ALLIED WORLD ASSURANCE COMPANY, AG

FINANCIAL CONDITION REPORT

(FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2021)

Contents

Overview

References in this Financial Condition Report (this “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. References to “m’s” are to millions.

This Report has been compiled in accordance with FINMA 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

Company background:

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, Europe and worldwide. Further details on the Company's business activities are included in Section A of this Report.

Business and performance:

The Company reported gross premium written of $130.5 million in 2021 compared to $105.2 million in 2020 and an underwriting loss of $53.6 million in 2021 compared to an underwriting loss of $18.7 million in 2020. The net investment result for 2021 was $9.2 million compared to $7.1 million for 2020. Overall, the Company reported a loss after tax of $40.0 million in 2021 compared to a net loss after tax of $13.6 million in 2020. Further details on the Company's performance in 2021 are included in Section B of this Report.

System of governance:

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

Risk profile:

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.

Valuation for solvency purposes:

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.

Capital management:

As of December 31, 2021, the Company's Swiss Solvency Test (the "SST") ratio was 162.7% compared to 145.0% as of December 31, 2020. The target capital of $172.7 million for 2021 was $2.4 million lower than the prior year. The risk-bearing capital amounts to $263.3 million for 2021 and was $241.4 million for 2020. The total statutory shareholder's equity increased from $192.4 million as of December 31, 2020 to $202.5 million as of December 31, 2021. On September 22, 2021, the Company's sole shareholder, Allied World Assurance Holdings (Ireland) Ltd ("AWHI") contributed an amount of $50.0 million (CHF 45.6 million) to the Company's capital. 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, 2021 and report of the external auditor thereon, are included in the appendices hereto.

Impact of COVID-19:

In 2021, the COVID-19 pandemic continued to evolve globally with new variants of the virus emerging, which continued to have an impact on the insurance industry and the global economy. Although most of the impacts of the pandemic on the Company's businesses, especially in the Swiss assumed reinsurance business, are already known, some uncertainties remain. The Company continues to closely monitor the potential impacts on its business, operations, investments and capital and liquidity positions.

From an operations standpoint, the Company carried on following its business continuity plans and enacted steps to ensure the safety of its employees and continuity of its business. The Company has remained fully operational even as most of its operations had to move to a fully remote working environment. The Company continued to work very closely with its critical vendors to ensure they continue to maintain their levels of service.

Recent developments:

Following the invasion of Ukraine by Russia on 24 February 2022 and subsequent events, we are closely monitoring our underwriting exposure within both countries. There is a level of uncertainty in predicting the ultimate impact of the Ukraine-Russia conflict on our business and operations. However, at this point, we do not believe the financial impact of the conflict on the Company will be significant.

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.

Material Lines of Business and Geographic Areas:

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

- The focus of the reinsurance business is predominantly on assumed 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 (re)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.

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, human resources, legal and compliance, risk management, ceded reinsurance, operations, actuarial and underwriting.

There were no related-party transactions outside the ordinary conduct of business during the year ended December 31, 2021.

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 2021, the Company's assumed reinsurance business incurred catastrophe losses from the European floods and hail events and from additional non-damage business interruption claims caused by the COVID-19 pandemic. There were no other significant business or other matters that occurred during 2021 that had a material impact on the Company. The Company's performance in 2021 is included in Section B of this Report.

B. 2021 Performance

Underwriting Performance:

The following table summarizes the net underwriting results for the years ending December 31, 2021 and 2020. Details by line of business can be seen in Appendix A (Annual Quantitative Reporting Templates).

Net underwriting results for the years ended December 31, 2021 and 2020 ($ m's)

	Total		Direct Swiss business		Direct non-Swiss business		Indirect business	
	2021	2020	2021	2020	2021	2020	2021	2020
Gross premium written	130.5	105.2	6.6	2.3	37.8	35.9	86.1	67.1
Premium ceded	(41.5)	(35.2)	(3.1)	(1.1)	(25.8)	(21.8)	(12.6)	(12.3)
Net premium written	**89.0**	**70.0**	**3.5**	**1.2**	**12.0**	**14.1**	**73.5**	**54.8**
Change in gross unearned premium	(7.9)	(8.2)	(3.6)	0.4	(1.0)	(4.6)	(3.3)	(4.0)
Change in ceded unearned premium	3.2	(0.9)	1.8	(0.2)	0.7	(2.2)	0.7	1.5
Net premium earned	**84.3**	**60.9**	**1.7**	**1.4**	**11.7**	**7.3**	**70.9**	**52.3**
Total income from underwriting business	**84.3**	**60.9**	**1.7**	**1.4**	**11.7**	**7.3**	**70.9**	**52.3**
Losses and loss expenses paid, gross	(63.4)	(27.1)	-	-	(20.3)	(8.3)	(43.1)	(18.8)
Losses and loss expenses paid, ceded	12.9	4.6	-	-	10.3	4.0	2.6	0.6
Change in reserves for losses and loss expenses, gross	(75.7)	(68.5)	(1.5)	(1.1)	10.3	(24.0)	(84.5)	(43.4)
Change in reserves for losses and loss expenses, ceded	3.8	26.4	0.6	0.5	0.5	21.4	2.7	4.5
Net losses and loss expenses	**(122.4)**	**(64.6)**	**(0.9)**	**(0.6)**	**0.8**	**(6.9)**	**(122.3)**	**(57.1)**
Acquisition costs and administrative expenses, gross	(24.8)	(22.3)	(0.9)	(0.6)	(4.9)	(5.1)	(19.0)	(16.6)
Acquisition costs and administrative expenses, ceded	9.3	7.3	1.0	0.4	7.2	5.5	1.1	1.4
Net acquisition costs and administrative expenses	**(15.5)**	**(15.0)**	**0.1**	**(0.2)**	**2.3**	**0.4**	**(17.9)**	**(15.2)**
Total expenses from underwriting business	**(137.9)**	**(79.6)**	**(0.8)**	**(0.8)**	**3.1**	**(6.5)**	**(140.2)**	**(72.3)**
Net underwriting profit/(loss)	**(53.6)**	**(18.7)**	**0.9**	**0.6**	**14.8**	**0.8**	**(69.3)**	**(20.0)**
Investment income	13.3	10.0						
Investment expenses	(4.1)	(2.9)						
Net investment income	**9.2**	**7.1**						
Operating result	**(44.4)**	**(11.6)**						
Interest expenses for interest-bearing liabilities	(0.5)	(0.6)						
Other income/(expenses)	3.2	(1.3)						
Net profit/(loss) before taxes	**(41.7)**	**(13.5)**						
Direct tax expense/benefit	1.7	(0.1)						
Net profit/(loss)	**(40.0)**	**(13.6)**						

Gross premium written for 2021 was $130.5 million, an increase of $25.3 million from 2020. The increase in the direct Swiss business was primarily due to an increase in our direct Swiss construction lines and Swiss professional lines. The Swiss property catastrophe assumed reinsurance business increased by $15.1 million and was the main driver of the increase in the indirect business. The non-Swiss direct business increased slightly by $1.9 million. Net premium written for 2021 was $89.0 million compared with $70.0 million for 2020. Ceded premium for 2021 was $41.5 million compared to $35.2 million in 2020. Net premium earned for 2021 was $84.3 million compared to $60.9 million for 2021. This is in line with the additional written business.

