ALLIED WORLD ASSURANCE COMPANY, AG

FINANCIAL CONDITION REPORT

(FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2019)

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 Holdings" means Allied World Assurance Company Holdings, Ltd, and to the term "Allied World Group" means Allied World Holdings and its subsidiaries. The Allied World Group is majority owned by Fairfax Financial Holdings Limited ("Fairfax"). 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 after we electronically file our annual regulatory returns. 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 and reinsurance business. We, through our head office in Zug and Bermuda branch office, provide 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 $87.9 million in 2019 compared to $91.3 million in 2018 and an underwriting profit of $2.1 million in 2019 compared to an underwriting loss of $6.0 million in 2018. The Company reported a net profit of $7.1 million in 2019 compared to a net loss of $4.1 million in 2018. Further details on the Company's performance in 2019 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 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, 2019, the Company's Swiss Solvency Test (the "SST") ratio was 140.2% compared to 151% as of December 31, 2018. The target capital of $164.0 million for 2019 was $20.5 million higher than the prior year. The risk-bearing capital amounts to $220.8 million for 2019 and was $206.0 million for 2018. 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, 2019 and report of the external auditor thereon, are included in the appendices hereto.

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 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. During 2019, and in accordance with the Company's investment policy, the Company's investment portfolio expanded to include investments in collective investments and equities. As of December 31, 2019, collective investments and equities comprised 14.5% of the Company's investment portfolio.

Material Lines of Business and Geographic Areas:

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

Effective as of June 26, 2019, all of the issued and outstanding capital stock of the Company was transferred from Allied World Assurance Company Holdings, GmbH (the predecessor of Allied World Holdings) to another wholly-owned subsidiary of Allied World Holdings named Allied World Assurance Holdings (Ireland) Ltd ("AWHI"). As a result of this transfer, the immediate parent of the Company is AWHI. The Company's ultimate parent into which the results of the Company are consolidated is Fairfax.

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 Holdings, 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, 2019.

External Auditor:

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

Significant Events:

In early 2020, the Coronavirus outbreak was declared a global pandemic and has caused significant disruption to the U.S. and global economies and financial markets. The pandemic has caused significant market volatility and, due to its ongoing nature, the company is closely monitoring the developments and the impact on the Company's business, operations and investments (including asset prices, capital and liquidity positions and insurance exposures, among others) and the broader insurance industry in general.

B. 2019 Performance

Underwriting Performance:

The following table summarizes the net underwriting results for the years ended December 31, 2019 and 2018. Details by line of business can be seen in Appendix A (Annual Quantitative Reporting Templates).

Net underwriting results for the year ended December 31, 2019 and 2018 ($ m's)								
	Total		**Direct Swiss business**		**Direct non-Swiss business**		**Indirect business**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Gross premium written	87.9	91.3	1.9	0.8	28.7	33.3	57.3	57.3
Premium ceded	(32.1)	(35.1)	(1.0)	(0.4)	(21.6)	(21.2)	(9.5)	(13.5)
Net premium written	**55.8**	**56.2**	**0.9**	**0.4**	**7.1**	**12.1**	**47.8**	**43.8**
Change in gross unearned premium	1.1	5.1	(1.0)	-	2.1	1.8	-	3.3
Change in ceded unearned premium	0.5	1.4	0.5	-	0.1	1.0	(0.2)	0.4
Net premium earned	**57.4**	**62.7**	**0.4**	**0.4**	**9.3**	**14.9**	**47.6**	**47.5**
Total income from underwriting	**57.4**	**62.7**	**0.4**	**0.4**	**9.3**	**14.9**	**47.6**	**47.5**
Losses and loss expenses paid, gross	(81.1)	(48.7)	-	-	(43.2)	(22.5)	(37.8)	(26.2)
Losses and loss expenses paid, ceded	23.8	14.0	-	-	15.7	10.6	8.1	3.4
Change in reserves for losses and loss expenses, gross	15.2	(32.7)	(0.1)	0.6	23.8	(19.2)	(8.5)	(14.1)
Change in reserves for losses and loss expenses, ceded	0.5	11.7	0.1	(0.2)	2.4	11.1	(2.0)	0.8
Net losses and loss expenses	**(41.6)**	**(55.7)**	**-**	**0.4**	**(1.3)**	**(19.9)**	**(40.2)**	**(36.2)**
Acquisition costs and administrative expenses, gross	(21.0)	(20.8)	(0.7)	(2.1)	(5.2)	(4.1)	(15.1)	(14.6)
Acquisition costs and administrative expenses, ceded	7.3	7.8	0.3	0.1	6.2	6.3	0.8	1.3
Net acquisition costs and administrative expenses	**(13.7)**	**(13.0)**	**(0.4)**	**(1.9)**	**1.0**	**2.2**	**(14.3)**	**(13.3)**
Total expenses from underwriting business	**(55.3)**	**(68.7)**	**(0.4)**	**(1.6)**	**(0.3)**	**(17.7)**	**(54.5)**	**(49.5)**
Net underwriting profit/(loss)	**2.1**	**(6.0)**	**-**	**(1.2)**	**9.0**	**(2.8)**	**(6.9)**	**(2.0)**
Investment income	8.1	6.2						
Investment expenses	(4.3)	(2.2)						
Net investment income	**3.8**	**4.0**						
Operating result	**5.9**	**(2.0)**						
Interest expenses for interest-bearing liabilities	(0.5)	(0.6)						
Other income/(expenses)	1.4	(1.5)						
Net loss before taxes	**6.8**	**(4.1)**						
Direct tax benefit	0.3	-						
Net profit/(loss)	**7.1**	**(4.1)**						

Gross premium written for 2019 was $87.9 million, a decrease of $3.4 million from 2018, primarily due to a decrease in our non-Swiss professional lines writings but slightly offset by Swiss motor reinsurance business. Net premium written for 2019 was $55.8 million compared with $56.2 million for 2018. Ceded premium for 2019 was $32.1 million compared to $35.1 million in 2018, which was mainly driven by the decrease in the non-Swiss insurance business.

