



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

Report on Reinsurance Security
Date: October 2020

TABLE OF CONTENTS

| | |
|---|----------|
| 1. Reinsurance Security Considerations | 2 |
| 1.1 Status Update | 2 |
| 1.2 Reinsurance Security | 2 |
| 1.3 Level I Monitoring..... | 2 |
| 1.4 Level II Monitoring Triggers..... | 3 |
| 1.5 Level II Monitoring..... | 3 |
| 2. Level II Monitoring | 5 |
| 2.1 Reinsurers Requiring Level II Monitoring | 5 |
| 2.2 Allied World Assurance Company Limited | 6 |
| 2.3 Colchester Reinsurance Limited | 8 |

Appendices

| | |
|------|--|
| A | Axxima Letter on its Reinsurance Security Practices |
| B | Miller Services LLP Letter on its Reinsurance Security Practices |
| C | Current A.M. Best and S&P Ratings Compared to the Five Previous Years |
| C-PF | A.M. Best and S&P Ratings for commercial excess layers and CLLAS international program |
| D | CLLAS Reinsurance – Top 25 Reinsurers by % of Current Liability – All Years |
| E | CLLAS Reinsurance – Reinsurers by % of Current Liability – Current Year (2020/21) |
| F | CLLAS Reinsurance – Reinsurers by % of Single Claim Exposure – Current Year (2020/21) |
| F-PF | CLLAS Reinsurance – Reinsurers by % of Single Claim Exposure – Current Year (2020/21, including Pro-Form Insurers) |
| G | A.M. Best Credit Report – Allied World Assurance Company Limited |
| H | Draft Financial Statements – Colchester Reinsurance Limited, June 30, 2020 |
| I | Lloyd’s A.M. Best Rating Report – information only |

1. REINSURANCE SECURITY CONSIDERATIONS

1.1 Status Update

The purpose of this report is to provide the CLLAS Audit Committee with a status review of the current CLLAS reinsurance security consistent with CLLAS' Reinsurance Security Policy.

1.2 Reinsurance Security

One of the responsibilities of the Audit Committee is to monitor CLLAS' reinsurers and to recommend changes to the Board based on any number of factors including, but not limited to:

- Downgrading of the security rating;
- A rating agency placing a reinsurer on a "watch" list;
- Exposure to any one reinsurer exceeding an agreed percentage;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Use of unregistered (in Canada) security; and
- Any other matters that may threaten the security of a reinsurer.

The Committee acknowledges that reinsurance intermediaries cannot guarantee the solvency of any reinsurer and that they rely on the rating agencies to evaluate reinsurers' financial strength. The Audit Committee is not meant to substitute the expert advice provided by CLLAS' intermediaries. Its purpose is to use this advice to assist the Advisory Board in its due diligence process. Included in Appendices A and B are letters from Axxima (including Alternative Risk Services) and Miller Insurance Services LLP, respectively, which provide information on the reinsurance security practices of these firms.

1.3 Level I Monitoring

Level I monitoring of CLLAS reinsurance consists of the following:

- Current A.M. Best and S&P 5-year rating chart comparison – see Appendix C;
- Current claims liability exposure (i.e. case reserves and IBNR) to each reinsurer from all policy years combined – see Appendix D;
- Current claims liability exposure to each reinsurer for the prior policy year– see Appendix E; and
- Single claim limit exposure to each reinsurer for the current year – see Appendix F.

CLLAS reinsurers should be rated A- or better by A.M. Best and S&P, except for special circumstances agreed to by the Board.

For the committee's convenience we have also included the A.M. Best and S&P ratings for insurers participating on the commercial excess program placed by Pro-Form for CLLAS' subscribers, including the ratings for the "CLLAS International" program, as provided by Pro-Form, under Appendix C-PF. For completeness, the commercial excess and CLLAS International insurers have also been included in the analysis of claim limit exposure to each reinsurer for the current year, which is found under Appendix F-PF.