Net losses and loss expenses in 2021 amounted to $122.4 million compared to $64.6 million in 2020. The net loss ratio for 2021 deteriorated to 145.3% from 106.1% in 2020, driven by losses in the Swiss assumed reinsurance business. The increase in losses of the Swiss assumed reinsurance business was mainly driven by incurred catastrophe losses from the European floods and hail events and non-damage business interruption claims caused by the COVID-19 pandemic. The decrease in losses and loss expenses in the non-Swiss direct business was driven by minimal claims development in most lines of business.

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 $15.5 million for 2021 compared to $15.0 million for 2020.

Investment Performance:

The following table shows a breakdown of the investment income and expenses by asset class for the years ended December 31, 2021 and 2020.

Investment income and expenses for the years ended December 31, 2021 and 2020 ($ m's)

	2021					2020				
	Debt Securities	Equity Securities	Other Investments	Real Estate	**Total**	Debt Securities	Equity Securities	Other Investments	Real Estate	**Total**
Investment income	4.7	1.7	0.1	0.4	**6.9**	5.7	1.1	0.1	0.3	**7.2**
Realized gains	5.5	-	0.1	0.8	**6.4**	2.2	-	0.1	-	**2.3**
Accretion of bonds	-	-	-	-	-	0.5	-	-	-	**0.5**
Total investment income	**10.2**	**1.7**	**0.2**	**1.2**	**13.3**	**8.4**	**1.1**	**0.2**	**0.3**	**10.0**
Amortization/ depreciation	(1.4)	-	-	(0.5)	**(1.9)**	-	-	-	(0.6)	**(0.6)**
Realized losses	(0.1)	-	-	-	-	(0.6)	-	-	-	**(0.6)**
Other investment expenses	(2.2)	-	-	-	**(2.2)**	(1.7)	-	-	-	**(1.7)**
Total investment expenses	**(3.7)**	**-**	**-**	**(0.5)**	**(4.1)**	**(2.2)**	**-**	**-**	**(0.6)**	**(2.9)**
Total net investment return	**6.5**	**1.7**	**0.2**	**0.7**	**9.1**	**6.2**	**1.1**	**0.2**	**(0.3)**	**7.1**

To help ensure adequate liquidity for the payment of claims, we take into account the maturity and duration of our investment portfolio and our liability profile. In making investment decisions, we consider the impact of various catastrophic events to which we may be exposed. 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. All assets are invested in accordance with the investment principles required by FINMA Circular 2016/5 (Investment Guidelines – Insurance Companies).

Total net investment return for 2021 was $9.1 million compared to $7.1 million for 2020. The increase in net investment return was driven by an increase in net realized gains of $4.6 million which also includes a realised gain of $0.8 million from selling part of the real estate. Interest income from debt securities decreased by $2.9 million. 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
- Mr. Martin Frey, independent non-executive director

Management:

The Board delegates the operational management of the Company to the Managing Director and management. The Managing Director manages the operations of the Company, oversees the management of its employees, and monitors the risks of the Company. Management supports the Managing Director in the fulfilment of her responsibilities and may carry out other duties subject to approval, where necessary, and oversight of the Board and the Managing Director. The following individuals are the Managing Director and members of management:

- 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 & Corporate Secretary, with responsibility for the compliance function

The Executive Management Committee, compromised of the Managing Director and management, is responsible for reviewing the performance of the responsibilities of the Managing Director and management and for overseeing the implementation of the strategies and policies approved by the Board. Meetings of the Executive Management Committee take place on a quarterly basis and are chaired by the Managing Director, or in her absence, another member of the Executive Management Committee.

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, 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. Utilizing 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, 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:

- That 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 Company 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 & Corporate Secretary, 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 authorized 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 processes;

- 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 controls 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*: This is the 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 risk primarily arises from the ceding of claims and claim expenses to outward 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, credit spreads, foreign exchange rate risk, equities and real estate.
- *Operational risk*: This 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).
- *Group risk:* This includes the potential adverse impact on the Company as a result of intra-group interactions and/or reputation.
- *Strategic risk:* This 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 outward reinsurance.

The Company has one significant risk concentration other than the catastrophic risk noted above. It holds $293.0 million of U.S. government bonds (including accrued interest). The risk from this concentration has been evaluated within the SST.

Risk Mitigation:

We use three forms of risk mitigation: (1) avoidance of risk, (2) transfer 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.

Target capital contribution by risk category as of December 31, 2021 ($ m's)	
	Contribution
1) Expected shortfall @ 99%	
Credit risk	(14.2)
Market risk	(31.3)
Insurance risk	(142.9)
Diversification credit	35.3
Effect of scenarios on target capital	-
Expected shortfall @ 99% (aggregate)	**(153.0)**
2) Expected result	
Expected insurance result	5.0
Expected financial result	3.5
Total expected result	**8.5**
3) SCR	
Expected shortfall @ 99% incl. expected result	**(144.5)**
4) Market value margin	
Discounted market value margin	(28.2)
Target capital	**(172.7)**

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

Market risk, credit risk, risk aggregation and the market value margin are quantified using the FCM.

There was no significant change to the Company's risk profile in 2021.

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. As a result of the controls in place that mitigate operational risks, there is a low likelihood of an operational risk loss of any significance.