Net losses and loss expenses in 2019 amounted to $41.6 million compared to $55.7 million in 2018. The net loss ratio for the year decreased to 72.4% from 88.8% in 2018, an improvement primarily driven by a decrease in net claims incurred on insurance business in the Company's Bermuda Branch and on Swiss property reinsurance business. Net claims incurred increased primarily due to an increase in professional lines reinsurance business claims on business written by 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 $13.7 million for 2019 compared to $13.0 million for 2018. Net acquisition costs remained consistent with those reported in 2018 while administrative expenses decreased by $0.7 million in 2019.

Investment Performance:

The following table shows a breakdown of the investment income and expenses by asset classes for the years ended December 31, 2019 and 2018.

Investment income and expenses for the years ended December 31, 2019 and 2018 ($ m's)

	2019				2018		
	Debt Securities	Equity Securities	Real Estate	Total	Debt Securities	Real Estate	Total
Investment income	6.1	0.8	0.5	**7.4**	5.2	0.8	**6.0**
Accretion of bond	0.7	-	-	**0.7**	0.2	-	**0.2**
Total investment income	**6.8**	**0.8**	**0.5**	**8.1**	**5.4**	**0.8**	**6.2**
Amortization/depreciation	-	-	(0.6)	**(0.6)**	-	(0.6)	**(0.6)**
Realized losses	(1.8)	-	-	**(1.8)**	(0.1)	-	**(0.1)**
Other investment expenses	(1.9)	-	-	**(1.9)**	(1.5)	-	**(1.5)**
Total investment expenses	**(3.7)**	**-**	**(0.6)**	**(4.3)**	**(1.6)**	**(0.6)**	**(2.2)**
Total net investment return	**3.1**	**0.8**	**(0.1)**	**3.8**	**3.8**	**0.2**	**4.0**

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. During 2019, and in accordance with the Company's investment policy, the Company's investment portfolio expanded to include investments in collective investment undertakings and equities. As of December 31, 2019, collective investment undertakings and equities comprised 14.5% of the Company's investment portfolio.

Total net investment return for 2019 was $3.8 million compared to $4.0 million for 2018. The decrease in net investment return was driven by an increase in investment expenses of $2.1 million, which was partially offset by the increase in investment income of $1.9 million from the prior year. Rental income from real estate decreased in 2019 compared to prior year by $0.3 million. We realized net losses of $1.8 million in fixed maturity 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. Wesley D. Dupont, Chairman
- Mr. John R. Bender, Allied World Group director
- Mr. Martin Frey, independent non-executive director

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
- Ms. Sarah Mitchell, Vice President, Assistant General Counsel, with responsibility for the compliance function

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") process and reports; and

- Swiss Solvency Test model (the "SST"), which is used to determine regulatory solvency capital requirements and is comprised of FINMA's standard models for reinsurance (StandRe), market risk, credit risk and aggregation (collectively, the "FCM"), and an external vendor model for natural catastrophe risk.

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 SST results, 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 results, 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 reviewed by, the Board.

Mr. Eric Pizarro, Senior Vice President, Head of Capital Modelling, is the manager responsible for the Company's risk management function. Mr. Pizarro is a Zug-based employee of the Company and reports to management and the Board on risk management matters.

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.

Management 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. 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. 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.

Ms. Sarah Mitchell, Vice President, Assistant General Counsel, is the manager responsible for the Company's compliance function. Ms. Mitchell is a Zug-based employee of the Company and reports to management and the Board on compliance matters.

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' (the "IIA") 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 internal audit function, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any and all of the Company's records, physical properties and personnel pertinent to carrying out any engagement. All directors, officers and employees are requested to assist the Internal Audit Department in fulfilling its roles and responsibilities.

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 scope of internal auditing encompasses, but is not limited to, the objective examination and evaluation of evidence for the purpose of providing independent assessments to the Board and management on the adequacy and effectiveness of the Company's governance, risk management and internal controls. This includes:

- Evaluating risk exposure relating to the achievement of the Company's strategic objectives;

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information;

- Evaluating systems established to ensure compliance with policies, plans, procedures, laws and regulations that could have a significant impact on the Company;

- Evaluating the compliance of the Company's directors, officers and employees with policies, procedures and applicable laws, regulations and governance standards;

- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;

- Evaluating the effectiveness and efficiency with which resources are employed;

- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;

- Monitoring and evaluating governance processes and the effectiveness of the Company's risk management process;

- Assisting the Company's risk management function in assessing and validating the Company's ERM procedures;

- Performing consulting and advisory services related to governance, risk management and control as appropriate for the Company;

- Reporting periodically on the internal audit function's purpose, authority, responsibility and performance relative to its plan;

- Reporting significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by the Board;

- Evaluating specific operations at the request of the Board or management, as appropriate; and

- Assisting management in testing internal controls over financial reporting.

Annually, the head of the Company's internal audit function submits to senior management and the Board a risk-based internal audit plan for review and approval. The internal audit plan consists of a work schedule and resource requirements for the calendar year. The internal audit plan is developed based on a prioritization of the audit universe using a risk-based methodology, including input of management and the Board. The head of the Company's internal audit function reviews and adjusts the plan, as necessary, in response to changes in the Company's business, risks, operations, programs, systems and controls. Any significant deviation from the approved internal audit plan is communicated to management and the Board.

A written report is prepared and issued following the conclusion of each internal audit engagement and internal audit results are communicated to the Board. The internal audit report includes management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter, includes a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. The Company's internal audit function is responsible for appropriate follow-up on engagement findings and recommendations. All significant findings remain in an open issues file until cleared.

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.

The internal audit function maintains a quality assurance and improvement program that covers all aspects of internal audit activity. The program includes an evaluation of the function's conformance with the IIA's Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement.

D. Risk Profile

The Company utilizes various tools to assist in the identification and assessment of risks in order to obtain 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 amounts 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, equities and real estate. The Company has relatively small exposures to equities.
- *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, the FCM, 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 $38.7 million. The Company also holds $173.6 million of U.S. government bonds (including accrued interest). 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, 2019 ($ m's)	
	Expected Shortfall
1) Distribution based model	
Insurance risk	(130.8)
Market risk	(20.5)
(Insurance and market risk)	**(135.9)**
2) Aggregation with scenarios	
(Insurance and market risk) including scenarios	**(136.1)**
3) Expected Result (financial result, technical result)	
Expected insurance result	0.5
Expected financial performance over 1 year risk free	3.0
(Insurance and market risk) incl. expected result	**(132.6)**
4) Aggregation with credit risk	
Credit risk	(8.7)
Capital for insurance, market and credit risks (SCR)	**(141.3)**
5) Market value margin	
Discounted market value margin	(22.8)
Target capital	**(164.0)**

The insurance risk calculation incorporates 13 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, risk aggregation and market value margin are quantified using the FCM.