1.4 Level II Monitoring Triggers

Should any of the following events occur, a Level II monitoring would take place:

- Downgrading of the financial strength rating;
- A rating agency placing a reinsurer on a "watch" list;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Use of a reinsurer that is unregistered in Canada; and
- Any other events deemed material by the Audit Committee or its advisors.

Additionally, for a particular reinsurer, Level II monitoring will be triggered in the event the following takes place and the reinsurer's exposure to CLLAS is significant relative to the its total assets and/or capital and surplus:

- Current claims liability exposure (i.e. case reserves and IBNR) for all policy years combined exceeds 10% of the total;
- Current claims liability exposure for the prior policy year exceeds 10% of the total; and
- Claim limit exposure to each reinsurer for the current year exceeds 10% of the total limits provided by CLLAS.

CLLAS' exposure is considered significant to the reinsurer if its share of CLLAS' total current liabilities or claim limit exposure exceeds 0.1% of the reinsurer's assets or 0.5% of the reinsurer's capital and surplus.

1.5 Level II Monitoring

The following Level II monitoring should take place for any reinsurer that requires it due to events identified above:

- Additional information should be reviewed by the Audit Committee, including a review of:
 - Stock performance relative to the remainder of the market;
 - Early warning signals/ratios (as provided by A.M. Best or equivalent agency);

- Balance sheet and income statement highlights (as provided by A.M. Best or equivalent agency);
- Meetings or direct correspondence with such reinsurers as necessary to discuss the financial health of the reinsurer.

The Audit Committee should make recommendations to the Board based on such reviews.

2. LEVEL II MONITORING

2.1 Reinsurers Requiring Level II Monitoring

As the first step in our reinsurance security monitoring process, Level I tests were performed on all CLLAS reinsurers. The following identifies the reinsurers subject to Level II monitoring and which Level II monitoring criteria was triggered:

Level II Monitoring Triggers

| | AWAC | Colchester | Lloyd's | AMA 1200 (Argo) | Allianz | Swiss Re | AML 2001 (MS Amlin) | Axis RE |
|---|------|------------|---------|-----------------|---------|----------|---------------------|---------|
| Unregistered in Canada | ✓ | ✓ | | | | | | |
| Difficulty collecting reinsurance proceeds after claim settlement | | | | | | | | |
| Rating downgrade / "watch" list | | | | | ✓ | ✓ | | ✓ |
| Current claims liability exposure (all years) exceeds 10% | | ✓ | ✓ | ✓ | | | ✓ | |
| Current claims liability exposure (prior year) exceeds 10% | | ✓ | ✓ | ✓ | | | ✓ | |
| Claim limit exposure (current year) exceeds 10% | | ✓ | ✓ | | | ✓ | | |

Level II Monitoring Required?

| | AWAC | Colchester | Lloyd's | AMA 1200 (Argo) | Allianz | Swiss Re | AML 2001 (MS Amlin) | Axis RE |
|--|------|------------|---------|-----------------|---------|----------|---------------------|---------|
| CLLAS exposure exceeds 0.1% of total assets | n/a | n/a | | | | | | |
| CLLAS exposure exceeds 0.5% of total capital & surplus | n/a | n/a | | | | | | |
| Level II Monitoring Required | ✓ | ✓ | | | | | | |

Although exposure to Lloyd's does not exceed the Level II Monitoring requirement thresholds as a percent of assets and capital, we are including the AM Best Rating Report under Appendix I as an information item due to the size of the liabilities placed with Lloyd's.

2.2 Allied World Assurance Company Limited (“AWAC”)

General

Allied World Assurance Company Limited is a global specialty insurance and reinsurance company with offices in Bermuda, Europe and the United States. Launched in 2001, AWAC originally consisted of four employees located in a small office in Bermuda. Today, AWAC has offices in Atlanta, Bermuda, Boston, Chicago, Dublin, Farmington (CT), London, New York, San Francisco and Zug.