ALLIED WORLD
A FAIRFAX Company

E. Valuation for Solvency Purposes

Market Value Assessment of Assets:

The following table shows the assets used for solvency purposes as of December 31, 2021:

Assets used for solvency purposes as of December 31, 2021 ($ m's)	Original Currency	Statutory Balance Sheet	SST Balance Sheet	Difference
Real estate	CHF	14.5	27.4	(12.9)
Fixed-income securities	Multiple	155.9	378.9	(223.0)
Equity Securities	$	20.0	30.1	(10.1)
Other investments	$	51.6	54.7	(3.2)
Collective investments	Multiple	45.5	48.6	(3.1)
Asset backed securities	$	6.1	6.2	(0.1)
Total investments		**242.0**	**491.2**	**(249.2)**
Other assets				
Cash and cash receivables	Multiple	253.7	31.9	221.8
Receivables from insurance business	Multiple	47.8	47.8	-
Fixed assets	Multiple	12.9	-	12.9
Other receivables	Multiple	0.3	0.3	-
Other assets	Multiple	1.9	1.9	-
Total other assets		**316.6**	**81.9**	**234.7**
Total market-consistent value of assets		**558.6**	**573.1**	**(14.4)**

The statutory amounts shown above are consistent with the Company's audited statutory financial statements as of December 31, 2021. 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 the revised Insurance Supervisory Ordinance and the revised Insurance Supervisory Ordinance – FINMA. The Company recognized and valued assets and liabilities for SST purposes in accordance with FINMA Circular 2017/3 (Swiss Solvency Test (SST)).

In the table above, fixed maturity investments, equities, reinsurance recoverables and other investments are presented differently when compared to the audited statutory financial statements. The presentation above is consistent with that used for the SST balance sheet for the year ending December 31, 2021.

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. At the reporting date, the Company held investments in treasury bonds within its investment portfolio. Highly liquid investments, including short-term bonds, with an original maturity of twelve months or less at the time of purchase are classified under cash and cash equivalents.

- *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, 2021 is $13.2 million below their current market value.

- *Real Estate:* The Company owns a mixed-use real estate in Zug valued at $27.5 million. Under statutory accounting policy, the real estate is broken down into its investment component, which is disclosed under total investments, and its own use component, which is disclosed under other assets. For the SST balance sheet, however, the full value is classified as real estate within investments.

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 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, 2021, 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 outward reinsurance, while the equalization reserves component is calculated net of outward 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, 2021 and 2020 is shown in the following table:

Insurance reserves as of December 31, 2021 and 2020 ($ m's)		
	2021	**2020**
Reserves for losses and loss expenses, gross	370.8	303.9
Reserves for losses and loss expenses, ceded	(104.5)	(100.9)
Reserves for losses and loss expenses, net	**266.3**	**203.0**
Unearned premium, gross	46.0	38.1
Unearned premium, ceded	(15.9)	(12.8)
Unearned premium, net	**30.1**	**25.3**
Equalization reserve	**29.4**	**25.5**
Total insurance reserve, net	**325.8**	**253.8**

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, 2021:

Liabilities used for solvency purposes as of December 31, 2021 ($ m's)				
	Original Currency	Statutory Balance sheet	SST Balance sheet	Difference
Reserves for losses and loss expenses, gross	Multiple	370.8	363.0	7.8
Reserves for losses and loss expenses, ceded	Multiple	(104.5)	(101.0)	(3.5)
Unearned premium, gross	Multiple	46.0	23.1	22.9
Unearned premium, ceded	Multiple	(15.9)	(5.8)	(10.1)
Equalization reserve	$	29.4	-	29.4
Other long-term debt	CHF	17.4	17.4	-
Insurance payables	Multiple	7.6	7.6	-
Accrued liabilities	Multiple	2.9	2.9	-
Other payables	Multiple	2.7	2.6	0.1
Total liabilities		**356.4**	**309.8**	**46.6**

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 as at the valuation date of December 31, 2021:

- Estimated undiscounted loss reserves for claims from expired exposure that occurred prior to the valuation date, gross and net of reinsurance, by reporting line of business;
- Estimated undiscounted loss reserves for expected future claims from unexpired risks that incepted prior to the valuation date, gross and net of reinsurance, by reporting line of business;
- Estimated undiscounted loss reserves for expected future claims from risks bound prior to, but incepting after, the valuation date, net of estimated future premium cashflows, gross and net of reinsurance, by reporting line of business; and
- Estimated payment patterns by reserving line of business.

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

The net best estimates (including unallocated loss expense) for each line are discounted using the FINMA-mandated discount rates for the currency of the corresponding line.

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

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

- The discounting effect and adjustment for cashflows associated with unearned and bound (but not incepted) premium exposures on the market valuation; and

- The inclusion of equalization reserves in the Company's statutory balance sheet (as of December 31, 2021, the equalization reserves amounted to $29.4 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, 2021 and 2020 is shown in the following table:

Statutory own funds (shareholders' equity) as of December 31, 2021 and 2020 ($ m's)		
	2021	2020
Share capital	10.1	10.1
Capital reserve from tax capital contributions	115.9	65.9
Other statutory capital reserve	100.9	100.9
Retained earnings	(24.5)	15.5
Total statutory own funds	**202.4**	**192.4**

The total shareholder's equity increased from $192.4 million as of December 31, 2020 to $202.4 million as of December 31, 2021. On September 22, 2021, AWHI contributed an amount of $50.0 million (CHF 45.6 million) to the Company's capital.

The aggregate composition of the risk-bearing capital as of December 31, 2021 and 2020 is as follows (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, 2021 and 2020 ($ m's)			
	2021	2020	Difference
Total investments	491.2	406.5	84.7
Total other assets	81.9	84.4	(2.5)
Total market-consistent value of assets	**573.1**	**490.9**	**82.2**
Total best estimate provision for liabilities	386.2	328.6	57.5
Total reinsurers' share of liabilities	(106.9)	(107.9)	1.1
Total insurance technical liabilities	**279.3**	**220.7**	**58.6**
Total other liabilities	30.5	28.8	1.7
Total market-consistent value of liabilities	**309.8**	**249.5**	**60.3**
Risk-bearing capital	**263.3**	**241.4**	

The following table contains a reconciliation of statutory own funds and market value risk-bearing capital as of December 31, 2021 and 2020:

Risk-bearing capital as of December 31, 2021 and 2020 ($ m's)		
	2021	2020
Total statutory own funds	**202.4**	**192.4**
Re-evaluation of investments	14.4	14.1
Equalization reserves	29.4	25.5
Re-evaluation of technical reserves	17.1	7.7
Re-evaluation of receivables/payables	-	1.7
Risk-bearing capital	**263.3**	**241.4**