In 2019, the Company introduced equity holdings to its investment portfolio and reduced its holdings in government bonds. Otherwise, there have been no significant changes in the risks to which the Company is exposed in 2019 compared to 2018.

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, 2019:

Assets used for solvency purposes as of December 31, 2019 ($ m's)				
	Original Currency	Statutory	Market Value	Difference
Real estate	CHF	25.1	25.1	-
Fixed-income securities	Multiple	247.4	249.3	(1.9)
Equity Securities	USD	20.0	30.1	(10.1)
Other investments	USD	35.0	35.4	(0.4)
Collective investments	EUR	*15.7*	*16.1*	*(0.4)*
Asset backed securities	USD	*19.3*	*19.3*	-
Total investments		**327.5**	**339.9**	**12.4**
Other assets				
Cash and cash receivables	Multiple	23.1	23.1	-
Receivables from insurance business	Multiple	39.3	39.3	-
Fixed assets	Multiple	13.6	13.6	-
Other receivables	Multiple	1.0	1.0	-
Other assets	Multiple	3.1	3.1	-
Total other assets		**80.1**	**80.1**	**-**
Total market-consistent value of assets		**407.6**	**420.0**	**12.4**

The statutory amounts shown above are consistent with the Company's audited statutory financial statements as of December 31, 2019. Fixed maturity investments, equities, reinsurance recoverables (shown as negative liabilities) and other investments 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, 2019.

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 and other investments*: For solvency purposes, all investments are carried at their current fair value. For statutory purposes, they are carried at a maximum value equal to their amortized cost, less impairment. Under this valuation principle, the value of the fixed maturity investments (including other investments) as of December 31, 2019 is $2.3 million below their current market value.

- *Equities and collective investments*: For solvency purposes, all equities are carried at their current fair value. For statutory purposes, they are carried at a maximum value equal to their cost value, less impairment. Under this valuation principle, the value of the equity securities and collective investments as of December 31, 2019 is $10.5 million below their current market value.

Investments in government bonds, corporate bonds, collateralized securities, collective investment undertakings and equities are valued at market value. Market value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Market 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 their value. 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 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, 2019, 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, 2019 and 2018 is shown in the following table:

Insurance reserves as of December 31, 2019 and 2018 ($ m's)		
	2019	**2018**
Reserves for losses and loss expenses, gross	236.2	249.6
Reserves for losses and loss expenses, ceded	(74.1)	(73.5)
Reserves for losses and loss expenses, net	**162.1**	**176.1**
Unearned premium, gross	29.9	31.0
Unearned premium, ceded	(13.7)	(13.2)
Unearned premium, net	**16.2**	**17.8**
Equalization reserve	**20.2**	**21.4**
Total insurance reserve, net	**198.5**	**215.3**

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, 2019:

Liabilities used for solvency purposes as of December 31, 2019 ($ m's)				
	Original Currency	**Statutory**	**Market Value**	**Difference**
Reserves for losses and loss expenses, gross	Multiple	236.2	226.7	9.5
Reserves for losses and loss expenses, ceded	Multiple	(74.1)	(70.2)	(3.9)
Unearned premium, gross	Multiple	29.9	27.9	2.0
Unearned premium, ceded	Multiple	(13.7)	(13.1)	(0.6)
Equalization reserve	USD	20.2	-	20.2
Other long-term debt	CHF	16.9	16.9	-
Insurance payables	Multiple	5.5	5.5	-
Accrued liabilities	Multiple	1.1	1.1	-
Other payables	Multiple	4.4	4.4	-
Total liabilities		**226.4**	**199.2**	**27.2**

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 purchases reinsurance from over 40 reinsurers for its current year exposures.

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 expense 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 the FINMA mandated discount rates for the currency of the corresponding line.

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 2020 net combined loss ratio for the given line of business. 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; and
- The inclusion of equalization reserves in the Company's statutory balance sheet (as of December 31, 2019, the equalization reserves amounted to $20.2 million and are not included in the market valuation of liabilities)

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, 2019 and 2018 is shown in the following table:

Statutory own funds (shareholders' equity) as of December 31, 2019 and 2018 ($ m's)		
	2019	**2018**
Share capital	10.1	10.1
Capital reserve from tax capital contributions	40.9	40.9
Other statutory capital reserve	100.9	100.9
Retained earnings	29.1	22.0
Total statutory own funds	**181.0**	**173.9**

The aggregate composition of the risk-bearing capital as of December 31, 2019 and 2018 is as follows (and the complete composition can be seen in Appendix A (Annual Quantitative Reporting Templates - Market-consistent Balance Sheet Solo):

Market-consistent Balance Sheet as of December 31, 2019 and 2018 ($ m's)			
	2019	**2018**	**Difference**
Total investments	339.9	364.7	(24.8)
Total other assets	80.1	51.2	28.9
Total market-consistent value of assets	**420.0**	**415.9**	**4.1**
Total best estimate provision for liabilities	*254.6*	*261.9*	(7.3)
Total reinsurers' share of liabilities	*(83.3)*	*(80.1)*	(3.2)
Total insurance technical liabilities	171.3	181.8	(10.5)
Total other liabilities	27.9	28.1	(0.2)
Total market-consistent value of liabilities	**199.2**	**209.9**	**(10.7)**
Risk-bearing capital	**220.8**	**206.0**	**14.8**

The following table contains a reconciliation of statutory own funds and market value risk-bearing capital as of December 31, 2019 and 2018:

Risk-bearing capital as of December 31, 2019 and 2018 ($ m's)		
	2019	2018
Total statutory own funds	**181.0**	**173.9**
Re-evaluation of investments	12.4	(3.4)
Equalization reserves	20.2	21.4
Re-evaluation of technical reserves	7.2	12.0
Re-evaluation of receivables/payables	-	2.1
Risk-bearing capital	**220.8**	**206.0**

The risk bearing capital increased by $14.8 million to $220.8 million in 2019 compared to 2018. The increase is primarily driven by the higher deviation of the market value of the investments compared to the cost value, which increased by $15.8 million. This was partly offset by the market-consistent valuation of the technical liabilities, which decreased by $6.0 million.