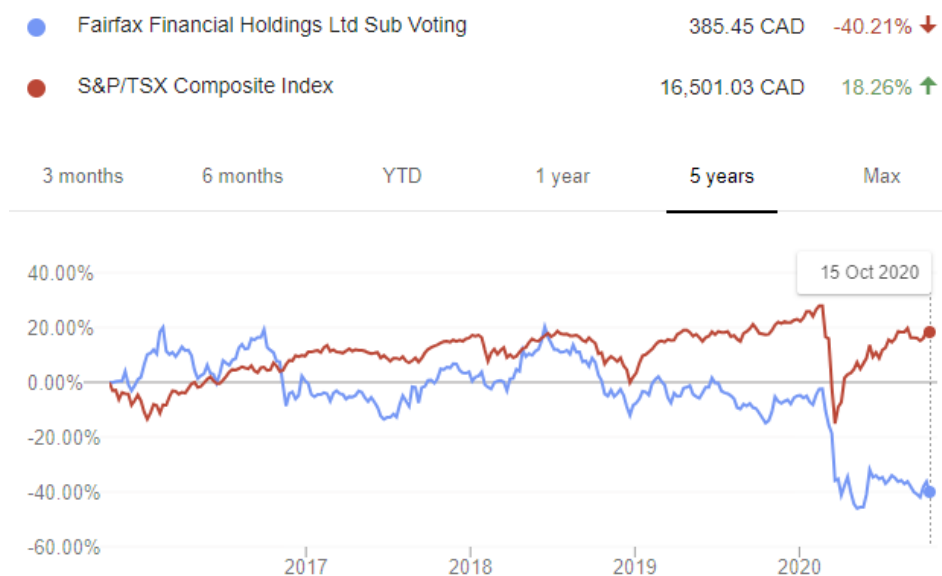
AWAC has been a participant in the CLLAS Program since 2002. Currently, AWAC participates in the highest levels of the CLLAS Program – the Optional Excess and Umbrella layers.

The CLLAS/AWAC reinsurance agreement includes a provision for outstanding claims advances by AWAC in favour of CLLAS.

On July 5, 2017 AWAC was acquired by Fairfax Financial Holdings. Stock information is no longer available for AWAC, so we have included the stock performance of their ultimate parent company, Fairfax Financial Holdings Ltd., which is outlined below.

Stock Performance

The following is the 5-year stock performance as of October 15, 2020 for Fairfax Financial Holdings (ticker: FFH, Toronto Stock Exchange) with the S&P 500 Index for comparison.



Financial Highlights

- Retained earnings increased from (\$693,900,000) in 2018 to (\$324,800,000) in 2019
- Income for the year, after taxation, increased from (\$90,300,000) in 2018 to \$363,500,000 in 2019
- The Company actively manages its reinsurance exposures by generally selecting reinsurers having a credit rating of “A-” or higher and monitoring the overall credit quality of its reinsurers to ensure that recoverables will be collected
- Approximately 94% and 96% of ceded reserves were recoverable from reinsurers who had an A.M. Best rating of “A” or higher as of December 31, 2019 and December 31, 2018, respectively

AM Best Report Highlights

The complete A.M. Best report is set forth in Appendix G.

- Current financial strength rating is A (Excellent) Stable from A.M. Best;

The balance sheet performance for AWAC is categorized as “strongest” which means that Allied World Assurance Company Holdings Limited (Allied World) has a strong balance sheet strength which is mainly due to a diversified investment portfolio, favorable reserve development and controlled growth

AWAC is backed by a Fairfax Financial Holdings (Fairfax) which has a financially stable balance sheet. AWAC can benefit from Fairfax's supportive financial leverage and favorable liquidity, with cash and short-term investments readily available to support its insurance operations.

Outlook

The stable rating outlooks reflect AM Best's expectation that the group's strongest level of balance sheet strength will continue to be supported by adequate operating performance; diverse business profile, both geographically and by line of business; and well defined enterprise risk management guidelines and controls.