The risk-bearing capital increased by $21.9 million to $263.3 million in 2021 compared to 2020. The main drivers for the increase were a higher statutory capital and a higher discount rate for market valuation, which resulted in a higher re-valuation adjustment of the technical liabilities. The deviation of the market value compared to the cost value of the investments only increased by $0.3 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 eight non-experience 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 Target Capital:

The following are the components of target capital (as specified in the SST standard template) as of December 31, 2021 and 2020:

Target capital as of December 31, 2021 and 2020 ($ m's)		
Expected shortfall @ 99%	**2021**	**2020**
Insurance risk	(142.9)	(135.5)
Market risk	(31.3)	(24.2)
Credit risk	(14.2)	(12.7)
Diversification credit	35.3	17.9
Total	**(153.0)**	**(154.4)**
Expected Results		
Insurance result	5.0	3.9
Financial result	3.5	3.3
Expected shortfall including expected results	**(144.5)**	**(147.2)**
Risk margin	(28.2)	(28.0)
Total target capital	**(172.7)**	**(175.2)**

The increase in insurance risk reflects greater exposure to scenarios (individual events) in both the current and prior years, as well as growth in reserves. The rise in market risk was primarily due to an increase in currency risk resulting from growth in Euro-denominated reserves relative to assets. The increase in credit risk was the result of changes to the credit risk model in the FCM. These increases were offset by greater diversification between the risk categories. The reduction in expected shortfall combined with an increase in the expected result and reduced target capital by $2.4 million.

Components of Market Risk:

The table below shows the major components of market risk as of December 31, 2021 and 2020:

Market risk as of December 31, 2021 and 2020 ($ m's)			
Market Risk (Expected shortfall @ 99%)		**2021**	**2020**
Interest rate risk		(8.8)	(10.1)
	Interest rate CHF	*(0.5)*	*(0.5)*
	Interest rate EUR	*(9.2)*	*(8.9)*
	Interest rate $	*(12.9)*	*(15.8)*
	Interest rate GBP	*(5.0)*	*(5.5)*
Spreads		(8.9)	(13.6)
FX-risk total		(30.8)	(11.2)
Equity		(21.7)	(14.8)
Real estate		(5.2)	(7.0)
Diversification		44.1	32.6
Total		**(31.3)**	**(24.2)**

Components of Insurance Risk:

The table below shows the components of insurance risk as of December 31, 2021 and 2020:

Insurance Risk as of December 31, 2021 and 2020 ($ m's)		
Insurance Risk (ES @ 99%)	**2021**	**2020**
Reserve risk – attritional	(58.5)	(70.8)
Individual events - prior years	(83.8)	(50.4)
Premium risk – attritional	(24.4)	(18.6)
Individual events - current year	(82.6)	(72.3)
Natural catastrophe events	(88.5)	(87.6)
Diversification	194.9	164.2
Total insurance risk	**(142.9)**	**(135.5)**

The largest increase and decrease were in prior year events and attritional reserve risk, respectively. These changes were primarily the result of growth in reserves related to large prior year events and a concurrent reduction in reserves related to attritional claims. The risk from current year events also rose, reflecting the Company's assessment of the potential impact to its balance sheet from future rare large events. The risk from natural catastrophe risk, the Company's largest stand-alone risk, remained essentially unchanged. The increase in the diversification credit is an outcome of the aggregation methodology of the FCM. In aggregate, these movements drove a net increase in insurance risk of $7.4 million. The following table shows a comparison of the SST ratio components as of December 31, 2021 and 2020:

Solvency as of December 31, 2021 and 2020 ($ m's)		
	2021	2020
Capital for insurance, market and credit risks (SCR)	(144.5)	(147.2)
Risk margin	(28.2)	(28.0)
Target capital	**(172.7)**	**(175.2)**
Risk-bearing capital	**263.3**	**241.4**
SST Ratio	**162.7%**	**145.0%**

The increase in the SST ratio from 2020 to 2021 reflects the growth in risk-bearing capital of $21.9 million (9%), and a decrease in target capital of $2.4 million (1.4%).

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	
		2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
1	Gross premiums	105.2	130.4			0.1	0.2	2.2	6.4	35.9	37.8
2	Reinsurers' share of gross premiums	(35.2)	(41.5)			-	-	(1.1)	(3.1)	(21.8)	(25.8)
3	**Premiums for own account (1 + 2)**	**70.0**	**88.9**			**0.1**	**0.2**	**1.1**	**3.3**	**14.1**	**12.0**
4	Change in unearned premium reserves	(8.2)	(7.9)			-	-	0.4	(3.6)	(4.6)	(1.0)
5	Reinsurers' share of change in unearned premium reserves	(0.9)	3.2			-	-	(0.2)	1.8	(2.2)	0.7
6	**Premiums earned for own account (3 + 4 + 5)**	**60.9**	**84.2**			**0.1**	**0.2**	**1.3**	**1.5**	**7.3**	**11.7**
7	Other income from insurance business	-	-			-		-		-	-
8	**Total income from underwriting business (6 + 7)**	**60.9**	**84.2**			**0.1**	**0.2**	**1.3**	**1.5**	**7.3**	**11.7**
9	Payments for insurance claims (gross)	(27.1)	(63.4)			-	-	-	-	(8.3)	(20.3)
10	Reinsurers' share of payments for insurance claims	4.6	12.9			-	-	-	-	4.0	10.3
11	Change in technical provisions	(68.5)	(75.7)			0.3	-	(1.4)	(1.5)	(24.0)	10.3
12	Reinsurers' share of change in technical provisions	26.4	3.8			(0.2)	-	0.7	0.6	21.4	0.5
13	Change in technical provisions for unit-linked life insurance		-								
14	**Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)**	**(64.6)**	**(122.3)**			**0.1**	**-**	**(0.7)**	**(0.9)**	**(6.9)**	**0.8**
15	Acquisition and administration expenses	(22.3)	(24.8)			-	-	(0.6)	(0.9)	(5.1)	(4.9)
16	Reinsurers' share of acquisition and administration expenses	7.3	9.3			-	-	0.4	1.0	5.5	7.2
17	**Acquisition and administration expenses for own account (15 + 16)**	**(15.0)**	**(15.5)**			**-**	**-**	**(0.2)**	**0.1**	**0.4**	**2.3**
18	Other underwriting expenses for own account	-	-				-			-	-
19	**Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)**	**(79.6)**	**(138.1)**			**0.1**	**-**	**(0.9)**	**(0.8)**	**(6.5)**	**3.1**
20	Investment income	10.0	13.3								
21	Investment expenses	(2.9)	(4.1)								
22	**Net investment income (20 + 21)**	**7.1**	**9.2**								
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)**	**(11.6)**	**(44.4)**								
27	Interest expenses for interest-bearing liabilities	(0.6)	(0.6)								
28	Other income	-	-								
29	Other expenses	(1.3)	3.3								
30	Extraordinary income/expenses	-	-								
31	**Profit / loss before taxes (26 + 27 + 28 + 29 + 30)**	**(13.5)**	**(41.7)**								
32	Direct taxes	(0.1)	1.7								
33	**Profit / loss (31 + 32)**	**(13.6)**	**(40.0)**								