Furthermore, 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 13 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 Company continues to model its largest risk, natural catastrophe, with the same external model. Market risk, credit risk, aggregation with insurance risk and the risk margin were calculated in the FCM.

Components of the Target Capital:

The following are the components of target capital (as specified in the SST standard template) as of December 31, 2019 and 2018:

Target capital as of December 31, 2019 and 2018 ($ m's)		
Expected shortfall @ 99%	**2019**	**2018**
Insurance risk	(130.8)	(117.6)
Market risk	(20.5)	(10.7)
(Insurance and market risk)	**(135.9)**	**(119.7)**
(Insurance and market risk) including scenarios	**(136.1)**	**(119.9)**
Expected Results		
Insurance result	0.5	4.3
Financial result	3.0	1.3
Expected shortfall (insurance and market risk) including expected results	**(132.6)**	**(114.2)**
Credit risk	(8.7)	(7.5)
Risk margin	(22.8)	(21.9)
Total target capital	**(164.0)**	**(143.5)**

The increase in market risk is primarily due to changes in the investment portfolio. The increase in insurance risk reflects an increase in natural catastrophe exposure.

Components of Market Risk:

The table below shows the major components of market risk as of December 31, 2019 and 2018:

Market risk as of December 31, 2019 and 2018 ($ m's)		
Market Risk (Expected shortfall @ 99%)	**2019**	**2018**
Interest rate risk	(12.8)	(5.5)
Interest rate CHF	(0.5)	(0.5)
Interest rate EUR	(7.2)	(3.9)
Interest rate $	(18.7)	(6.6)
Interest rate GBP	(4.8)	(4.7)
Spreads	(10.8)	(2.1)
FX-risk total	(8.1)	(9.4)
Equity	(12.5)	-
Real estate	(6.9)	(6.7)
Total	**(20.5)**	**(10.7)**

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, 2019 and 2018:

Insurance Risk as of December 31, 2019 and 2018 ($ m's)		
Insurance Risk (ES @ 99%)	**2019**	**2018**
Reserve risk – attritional	(59.9)	(58.7)
Individual events - prior years	(26.5)	(24.4)
Premium risk – attritional	(19.8)	(22.9)
Individual events - current year	(70.8)	(79.2)
Natural catastrophe events	(99.5)	(92.3)
Diversification	145.7	159.9
Total insurance risk	**(130.8)**	**(117.6)**

Insurance risk increased as a result of higher natural catastrophe risk, due to greater inwards reinsurance exposure. In addition, the diversification credit has decreased, which reflects the relatively smaller size of individual events (current year) relative to the other insurance risk components. The following table shows a comparison of the SST ratio components as of December 31, 2019 and 2018:

Solvency as of December 31, 2019 and 2018 ($ m's)		
	2019	2018
Capital for insurance, market and credit risks (SCR)	(141.3)	(121.7)
Risk margin	(22.8)	(21.9)
Target capital	**(164.0)**	**(143.5)**
Risk-bearing capital	**(220.8)**	**(206.0)**
SST Ratio	**140.2%**	**151.3%**

The decrease in the SST ratio reflects the increase in the SCR, which in turn is the result of an increase in insurance risk and market risk, as discussed above.

Appendices

Annual Quantitative Reporting Templates

Financial situation report: quantitative template "Performance Solo NL"

Currency: USD or annual report currency
Amounts stated in millions

		Total		Direct Swiss business						Direct non-Swiss business	
				Fire, natural hazards, property damage		General third-party liability		Other branches		Total	
		2018	2019	2018	2019	2018	2019	Previous year	2019	2018	2019
1	Gross premiums	91.3	87.9	0.1	0.0	0.0	0.1	0.7	1.8	33.3	28.7
2	Reinsurers' share of gross premiums	(35.1)	(32.1)	(0.1)	(0.0)	(0.3)	(0.0)	(0.1)	(1.0)	(21.2)	(21.6)
3	Premiums for own account (1 + 2)	56.2	55.8	0.0	(0.0)	(0.3)	0.1	0.6	0.8	12.1	7.1
4	Change in unearned premium reserves	5.1	1.1	(0.0)	0.0	0.0	0.0	0.0	(1.0)	1.8	2.1
5	Reinsurers' share of change in unearned premium reserves	1.4	0.5	0.0	(0.0)	(0.0)	(0.0)	(0.0)	0.5	1.0	0.1
6	Premiums earned for own account (3 + 4 + 5)	62.7	57.4	0.0	0.0	(0.3)	0.1	0.6	0.3	14.9	9.3
7	Other income from insurance business	-	-	-	-	-	-	-	-	-	-
8	**Total income from underwriting business (6 + 7)**	62.7	57.4	0.0	-	(0.3)	0.1	0.6	0.3	14.9	9.3
9	Payments for insurance claims (gross)	(48.7)	(81.1)	-	-	-	(0.0)	(0.0)	-	(22.5)	(43.2)
10	Reinsurers' share of payments for insurance claims	14.0	23.8	-	-	-	-	-	-	10.6	15.7
11	Change in technical provisions	(32.7)	15.1	(0.0)	(0.0)	0.3	(0.1)	0.3	(0.0)	(19.3)	23.8
12	Reinsurers' share of change in technical provisions	11.7	0.6	0.0	(0.0)	(0.1)	0.1	(0.1)	0.0	11.1	2.4
13	Change in technical provisions for unit-linked life insurance	-	-	-	-	-	-	-	-	-	-
14	**Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)**	(55.7)	(41.6)	(0.0)	-	0.2	-	0.2	-	(19.9)	(1.3)
15	Acquisition and administration expenses	(20.8)	(21.0)	(0.0)	(0.0)	(0.8)	(0.1)	(1.2)	(0.6)	(4.1)	(5.2)
16	Reinsurers' share of acquisition and administration expenses	7.8	7.4	0.0	0.0	0.1	0.0	0.0	0.3	6.3	6.2
17	Acquisition and administration expenses for own account (15 + 16)	(13.0)	(13.6)	(0.0)	(0.0)	(0.7)	(0.1)	(1.2)	(0.3)	2.2	1.0
18	Other underwriting expenses for own account	-	-							-	-
19	**Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)**	(68.7)	(55.2)	(0.0)	-	(0.5)	(0.1)	(1.0)	(0.3)	(17.7)	(0.3)
20	Investment income	6.2	8.1								
21	Investment expenses	(2.2)	(4.3)								
22	**Net investment income (20 + 21)**	4.0	3.8								
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)**	(2.0)	6.0								
27	Interest expenses for interest-bearing liabilities	(0.6)	(0.5)								
28	Other income	-	1.4								
29	Other expenses	(1.5)	-								
30	Extraordinary income/expenses	-	-								
31	**Profit / loss before taxes (26 + 27 + 28 + 29 + 30)**	(4.1)	6.9								
32	Direct taxes	-	0.3								
33	**Profit / loss (31 + 32)**	(4.1)	7.2								

