareholder's equity from January 1, 2016 through December 31, 2017:

	Share capital		Statutory capital reserves		Retained earnings		Total shareholder's	
in 000's	**USD**	**CHF**	**USD**	**CHF**	**USD**	**CHF**	**USD**	**CHF**
Opening balance as of January 1, 2016	**10,112**	**10,000**	**141,326**	**139,758**	**25,624**	**25,322**	**177,062**	**175,080**
Transfer of the results	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	15,237	15,045	15,237	15,045
Foreign exchange revaluation	-	-	-	-	-	5,309	-	5,309
Balance as of December 31, 2016	**10,112**	**10,000**	**141,326**	**139,758**	**40,861**	**45,676**	**192,299**	**195,434**
Transfer of the results	-	-	-	-	-	-	-	-
(Loss) for the year	-	-	-	-	(14,795)	(14,550)	(14,795)	(14,550)
Capital contribution			504	484			504	484
Foreign exchange revaluation	-	-	-	-		(6,101)		(6,101)
Balance at of December 31, 2017	**10,112**	**10,000**	**141,830**	**140,242**	**26,066**	**25,025**	**178,008**	**175,267**

7. Breakdown between direct insurance and reinsurance business

The following table shows the breakdown of the insurance technical positions of the income statement by direct insurance and reinsurance business for the years ended December 31, 2017 and December 31, 2016.

	Direct Insurance				Reinsurance			
	2017		2016		2017		2016	
for the year ended December 31, (in 000's)	USD	CHF	USD	CHF	USD	CHF	USD	CHF
Gross written premium	38,944	38,299	36,731	36,267	56,569	55,630	49,873	49,243
Premium ceded	(20,873)	(20,526)	(18,108)	(17,879)	(10,840)	(10,660)	(9,970)	(9,844)
Net written premium	**18,071**	**17,773**	**18,623**	**18,388**	**45,729**	**44,970**	**39,903**	**39,399**
Change in reserves for unearned premium, gross	(1,430)	(1,407)	1,765	1,743	(4,619)	(4,541)	4,629	4,570
Change in reserves for unearned premium, ceded	719	706	2,571	2,539	134	132	(86)	(85)
Net premium earned	**17,360**	**17,072**	**22,959**	**22,670**	**41,244**	**40,561**	**44,446**	**43,884**
Total technical income from insurance activities	**17,360**	**17,072**	**22,959**	**22,670**	**41,244**	**40,561**	**44,446**	**43,884**
Losses and loss expenses paid, gross	(13,431)	(13,208)	(23,931)	(23,629)	(22,200)	(21,832)	(11,914)	(11,764)
Losses and loss expenses paid, ceded	3,422	3,366	6,243	6,164	149	146	19	19
Change in reserves for losses and loss expenses, gross	(38,509)	(37,870)	(20,533)	(20,274)	(9,517)	(9,359)	(17,207)	(16,989)
Change in reserves for losses and loss expenses, ceded	18,651	18,341	11,767	11,619	2,294	2,256	1,247	1,231
Change in equalization reserve	(1,431)	(1,407)	(1,341)	(1,324)	(912)	(897)	13,068	12,903
Net losses and loss expenses	**(31,298)**	**(30,778)**	**(27,795)**	**(27,444)**	**(30,186)**	**(29,686)**	**(14,787)**	**(14,600)**
Acquisition costs and administrative expenses, gross	(6,370)	(6,264)	(7,328)	(7,236)	(15,505)	(15,248)	(11,642)	(11,494)
Acquisition costs and administrative expenses, ceded	6,623	6,514	5,426	5,357	967	951	709	700
Net acquisition costs and administrative expenses	**253**	**250**	**(1,902)**	**(1,879)**	**(14,538)**	**(14,297)**	**(10,933)**	**(10,794)**
Total technical expenses from insurance activities	**(31,045)**	**(30,528)**	**(29,697)**	**(29,323)**	**(44,724)**	**(43,983)**	**(25,720)**	**(25,394)**

8. Investment result

The following table shows a breakdown of the investment income for the years ended December 31, 2017 and 2016.

Investment income	2017		2016	
for the year ended December 31, (in 000's)	USD	CHF	USD	CHF
Interest income	5,261	5,174	4,977	4,914
Rental income	771	758	772	762
Realized gains on bonds	1,140	1,121	168	166
Total net investment income	**7,172**	**7,053**	**5,917**	**5,842**

The following table shows a breakdown of the investment expenses for the years ended December 31, 2017 and 2016.

Investment expenses	**2017**		**2016**	
for the year ended December 31, (in '000's)	**USD**	**CHF**	**USD**	**CHF**
Amortization of bonds	127	125	376	371
Depreciation of real estate	639	629	640	632
Realized losses on bonds	1,446	1,422	137	135
Other investment expense	472	464	683	674
Total investment expenses	**2,684**	**2,640**	**1,836**	**1,812**

9. Net acquisition costs and administrative expenses

	2017		**2016**	
for the year ended December 31, (in '000's)	**USD**	**CHF**	**USD**	**CHF**
Acquisition costs	3,777	3,714	3,583	3,538
Personnel costs	5,509	5,418	3,960	3,910
Depreciation of real estate (fixed assets)	346	340	346	342
Other admin expenses	4,652	4,575	4,946	4,883
Net acquisition costs and administrative expenses	**14,284**	**14,047**	**12,835**	**12,673**

10. Supplementary information

	2017		**2016**	
As of December 31, (in '000's)	**USD**	**CHF**	**USD**	**CHF**
Total pledged assets	40,585	39,960	41,570	42,247
of which subject to a registered mortgage note *	18,204	18,000	18,204	18,000
Tied assets	164,145	161,489	126,868	128,936
Liability due to pension fund	-	-	2	2

* converted to CHF using historical foreign exchange rates

11. Subsequent events

There were no subsequent events between the balance sheet date and the date of approval of the financial statements.

12. Net release of hidden services

In 2017 and 2016, the Company did not release hidden reserves.

April 4, 2018

/S/ Scott A. Carmilani	/S/ Christoph Murg
Scott A. Carmilani	Christoph Murg
President of the Board	Vice President Finance / Treasurer

Allied World Assurance Company, AG

Proposed Appropriation of Available Earnings

(in USD)

(Proposed by Board of Directors)

Registered shares eligible for dividends

as of December 31,	**2017**
Eligible shares	10,000

Appropriation of available earnings proposed by Board of Directors

as of December 31,	**2017**
Balance brought forward	40,860,966
Loss for the year	(14,794,965)
Available earnings to be carried forward	**26,066,001**

The Board of Directors proposes to the shareholders at the annual general meeting to carry forward available earnings of USD 26,066,001 as shown in the table above.

On behalf of the Board of Directors

/S/ Scott A. Carmilani
Scott A. Carmilani
President of the Board