Financial situation report: quantitative template "Performan NL"

		Indirect business											
		Personal accident		Motor		Marine, aviation, transport		Property		Casualty		Miscellaneous	
		2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
1	Gross premiums	-	-	14.1	15.0	-	-	38.6	52.8	4.4	5.6	9.9	12.7
2	Reinsurers' share of gross premiums	-	-	(0.6)	(0.5)	-	-	(10.1)	(10.9)	-	-	(1.6)	(1.2)
3	**Premiums for own account (1 + 2)**	**-**	**-**	**13.5**	**14.5**	**-**	**-**	**28.5**	**41.9**	**4.4**	**5.6**	**8.3**	**11.5**
4	Change in unearned premium reserves	-	-	(0.2)	(1.0)	-	-	(3.1)	(1.6)	(1.2)	(0.2)	0.5	(0.5)
5	Reinsurers' share of change in unearned premium reserves	-	-	-	-	-	-	1.6	0.7	-	-	(0.1)	-
6	**Premiums earned for own account (3 + 4 + 5)**	**-**	**-**	**13.3**	**13.5**	**-**	**-**	**27.0**	**41.0**	**3.2**	**5.4**	**8.7**	**11.0**
7	Other income from insurance business	-	-	-	-	-	-	-	-	-	-	-	-
8	**Total income from underwriting business (6 + 7)**	**-**	**-**	**13.3**	**13.5**	**-**	**-**	**27.0**	**41.0**	**3.2**	**5.4**	**8.7**	**11.0**
9	Payments for insurance claims (gross)	-	-	(3.6)	(5.3)	(0.1)	(0.1)	(7.3)	(24.8)	(2.1)	(1.5)	(5.7)	(11.4)
10	Reinsurers' share of payments for insurance claims	-	-	-	-	-	-	0.1	0.8	-	-	0.5	1.8
11	Change in technical provisions	-	0.1	(5.1)	(6.3)	0.2	0.1	(27.1)	(81.9)	(0.5)	(2.7)	(10.9)	6.2
12	Reinsurers' share of change in technical provisions	-	-	-	-	-	-	1.3	4.2	(0.2)	-	3.4	(1.5)
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**	**(8.7)**	**(11.6)**	**0.1**	**-**	**(33.0)**	**(101.7)**	**(2.8)**	**(4.2)**	**(12.7)**	**(4.9)**
15	Acquisition and administration expenses	-	-	(4.3)	(3.7)	-	-	(7.8)	(9.7)	(1.4)	(1.3)	(3.1)	(4.3)
16	Reinsurers' share of acquisition and administration expenses	-	-	-	-	-	-	0.9	0.8	-	-	0.5	0.3
17	**Acquisition and administration expenses for own account (15 + 16)**	**-**	**-**	**(4.3)**	**(3.7)**	**-**	**-**	**(6.9)**	**(8.9)**	**(1.4)**	**(1.3)**	**(2.6)**	**(4.0)**
18	Other underwriting expenses for own account		-		-		-		-		-		-
19	**Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)**	**-**	**0.1**	**(13.0)**	**(15.3)**	**0.1**	**-**	**(39.9)**	**(110.6)**	**(4.2)**	**(5.5)**	**(15.3)**	**(8.9)**
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	37.7	-	27.4
	Shareholdings		-	
	Fixed-income securities	310.1	-	378.9
	Loans		-	
	Mortgages		-	
	Equities	23.0	-	30.1
	Other investments	35.7	-	54.8
	Collective investment schemes	27.9	-	48.6
	Alternative investments		-	
	Other investments	7.8	-	6.2
	Total investments	**406.5**	**-**	**491.2**
	Financial investments from unit-linked life insurance		-	
	Receivables from derivative financial instruments		-	
Market-consistent value of other assets	Cash and cash equivalents	43.6	-	31.9
	Receivables from insurance business	38.2	-	47.8
	Other receivables	0.2	-	0.3
	Other assets	2.4	-	1.9
	Total other assets	**84.4**	**-**	**81.9**
Total market-consistent value of assets	**Total market-consistent value of assets**	**490.9**	**-**	**573.1**

Best estimate liabilities (BEL)	Best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)		-	
	Direct insurance: non-life insurance business	166.1	-	156.4
	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	162.5	-	229.8
	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	(102.5)	-	(98.0)
	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	(5.4)	-	(8.9)
	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	2.0	-	2.9
	Interest-bearing liabilities	18.3	-	17.4
	Liabilities from derivative financial instruments		-	
	Deposits retained on ceded reinsurance		-	
	Liabilities from insurance business	6.2	-	7.6
	Other liabilities	2.3	-	2.7
Total BEL plus market-consistent value of other liabilities	**Total BEL plus market-consistent value of other liabilities**	**249.5**	**-**	**309.8**

	Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	**241.4**	**-**	**263.3**

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	241.4		263.3
	Deductions			
	Core capital	**241.4**		**263.3**
	Supplementary capital			
	RBC	**241.4**		**263.3**

		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	135.5		142.9
	Market risk	24.2		31.2
	Diversification effects	(17.9)		(35.2)
	Credit risk	12.7		14.2
	Risk margin and other effects on target capital	20.7		19.7
	Target capital	**175.2**		**172.7**

	Ref. date previous period in %	Adjustments previous period in %	Ref. date reporting year in %
SST ratio	**145.0%**		**162.7%**

Report of the Statutory Auditor

Allied World Assurance Company, AG

Zug

Report of the statutory auditor
to the General Meeting

on the financial statements 2021

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 2021.

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 2021 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 recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Ray Kunz	Ireen Ranneberg Sardo
Audit expert Auditor in charge	Audit expert

Zürich, 27 April 2022

Enclosure:

- Financial statements (balance sheet, income statement and notes)

ALLIED WORLD ASSURANCE COMPANY, AG
SWISS STATUTORY FINANCIAL STATEMENTS

for the year ending December 31, 2021

Allied World Assurance Company, AG

Statutory Financial Statements

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Management Report 2021

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. 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 Holdings (Ireland) Ltd (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 employees.