Financial situation report: quantitative template "Performar NL"

		Indirect business											
		Personal accident		Motor		Marine, aviation, transport		Property		Casualty		Miscellaneous	
		2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
1	Gross premiums	0.1	0.1	12.7	14.7	0.0	0.0	30.3	30.1	1.8	2.2	12.3	10.2
2	Reinsurers' share of gross premiums	-	-	(0.5)	(1.8)	-	-	(10.0)	(6.0)	-	-	(3.0)	(1.7)
3	Premiums for own account (1 + 2)	0.1	0.1	12.3	12.9	0.0	0.0	20.2	24.2	1.8	2.2	9.3	8.4
4	Change in unearned premium reserves	-	-	(1.7)	0.0	0.1	-	0.3	0.6	3.6	(0.1)	1.0	(0.5)
5	Reinsurers' share of change in unearned premium reserves	-	-	0.0	0.0	-	-	0.1	(0.2)	-	-	0.2	0.0
6	Premiums earned for own account (3 + 4 + 5)	0.1	0.1	10.6	12.9	0.2	0.0	20.6	24.5	5.4	2.2	10.6	8.0
7	Other income from insurance business	-	-	-	-	-	-	-	-	-	-	-	-
8	**Total income from underwriting business (6 + 7)**	0.1	0.1	10.6	12.9	0.2	-	20.6	24.5	5.4	2.2	10.6	8.0
9	Payments for insurance claims (gross)	-	-	(3.1)	(2.3)	(0.3)	(0.1)	(10.7)	(7.2)	(1.8)	(2.2)	(10.3)	(26.0)
10	Reinsurers' share of payments for insurance claims	-	-	-	-	-	-	0.2	0.6	-	-	3.1	7.4
11	Change in technical provisions	0.4	0.1	(6.0)	(9.0)	0.5	0.1	(4.6)	3.1	(3.5)	(0.0)	(1.0)	(2.7)
12	Reinsurers' share of change in technical provisions	-	-	0.2	(0.3)	-	-	(0.5)	(0.8)	(0.1)	(0.0)	1.3	(0.9)
13	Change in technical provisions for unit-linked life insurance		-										
14	**Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)**	0.4	0.1	(8.9)	(11.6)	0.2	(0.1)	(15.7)	(4.2)	(5.3)	(2.2)	(6.9)	(22.2)
15	Acquisition and administration expenses	(0.0)	(0.0)	(3.9)	(4.5)	(0.0)	(0.0)	(6.0)	(6.4)	(0.8)	(0.6)	(3.9)	(3.6)
16	Reinsurers' share of acquisition and administration expenses	-	-	(0.0)	(0.0)	-	-	0.4	0.3	-	0.0	1.0	0.5
17	Acquisition and administration expenses for own account (15 + 16)	(0.0)	(0.0)	(3.9)	(4.5)	(0.0)	(0.0)	(5.6)	(6.1)	(0.8)	(0.6)	(2.9)	(3.1)
18	Other underwriting expenses for own account												
19	**Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)**	0.3	0.1	(12.8)	(16.1)	0.2	(0.1)	(21.3)	(10.3)	(6.2)	(2.8)	(9.7)	(25.2)
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 or currency for SST reporting
Amounts stated in millions

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
Market-consistent value of investments	Real estate	24.3		25.1
	Shareholdings		-	
	Fixed-income securities	319.2	-	249.3
	Loans		-	
	Mortgages		-	
	Equities		-	30.1
	Other investments	21.3	-	35.4
	Collective investment schemes		-	16.1
	Alternative investments		-	
	Other investments	21.3	-	19.3
	Total investments	364.7	-	339.9
	Financial investments from unit-linked life insurance		-	
	Receivables from derivative financial instruments		-	
Market-consistent value of other assets	Cash and cash equivalents	11.0	-	23.1
	Receivables from insurance business	25.0	-	39.3
	Other receivables	0.0	-	1.0
	Other assets	15.1		16.7
	Total other assets	51.2	-	80.1
Total market-consistent value of assets	Total market-consistent value of assets	415.9	-	420.0

Best estimate liabilities (BEL)	Best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)	-	-	
	Direct insurance: non-life insurance business	151.8	-	134.1
	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	110.1	-	120.6
	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	(74.0)	-	(78.6)
	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	(6.2)	-	(4.7)
	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	1.1	-	1.1
	Interest-bearing liabilities	17.0	-	16.9
	Liabilities from derivative financial instruments		-	
	Deposits retained on ceded reinsurance		-	
	Liabilities from insurance business	7.8	-	5.5
	Other liabilities	2.2	-	4.4
Total BEL plus market-consistent value of other liabilities	Total BEL plus market-consistent value of other liabilities	209.9	-	199.2

	Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	206.0	-	220.8

Financial situation report: quantitative template "Solvency Solo"

Currency: USD for SST reporting
Amounts stated in millions

		Ref. date previous period in USD millions	Adjustments previous period in USD millions	Ref. date reporting year in USD millions
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	205.8		220.8
	Deductions			
	Core capital	**205.8**		**220.8**
	Supplementary capital			
	RBC	**205.8**		**220.8**

		Ref. date previous period in USD millions	Adjustments previous period in USD millions	Ref. date reporting year in USD millions
Derivation of target capital	Underwriting risk	117.6		130.8
	Market risk	10.7		20.5
	Diversification effects	(8.5)		(15.3)
	Credit risk	7.5		8.7
	Risk margin and other effects on target capital	16.3		19.4
	Target capital	**143.5**		**164.0**

	Ref. date previous period in %	Adjustments previous period in %	Ref. date reporting year in %
SST ratio	**151.3%**		**140.2%**

Report of the Statutory Auditor

Allied World Assurance Company, AG
Zug

Report of the statutory auditor
to the General Meeting

on the financial statements 2019

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 2019.