Risk assessment

The Company maintains an entity-wide enterprise risk management framework. The risk processes address the nature and scope of business activities of, and the specific risks to, the Company. The Board of Directors of the Company is 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 2021

The Company reported a net loss after taxes of USD 40.0 million in 2021 compared to a net loss of USD 13.6 million in 2020. Gross written premium increased by 24.1% to USD 130.5 million, of which USD 44.5 million (or 34.1%) was written in direct insurance business and USD 86.1 million (or 65.9%) was written in reinsurance business. The increase in gross written premium was driven by the Swiss direct insurance and treaty reinsurance business, which increased by USD 23.1 million compared to prior year, and the Bermuda direct insurance business, which increased by USD 7.6 million compared to prior year. Net premiums earned totaled USD 84.3 million, which was an increase of USD 23.4 million (or 38.4%) compared to prior year.

The combined ratio increased from 130.9% in 2020 to 163.3% in 2021, which was driven by an increase in net losses and loss expenses of USD 57.8 million to USD 122.4 million. The increase in losses and loss expenses were driven by the losses in the Swiss treaty reinsurance business. In 2021, the Swiss treaty reinsurance business incurred catastrophe losses from the European floods and hail events and from additional non-damage business interruption claims caused by the COVID-19 pandemic. This resulted in a decline of the net loss ratio of 39% compared to 2020.

Net acquisition costs of USD 5.5 million and USD 5.6 million were incurred in 2021 and 2020, respectively. Administrative expenses increased by USD 0.4 million to USD 9.9 million in 2021 compared to USD 9.5 million in 2020 and mainly consisted of personnel expenses, professional fees and depreciation. The expense ratio was 18.3% in 2021 compared to 24.8% in 2020. The improvement was driven by the increase of net earned premiums. The total (re)insurance activities resulted in an underwriting loss of USD 53.5 million in 2021.

As of December 31, 2021, total assets were USD 679.2 million and total liabilities were USD 476.8 million; gross reserves for losses and loss expenses were USD 370.8 million; unearned premium reserves, gross were USD 46.0 million; and equalization reserves were USD 29.4 million. The Company maintains tied assets in the amount of USD 230.2 million to support direct insurance liabilities. In 2021, the Company sold part of the real estate and realized a gain of USD 0.8 million. The total portfolio of fixed maturity investments of USD 383.9 million consisted of global corporate and government bonds. Short term bonds, have an overall maturity of less than 12 months and are presented as cash and cash equivalents. Asset backed securities are presented as other investments. The portfolio of equity securities as of the end of 2021 was USD 20.0 million and the equity investment fund portfolio amounted to USD 45.5 million. Investments in asset-backed and mortgage-backed securities decreased from USD 7.7 million in 2020 to USD 6.1 million in 2021. The performance of the investment portfolio was in line with management's expectations for the year.

Total shareholder's equity increased from USD 192.4 million as of December 31, 2020 to USD 202.5 million as of December 31, 2021. On September 22, 2021, the Holding Company contributed an amount of USD 50.0 million (CHF 45.6 million) to the Company's capital.

Following the invasion of Ukraine by Russia on 24 February 2022 and subsequent events, we are closely monitoring our underwriting exposure within both countries. There is a level of uncertainty in predicting the ultimate impact of the Ukraine-Russia conflict on our business and operations. However, at this point, we do not believe the financial impact of the conflict on the Company will be significant.

Impact of COVID-19

In 2021, the COVID-19 pandemic continued to evolve globally with new variants of the virus emerging, which continued to have an impact on the insurance industry and the global economy. Although most of the impacts of the pandemic on the Company's businesses, especially in the Swiss treaty reinsurance business, are already known, some uncertainties remain. The Company continues to closely monitor the potential impacts on its business, operations, investments and capital and liquidity positions.

From an operations standpoint, the Company carried on following its business continuity plans and enacted steps to ensure the safety of its employees and continuity of its business. The Company has remained fully operational even as most of its operations had to move to a fully remote working environment. The Company continued to work very closely with its critical vendors to ensure they continue to maintain their levels of service.

Allied World Assurance Company, AG
Statutory Financial Statements
Management Report 2021

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 its parent entities. The insurance activities focus on medium- to large-sized commercial clients in Switzerland and the United States where the Company offers general casualty and professional liability insurance products. The Company also offers property, general casualty and professional liability reinsurance products, primarily to clients in northern and central Europe and the Middle East.

Outlook

The Company aims to take advantage of pricing improvements that occurred in 2021 and that are anticipated to continue in 2022, 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
Statutory Balance Sheet
as of December 31, 2021 and December 31, 2020

as of December 31, (in 000's)	Notes	2021 USD	2021 CHF	2020 USD	2020 CHF
ASSETS					
Real estate		14,547	13,361	24,427	21,767
Fixed maturity investments		155,924	143,217	195,574	174,276
Equity securities		20,000	18,370	20,000	17,822
Other investments	3	51,567	47,364	35,696	31,809
Reinsurance funds held		14,431	13,254	10,814	9,637
Cash and cash equivalents		253,748	233,067	147,007	130,998
Reinsurance recoverable	**6**	120,473	110,655	113,648	101,272
Fixed assets		12,913	11,861	13,260	11,816
Insurance balances receivable	**4**	33,356	30,636	27,409	24,425
Other receivables	**5**	308	283	188	167
Other assets		510	469	693	617
Accrued assets		1,397	1,248	1,719	1,532
Total assets		**679,174**	**623,785**	**590,435**	**526,138**
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Reserves for losses and loss expenses	**6**	370,805	340,584	303,897	270,802
Unearned premium reserves	**6**	46,025	42,274	38,129	33,977
Equalization reserve	**6**	29,429	27,031	25,505	22,727
Interest-bearing liabilities		17,392	15,975	18,264	16,275
Insurance balances payable	**4**	7,590	6,972	6,199	5,524
Other payables	**5**	2,653	2,437	4,008	3,571
Accrued liabilities		2,863	2,630	1,991	1,775
Total liabilities		**476,757**	**437,903**	**397,993**	**354,651**
Shareholder's equity					
Share capital	**7**	10,112	10,000	10,112	10,000
Statutory capital reserve					
Capital reserves from tax capital contribution		115,953	110,391	65,953	64,826
Total statutory capital reserves from tax capital contribution		115,953	110,391	65,953	64,826
Other statutory capital reserves		100,877	99,758	100,877	99,758
Total statutory capital reserves	**7**	**216,830**	**210,149**	**166,830**	**164,584**
Retained earnings					
Carried forward		15,500	2,296	29,072	9,633
Net loss		(40,025)	(36,563)	(13,572)	(12,730)
Total retained earnings	**7**	**(24,525)**	**(34,267)**	**15,500**	**(3,097)**
Total shareholder's equity	**7**	**202,417**	**185,882**	**192,442**	**171,487**
Total liabilities and shareholder's equity		**679,174**	**623,785**	**590,435**	**526,138**

Allied World Assurance Company, AG

Statutory Income Statement

for the years ended December 31, 2021 and December 31, 2020

		2021		2020	
for the years ended December 31, (in 000's)	**Notes**	**USD**	**CHF**	**USD**	**CHF**
Gross written premium		130,539	119,247	105,216	98,684
Premium ceded		(41,480)	(37,892)	(35,192)	(33,008)
Net written premium		**89,059**	**81,355**	**70,024**	**65,676**
Change in reserves for unearned premium, gross		(7,895)	(7,212)	(8,236)	(7,724)
Change in reserves for unearned premium, ceded		3,152	2,880	(873)	(819)
Net premium earned		**84,316**	**77,023**	**60,915**	**57,133**
Total technical income from insurance activities	**8**	**84,316**	**77,023**	**60,915**	**57,133**
Losses and loss expenses paid, gross		(63,454)	(57,966)	(27,121)	(25,436)
Losses and loss expenses paid, ceded		12,945	11,825	4,579	4,295
Change in reserves for losses and loss expenses, gross		(71,755)	(65,548)	(63,144)	(59,224)
Change in reserves for losses and loss expenses, ceded		3,796	3,468	26,397	24,758
Change in equalization reserve		(3,925)	(3,585)	(5,340)	(5,008)
Net losses and loss expenses		**(122,393)**	**(111,806)**	**(64,629)**	**(60,615)**
Acquisition costs and administrative expenses, gross		(24,719)	(22,581)	(22,340)	(20,954)
Acquisition costs and administrative expenses, ceded		9,316	8,510	7,261	6,811
Net acquisition costs and administrative expenses	**10**	**(15,403)**	**(14,071)**	**(15,079)**	**(14,143)**
Total technical expenses from insurance activities		**(137,796)**	**(125,877)**	**(79,708)**	**(74,758)**
Investment income	**9**	13,270	12,123	10,049	9,425
Investment expenses	**9**	(4,077)	(3,724)	(2,891)	(2,712)
Investment result		**9,193**	**8,399**	**7,158**	**6,713**
Total operating result		**(44,287)**	**(40,455)**	**(11,635)**	**(10,912)**
Interest expense		(568)	(519)	(563)	(528)
Foreign exchange gain loss		3,158	2,884	(1,311)	(1,230)
Net loss before tax		**(41,697)**	**(38,090)**	**(13,509)**	**(12,670)**
Direct tax benefit (expense)		1,672	1,527	(63)	(60)
Net loss		**(40,025)**	**(36,563)**	**(13,572)**	**(12,730)**

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. In 2012, the Company established a Bermuda branch in order to offer its insurance products via Bermuda throughout the United States of America. Since April 2012, the Company is registered as a Class 3A insurer under the Bermuda Insurance Law 1978. 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"). The Company has an annual average of less than 50 full-time employees.

The balance sheet is shown as of December 31, 2021 and December 31, 2020. The income statement reflects the results of operations for the years ending December 31, 2021 and December 31, 2020.

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 Obligations, 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) Cash and cash equivalents

All cash and cash equivalents are considered to be cash on hand, deposits or highly liquid investments, including short-term bonds, with an original maturity of twelve 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 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	**2021**	**2020**
Year-end rate	0.9185	0.8911
Annual average rate	0.9135	0.9379

g) Direct tax expenses

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

3. Other investments

The following tables shows the breakdown of other investments as of December 31, 2021 and December 31, 2020.

Other investments	**2021**		**2020**	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Asset-backed securities	6,063	5,568	7,742	6,899
Equity investment funds	45,504	41,796	27,954	24,910
Total Other investments	**51,567**	**47,364**	**35,696**	**31,809**

4. Insurance balances receivable and payable

The following tables show the current insurance balances receivable and payable as of December 31, 2021 and December 31, 2020.

Insurance balances receivable	**2021**		**2020**	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Receivables from intermediaries *	30,458	27,974	18,882	16,826
Receivables from (re)insurance companies	2,159	1,983	3,427	3,054
Receivables from group companies	739	679	5,100	4,545
Total Insurance balances receivable	**33,356**	**30,636**	**27,409**	**24,425**

Insurance balances payable	**2021**		**2020**	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Payables to intermediaries *	3,549	3,260	1,788	1,594
Payables to (re)insurance companies	342	315	1,082	964
Payables to group companies	3,699	3,397	3,329	2,966
Total Insurance balances payable	**7,590**	**6,972**	**6,199**	**5,524**

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

5. Other receivables and payables

The following tables show the other current receivables and payables as of December 31, 2021 and December 31, 2020.

Other receivables	**2021**		**2020**	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Receivables from shareholder	114	105	65	58
Receivables from related parties	194	178	123	109
Total other receivables	**308**	**283**	**188**	**167**

Other payables	**2021**		**2020**	
as of December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Payables to third parties	859	789	2,351	2,095
Payables to shareholder	1,397	1,283	1,145	1,020
Payables to related parties	397	365	512	456
Total other payables	**2,653**	**2,437**	**4,008**	**3,571**

6. Insurance reserves

The following table shows the breakdown of the insurance reserves indicating gross amount, reinsurers' share and the amount for own account as of December 31, 2021 and December 31, 2020.

as of December 31, (in 000's)	**2021**		**2020**	
	USD	**CHF**	**USD**	**CHF**
Reserves for losses and loss expenses, gross	370,805	340,584	303,897	270,802
Reserves for losses and loss expenses, ceded	(104,533)	(96,014)	(100,860)	(89,877)
Reserves for losses and loss expenses, net	**266,272**	**244,570**	**203,037**	**180,925**
Unearned premium, gross	46,025	42,274	38,129	33,977
Unearned premium, ceded	(15,940)	(14,640)	(12,788)	(11,395)
Unearned premium, net	**30,085**	**27,634**	**25,341**	**22,582**
Equalization reserve	**29,429**	**27,031**	**25,505**	**22,727**
Total Insurance reserve, net	**325,786**	**299,235**	**253,883**	**226,234**

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. On June 26, 2019, the Company became directly owned by the Holding Company. On May 12, 2020, the Holding Company contributed an amount of USD 25.0 million (CHF 24.3 million) to the Company's capital. On September 22, 2021, the Holding Company further contributed an amount of USD 50.0 million (CHF 45.6 million) to the Company's capital.