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 2019 comply with Swiss law and the company's articles of incorporation.

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.

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

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

Ray Kunz	Ireen Ranneberg
Audit expert Auditor in charge	Audit expert

Zürich, 29 April 2020

Enclosures:

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

Allied World Assurance Company, AG

Statutory Balance Sheet

as of December 31, 2019 and December 31, 2018

		2019		2018	
as of December 31, (in 000's)	**Notes**	**USD**	**CHF**	**USD**	**CHF**
ASSETS					
Real estate		25,066	24,593	24,309	24,165
Fixed maturity investments		247,395	242,718	343,911	341,882
Equity securities		20,000	19,622	-	-
Other investments	3	35,037	34,375	-	-
Reinsurance funds held		7,559	7,416	5,936	5,901
Cash and cash equivalents		23,055	22,620	11,004	10,939
Reinsurance recoverable	**6**	87,726	86,068	86,735	86,223
Fixed assets		13,607	13,350	13,469	13,390
Insurance balance receivable	**4**	31,693	31,094	19,307	19,193
Other receivables	**5**	999	980	96	96
Other assets		525	515	632	628
Accrued assets		2,534	2,486	1,027	1,021
Total assets		**495,196**	**485,837**	**506,426**	**503,438**
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Reserves for losses and loss expenses	**6**	236,240	231,775	249,594	248,121
Unearned premium reserves	**6**	29,894	29,329	31,010	30,827
Equalization reserve	**6**	20,165	19,784	21,405	21,278
Interest-bearing liabilities		16,894	16,575	16,975	16,876
Insurance payables	**4**	5,475	5,371	8,014	7,967
Other payables	**5**	4,392	4,309	4,403	4,377
Accrued liabilities		1,122	1,100	1,096	1,089
Total liabilities		**314,182**	**308,243**	**332,497**	**330,535**
Shareholder's equity					
Share capital	**7**	10,112	10,000	10,112	10,000
Statutory capital reserve					
Capital reserves from tax capital contribution		40,953	40,484	40,953	40,484
Total statutory capital reserves from tax capital contribution		40,953	40,484	40,953	40,484
Other statutory capital reserve		100,877	99,758	100,877	99,758
Total statutory capital reserves	**7**	**141,830**	**140,242**	**141,830**	**140,242**
Retained earnings					
Carried forward		21,987	20,310	26,066	26,639
Net profit (loss)		7,085	7,041	(4,079)	(3,978)
Total retained earnings	**7**	**29,072**	**27,351**	**21,987**	**22,661**
Total shareholder's equity	**7**	**181,014**	**177,593**	**173,929**	**172,903**
Total liabilities and shareholder's equity		**495,196**	**485,836**	**506,426**	**503,438**

Allied World Assurance Company, AG

Statutory Income Statement

for the years ended December 31, 2019 and December 31, 2018

for the years ended December 31, (in 000's)	Notes	2019 USD	2019 CHF	2018 USD	2018 CHF
Gross written premium		87,937	87,399	91,335	89,065
Premium ceded		(32,083)	(31,887)	(35,131)	(34,257)
Net written premium		**55,854**	**55,512**	**56,204**	**54,808**
Change in reserves for unearned premium, gross		1,117	1,110	5,109	4,982
Change in reserves for unearned premium, ceded		463	460	1,379	1,345
Net premium earned		**57,434**	**57,082**	**62,692**	**61,135**
Total technical income from insurance activities	**8**	**57,434**	**57,082**	**62,692**	**61,135**
Losses and loss expenses paid, gross		(81,061)	(80,565)	(48,654)	(47,445)
Losses and loss expenses paid, ceded		23,770	23,625	13,987	13,640
Change in reserves for losses and loss expenses, gross		13,995	13,909	(29,835)	(29,094)
Change in reserves for losses and loss expenses, ceded		484	481	11,671	11,381
Change in equalization reserve		1,240	1,232	(2,864)	(2,793)
Net losses and loss expenses		**(41,572)**	**(41,318)**	**(55,695)**	**(54,311)**
Acquisition costs and administrative expenses, gross		(21,022)	(20,894)	(20,845)	(20,327)
Acquisition costs and administrative expenses, ceded		7,325	7,280	7,821	7,627
Net acquisition costs and administrative expenses	**10**	**(13,697)**	**(13,614)**	**(13,024)**	**(12,700)**
Total technical expenses from insurance activities		**(55,269)**	**(54,932)**	**(68,719)**	**(67,011)**
Investment income	**9**	8,095	8,045	6,216	6,062
Investment expenses	**9**	(4,301)	(4,275)	(2,212)	(2,158)
Investment result		**3,794**	**3,770**	**4,004**	**3,904**
Total operating result		**5,959**	**5,920**	**(2,023)**	**(1,972)**
Interest expense		(540)	(537)	(637)	(622)
Foreign exchange gain (loss)		1,406	1,399	(1,452)	(1,414)
Net profit (loss) before tax		**6,825**	**6,782**	**(4,112)**	**(4,010)**
Direct tax expense		260	259	33	32
Net profit (loss)		**7,085**	**7,041**	**(4,079)**	**(3,978)**

1. Corporate information

The Company's 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 FINMA pursuant to the Insurance Supervisory Law. The Company is an indirect subsidiary of Allied World Assurance Company Holdings, Ltd, a Bermuda company, which prepares consolidated financial statements according to the accounting principles generally accepted in the United States ("US GAAP").