The following table details movements in shareholder's equity from January 1, 2020 through December 31, 2021.

	Share capital		**Statutory capital reserves**		**Retained earnings**		**Total shareholder's equity**	
(in 000's)	**USD**	**CHF**	**USD**	**CHF**	**USD**	**CHF**	**USD**	**CHF**
Opening balance as of January 1, 2020	**10,112**	**10,000**	**141,830**	**140,242**	**29,072**	**27,351**	**181,014**	**177,593**
Capital contribution			25,000	24,342			25,000	24,342
Loss for the year					(13,572)	(12,730)	(13,572)	(12,730)
Foreign exchange revaluation					-	(17,718)		(17,718)
Balance as of December 31, 2020	**10,112**	**10,000**	**166,830**	**164,584**	**15,500**	**(3,097)**	**192,442**	**171,487**
Capital contribution			50,000	45,565			50,000	45,565
Loss for the year					(40,025)	(36,563)	(40,025)	(36,563)
Foreign exchange revaluation						5,393		5,393
Balance as of December 31, 2021	**10,112**	**10,000**	**216,830**	**210,149**	**(24,525)**	**(34,267)**	**202,417**	**185,882**

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, 2021 and December 31, 2020.

	Direct Insurance				**Reinsurance**			
	2021		**2020**		**2021**		**2020**	
for the year ended December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**	**USD**	**CHF**	**USD**	**CHF**
Gross written premium	44,461	40,615	38,106	35,740	86,078	78,632	67,110	62,944
Premium ceded	(28,966)	(26,460)	(22,925)	(21,502)	(12,514)	(11,432)	(12,267)	(11,506)
Net written premium	**15,495**	**14,155**	**15,181**	**14,238**	**73,564**	**67,200**	**54,843**	**51,438**
Change in reserves for unearned premium, gross	(4,575)	(4,180)	(4,204)	(3,944)	(3,320)	(3,033)	(4,032)	(3,781)
Change in reserves for unearned premium, ceded	2,471	2,257	(2,390)	(2,242)	681	622	1,517	1,423
Net premium earned	**13,391**	**12,232**	**8,587**	**8,052**	**70,925**	**64,789**	**52,328**	**49,080**
Total technical income from insurance activities	**13,391**	**12,232**	**8,587**	**8,052**	**70,925**	**64,789**	**52,328**	**49,080**
Losses and loss expenses paid, gross	(20,342)	(18,583)	(8,305)	(7,789)	(43,112)	(39,383)	(18,816)	(17,647)
Losses and loss expenses paid, ceded	10,323	9,430	3,982	3,735	2,622	2,395	597	560
Change in reserves for losses and loss expenses, gross	7,544	6,892	(25,193)	(23,629)	(79,299)	(72,440)	(37,951)	(35,595)
Change in reserves for losses and loss expenses, ceded	1,119	1,022	21,884	20,525	2,677	2,446	4,513	4,233
Change in equalization reserve	1,273	1,163	114	107	(5,197)	(4,748)	(5,454)	(5,115)
Net losses and loss expenses	**(83)**	**(76)**	**(7,518)**	**(7,051)**	**(122,309)**	**(111,730)**	**(57,111)**	**(53,564)**
Acquisition costs and administrative expenses, gross	(5,731)	(5,235)	(5,763)	(5,406)	(18,987)	(17,346)	(16,577)	(15,548)
Acquisition costs and administrative expenses, ceded	8,176	7,469	5,877	5,513	1,140	1,041	1,384	1,298
Net acquisition costs and administrative expenses	**2,445**	**2,234**	**114**	**107**	**(17,847)**	**(16,305)**	**(15,193)**	**(14,250)**
Total technical expenses from insurance activities	**2,362**	**2,158**	**(7,404)**	**(6,944)**	**(140,156)**	**(128,035)**	**(72,304)**	**(67,814)**
Underwriting result	**15,753**	**14,390**	**1,183**	**1,108**	**(69,231)**	**(63,246)**	**(19,976)**	**(18,734)**

9. Investment results

The following table shows a breakdown of the investment income for the years ended December 31, 2021 and December 31, 2020.

Investment income	**2021**		**2020**	
for the year ended December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Interest income	4,821	4,405	5,856	5,492
Dividend income	1,674	1,530	1,060	995
Rental income	357	326	334	314
Realized gains on bonds	5,011	4,577	2,295	2,152
Realized gains on real estate	799	730	-	-
Other investment income	608	555	504	472
Total net investment income	**13,270**	**12,123**	**10,049**	**9,425**

The following table shows a breakdown of the investment expenses for the years ended December 31, 2021 and December 31, 2020.

Investment expenses	**2021**		**2020**	
for the year ended December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Amortization of bonds	1,412	1,289	542	508
Depreciation of real estate	453	414	639	600
Other investment expense	2,212	2,021	1,710	1,604
Total investment expenses	**4,077**	**3,724**	**2,891**	**2,712**

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, 2021 and December 31, 2020.

	2021		**2020**	
for the year ended December 31, (in 000's)	**USD**	**CHF**	**USD**	**CHF**
Acquisition costs	5,495	5,020	5,567	5,221
Personnel costs	6,317	5,770	5,026	4,714
Depreciation of real estate (fixed assets)	347	317	347	326
Other admin expenses	3,244	2,963	4,139	3,882
Net acquisition costs and administrative expenses	**15,403**	**14,070**	**15,079**	**14,143**

11. Supplementary information

As of December 31, (in 000's)	2021 USD	2021 CHF	2020 USD	2020 CHF
Total pledged assets	27,460	25,222	37,687	33,583
of which subject to a registered mortgage note *	18,204	18,000	18,204	18,000
Tied assets	230,202	211,440	216,077	192,546

* 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. Subsequent events have been evaluated through April 27, 2022, the date that the financial statements were approved at the AGM.

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

13. Net release of hidden services

In 2021 and 2020, the Company did not release hidden reserves.

April 27, 2022

/s/ Wesley Dupont
Wesley Dupont
Chairman of the Board

/s/ Christoph Murg
Christoph Murg
Vice President, Finance & Treasurer