Effective as of July 2, 2019, Allied World Assurance Company Holdings, GmbH, that served as one of the principal holding companies of the Allied World Group, re-domesticated to Bermuda and became a Bermuda company ("AWACH Bermuda"). Effective as of July 3, 2019, Fairfax Financial Holdings (Switzerland) GmbH, the 100% direct parent entity of Allied World Assurance Company Holdings, GmbH, also re-domesticated to Bermuda and became a Bermuda company. ("FFH (Bermuda)"). Effective as of July 10, 2019, FFH (Bermuda) effected a merger with AWACH Bermuda under Bermuda law pursuant to which FFH (Bermuda) became the surviving entity and assumed all of the assets and liabilities of AWACH Bermuda. In connection with this merger, the surviving entity assumed AWACH Bermuda's name – i.e., "Allied World Assurance Company Holdings, Ltd".
Effective as of June 26, 2019, all of the issued and outstanding capital stock of the Company was transferred from its previous owner (Allied World Assurance Company Holdings, GmbH) to another entity in the Allied World Group (Allied World Assurance Holdings (Ireland) Ltd).

The Company has its head office at Park Tower, Gubelstrasse 24, 6300 Zug, Switzerland and has an annual average of less than 50 full-time employees.

The balance sheet is shown as of December 31, 2019 and December 31, 2018. The income statement reflects the results of operations for the year of January 1, 2019 through December 31, 2019 and January 1, 2018 through December 31, 2018.

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) Investments

Fixed maturity investments
Investments in fixed maturity investments are carried at a maximum value equal to their amortized cost less impairment.

Equity securities
Equity securities that are quoted on a stock exchange are carried at a maximum value equal to their cost less impairment.

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

Other investments
Other investments consist of asset-backed and mortgage-backed securities which are carried at amortized cost less impairment and investment funds which are carried at cost less impairment.

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	2019	2018
Year-end rate	0.9811	0.9941
Annual average rate	0.9939	0.9751

g) Direct tax expenses

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

3. Other investments

Other investments	2019		2018	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Asset-backed securities	10,733	10,530	-	-
Mortgage-backed securities	8,562	8,400	-	-
Equity investment funds	15,742	15,444	-	-
Total Other investments	**35,037**	**34,374**	-	**-**

In 2019, the presentation of other investments has changed. The reclassification has no impact on the financial statements. In 2018, asset-backed securities and mortgage-backed securities would have amounted to USD 12.9 million (CHF 12.8 million) and USD 8.6 million (CHF 8.5 million), respectively.

4. Insurance balance receivables and payables

The following tables show the current insurance balance receivables and payables as of December 31, 2019 and December 31, 2018.

Insurance balance receivables	**2019**		**2018**	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Receivables from intermediaries *	24,654	24,188	18,956	18,844
Receivables from (re)insurance companies	2,652	2,602	117	116
Receivables from group companies	4,387	4,304	234	233
Total Insurance balance receivables	**31,693**	**31,094**	**19,307**	**19,193**

Insurance balance payables	**2019**		**2018**	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Payables to intermediaries *	3,329	3,267	1,461	1,453
Payables to (re)insurance companies	1,987	1,948	1,039	1,033
Payables to group companies	159	156	5,514	5,481
Total Insurance balance payables	**5,475**	**5,371**	**8,014**	**7,967**

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

5. Other receivables and payables

The following tables show the other current receivables and payables as of December 31, 2019 and December 31, 2018.

Other receivables	**2019**		**2018**	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Receivables from third parties	34	33	28	28
Receivables from shareholder	936	918	-	-
Receivables from related parties	29	29	68	68
Total other receivables	**999**	**980**	**96**	**96**

Other payables	**2019**		**2018**	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Payables to third parties	2,594	2,545	2,355	2,341
Payables to shareholder	-	-	93	93
Payables to related parties	1,798	1,764	1,955	1,943
Total other payables	**4,392**	**4,309**	**4,403**	**4,377**

6. Insurance reserves

The breakdown of the insurance reserves indicating gross amount, reinsurers' share and the amount for own account as of December 31, 2019 and December 31, 2018 is shown in the following table:

as of December 31, (000's)	**2019**		**2018**	
	USD	**CHF**	**USD**	**CHF**
Reserves for losses and loss expenses, gross	236,240	231,775	249,594	248,121
Reserves for losses and loss expenses, ceded	(74,065)	(72,666)	(73,537)	(73,103)
Reserves for losses and loss expenses, net	**162,175**	**159,109**	**176,057**	**175,018**
Unearned premium, gross	29,894	29,329	31,010	30,827
Unearned premium, ceded	(13,661)	(13,403)	(13,198)	(13,120)
Unearned premium, net	**16,233**	**15,926**	**17,812**	**17,707**
Equalization reserve	**20,165**	**19,784**	**21,405**	**21,278**
Total Insurance reserve, net	**198,573**	**194,819**	**215,274**	**214,003**

7. 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 contributed CHF 40.5 million to the Company on March 30, 2011. On March 31, 2011, the Company became directly owned by Allied World assurance Company Holdings, AG. On March 30, 2012, Allied World Assurance Company Holdings, AG 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, 2018 through December 31, 2019:

	Share capital		Statutory capital		Retained earnings		Total	
in 000's	**USD**	**CHF**	**USD**	**CHF**	**USD**	**CHF**	**USD**	**CHF**
Opening balance as of January 1, 2018	**10,112**	**10,000**	**141,830**	**140,242**	**26,066**	**25,025**	**178,008**	**175,267**
Transfer of the results	-	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	(4,079)	(3,978)	(4,079)	(3,978)
Foreign exchange revaluation	-	-	-	-	-	1,614	-	1,614
Balance as of December 31, 2018	**10,112**	**10,000**	**141,830**	**140,242**	**21,987**	**22,661**	**173,929**	**172,903**
Transfer of the results	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	7,085	7,041	7,085	7,041
Foreign exchange revaluation	-	-	-	-	-	(2,351)	-	(2,351)
Balance at of December 31, 2019	**10,112**	**10,000**	**141,830**	**140,242**	**29,072**	**27,351**	**181,014**	**177,593**

8. 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, 2019 and December 31, 2018.

	Direct Insurance				Reinsurance			
	2019		2018		2019		2018	
for the year ended December 31, (in 000's)	USD	CHF	USD	CHF	USD	CHF	USD	CHF
Gross written premium	30,635	30,448	34,073	33,227	57,302	56,950	57,262	55,838
Premium ceded	(22,577)	(22,439)	(21,629)	(21,090)	(9,506)	(9,447)	(13,502)	(13,167)
Net written premium	**8,058**	**8,009**	**12,444**	**12,137**	**47,796**	**47,503**	**43,760**	**42,671**
Change in reserves for unearned premium, gross	1,081	1,075	1,776	1,731	35	35	3,333	3,251
Change in reserves for unearned premium, ceded	647	643	1,011	986	(184)	(183)	368	359
Net premium earned	**9,786**	**9,727**	**15,231**	**14,854**	**47,647**	**47,355**	**47,461**	**46,281**
Total technical income from insurance activities	**9,786**	**9,727**	**15,231**	**14,854**	**47,647**	**47,355**	**47,461**	**46,281**
Losses and loss expenses paid, gross	(43,232)	(42,967)	(22,486)	(21,927)	(37,829)	(37,597)	(26,168)	(25,518)
Losses and loss expenses paid, ceded	15,689	15,593	10,620	10,357	8,081	8,032	3,367	3,283
Change in reserves for losses and loss expenses, gross	21,188	21,059	(16,739)	(16,323)	(7,194)	(7,150)	(13,096)	(12,771)
Change in reserves for losses and loss expenses, ceded	2,491	2,476	10,907	10,636	(2,007)	(1,995)	764	745
Change in equalization reserve	2,516	2,501	(1,828)	(1,783)	(1,276)	(1,268)	(1,036)	(1,010)
Net losses and loss expenses	**(1,347)**	**(1,338)**	**(19,526)**	**(19,040)**	**(40,225)**	**(39,978)**	**(36,169)**	**(35,271)**
Acquisition costs and administrative expenses, gross	(5,932)	(5,896)	(6,209)	(6,054)	(15,090)	(14,998)	(14,636)	(14,273)
Acquisition costs and administrative expenses, ceded	6,490	6,451	6,492	6,331	835	830	1,329	1,296
Net acquisition costs and administrative expenses	**558**	**555**	**283**	**277**	**(14,225)**	**(14,168)**	**(13,307)**	**(12,977)**
Total technical expenses from insurance activities	**(789)**	**(784)**	**(19,243)**	**(18,763)**	**(54,480)**	**(54,147)**	**(49,476)**	**(48,248)**
Underwriting result	**8,997**	**8,942**	**(4,012)**	**(3,909)**	**(6,833)**	**(6,792)**	**(2,015)**	**(1,967)**

9. Investment results

The following table shows a breakdown of the investment income for the years ended December 31, 2019 and 2018.

Investment income	**2019**		**2018**	
for the year ended December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Interest income	6,050	6,013	5,234	5,103
Dividend income	796	791	-	-
Rental income	544	541	770	751
Realized gains on bonds	14	14	18	18
Accretion of bond	600	596	194	190
Other investment income	91	90	-	-
Total net investment income	**8,095**	**8,045**	**6,216**	**6,062**

The following table shows a breakdown of the investment expenses for the years ended December 31, 2019 and 2018.

Investment expenses	**2019**		**2018**	
for the year ended December 31, (in '000's)	**USD**	**CHF**	**USD**	**CHF**
Amortization of bonds	-	-	-	-
Depreciation of real estate	639	636	639	624
Realized losses on bonds	1,771	1,760	76	74
Other investment expense	1,891	1,879	1,497	1,460
Total investment expenses	**4,301**	**4,275**	**2,212**	**2,158**

10. Net acquisition costs and administrative expenses

The following table shows a breakdown of the net acquisition costs and administrative expenses for the years ended December 31, 2019 and 2018.

	2019		**2018**	
for the year ended December 31, (in '000's)	**USD**	**CHF**	**USD**	**CHF**
Acquisition costs	4,448	4,421	3,226	3,146
Personnel costs	4,840	4,810	4,728	4,611
Depreciation of real estate (fixed assets)	347	345	347	338
Other admin expenses	4,062	4,038	4,723	4,605
Net acquisition costs and administrative expenses	**13,697**	**13,614**	**13,024**	**12,700**

11. Supplementary information

As of December 31, (in '000's)	2019 USD	2019 CHF	2018 USD	2018 CHF
Total pledged assets	38,674	37,943	39,660	39,426
of which subject to a registered mortgage note *	18,204	18,000	18,204	18,000
Tied assets	205,451	201,568	202,599	201,404

* converted to CHF using historical foreign exchange rates

12. Subsequent events

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are approved by the Shareholders' Annual General Meeting ("AGM") to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. In early 2020, the Coronavirus outbreak was declared a global pandemic and has caused significant disruption to the Swiss and global economies. Due to the continued ongoing nature of this global pandemic, the Company is unable to estimate the financial statement impact to the Company at this time. The Company is closely monitoring the developments and the potential impact on the Company's business, operations and investments (e.g., asset prices, capital and liquidity positions, insurance exposures). Subsequent events have been evaluated through April 29, 2020, the date that the financial statements were approved at the AGM.

13. Net release of hidden services

In 2019 and 2018, the Company did not release hidden reserves.

April 29, 2020

Wesley Dupont
Chairman of the Board

Christoph Murg
Vice President, Finance & Treasurer

Allied World Assurance Company, AG
Proposed Appropriation of Available Earnings
(in USD)
(Proposed by the Board of Directors)

Registered shares eligible for dividends

as of December 31,	**2019**
Eligible shares	10,000

Appropriation of available earnings proposed by Board of Directors

as of December 31,	**2019**
Balance brought forward	21,987,047
Profit for the year	7,086,609
Available earnings to be carried forward	**29,073,656**

The Board of Directors proposes to the shareholder at the annual general meeting to carry forward available earnings of USD 29,073,656 as shown in the table above.

On behalf of the Board of Directors

April 29, 2020

Wesley Dupont
Chairman of the Board