- Combined ratios ranged from 85% to 126.4% in the past 5 years. With 2018 combined ratio at 98.2%
- A.M. Best report was updated on February 28, 2020.

2.3 Colchester Reinsurance Limited (“Colchester”)

General

Colchester is a captive reinsurer for CLLAS and is wholly owned by the current and past subscriber firms of CLLAS, or their affiliates. Colchester is domiciled in Barbados.

Stock Performance

Colchester is not publicly traded.

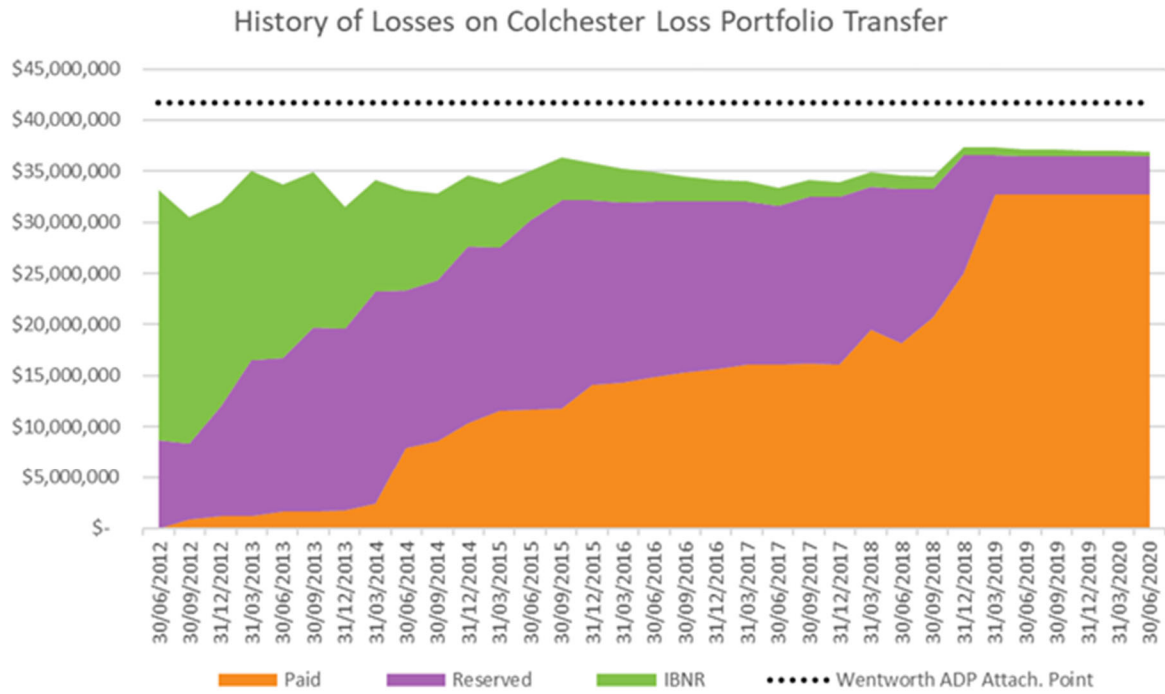
Highlights of A.M. Best Report

Colchester is not rated by any ratings agencies.

Financial Highlights

Please see Appendix H for a copy of the most recent financial draft statements (as of June 30, 2020). The following are some of the highlights from these financials:

- Total Equity decreased from \$25,768,960 in 2019 to \$25,597,365 in 2020
- Income for the year, after taxation, increased from (\$6,427,935) in 2019 to (\$1,287,566) in 2020
 - Reinsurance premiums written and earned increased from \$428,717 in 2019 to \$1,330,072 in 2020
 - Retrocession premiums increased modestly from \$1,068,610 in 2019 to \$1,261,726 in 2020
- Colchester has been deliberately distributing surplus via premium reductions (as seen above in the level of premiums written), and losses are expected to emerge over time as a result
- All the assets supporting the claims liabilities of Colchester are held in trust in a custodial account in favour of CLLAS, subject to a reinsurance security agreement as outlined by the Office of the Superintendent of Financial Institutions (Canadian federal regulator) and approved by the Alberta Superintendent of Insurance (the regulator in CLLAS’ home jurisdiction)
- On June 30, 2012 Colchester and CLLAS affected a Loss Portfolio Transfer, which transferred approximately \$33.1 million of CLLAS’ liabilities to Colchester for all prior years of account. Since that time, those liabilities have remained relatively stable, as can be seen in the chart below. Colchester also purchased 10% quota share adverse development retrocession protection on the Loss Portfolio, which attaches at \$41.7 million, also shown below as a dotted line for reference.





Actuaries and Insurance Management Advisors

September 23, 2014

Mr. Nick Leblovic
Chairman, CLLAS
c/o Davies Ward Phillips & Vineberg LLP
40th Floor, 155 Wellington Street West
Toronto, Ontario M5V 3J7

Dear Nick,

This is in response to a previous request to provide a letter regarding the reinsurance that is placed on behalf of CLLAS. We are reissuing this letter under Axxima cover to confirm that the previous letter, dated June 9, 2009 under Dion, Durrell + Associates Inc. cover, remains accurate under Axxima's management.

As you know, we work closely with Miller Insurance Services Ltd. (Miller) on all CLLAS reinsurance matters, with Miller being responsible for the London placement (including Lloyd's and certain European companies) and the Colchester retrocession placement. Axxima, via its subsidiary, Alternative Risk Services, a division of 3303128 Canada Inc. ("AR Services"), prepares the reinsurance submission that goes out to all markets and specifically places the domestic and Bermuda reinsurance as well as the aggregate stop-loss reinsurance placed through Colchester.

In the past, a minimum reinsurance security rating standard of no less than A-, as determined by A.M. Best and Standard & Poor's, had been established with CLLAS. Any deviation from such standard is to be referred to the CLLAS Advisory Board. Thoughtful and deliberate monitoring preserves the important relationships that CLLAS has developed over the years with its reinsurers.

Please be advised that neither Axxima, nor AR Services, carries out its own assessment of the solvency of any insurer or reinsurer and do not guarantee the solvency or continuing solvency of any insurer or reinsurer. You should note that the financial solvency of any insurer or reinsurer could change after the reinsurance protection has been placed. We are committed to providing CLLAS with up-to-date information on any material changes in the financial status or the security ratings of CLLAS reinsurers. To this end, we carry out CLLAS' adopted reinsurance security process.

In general, we are prepared to provide CLLAS with updates from A.M. Best and S&P based on our monitoring of the security ratings of each of the participating reinsurers. We will advise CLLAS on any adverse developments which may require CLLAS to replace a certain reinsurer mid-term or to decide to monitor and continue to use a certain reinsurer for a prescribed period of time.

We hope that the foregoing is satisfactory, however, should you have any questions, please do not hesitate to contact the undersigned.

Yours sincerely,

A handwritten signature in black ink, appearing to read "J. Tontini".

Joseph D. Tontini
Consultant



Dawson House
5 Jewry Street
London EC3N 2PJ
Tel: +44 (0)20 7488 2345
Fax: +44 (0)20 7410 2757
www.miller-insurance.com

Nicholas J. Leblovic
Chairman
Canadian Lawyers Liability Assurance Society
Suite 2900
250 Yonge Street
Toronto
Ontario M5B 2L7
Canada

5th June 2009

Dear Nick

**CLLAS Reinsurance Programme
Renewal effective 1st July 2009**

In accordance with your request and in conjunction with Dion, Durrell + Associates, Inc., we have compiled various material relating to the reinsurers we use who participate on the CLLAS reinsurance programme. We have collated this information with the underwriters' responses given during our meetings to the set of questions posed during your recent visit to London. A copy of the matrix with reinsurers' feedback is enclosed.

You have asked us to comment on the appropriateness of the reinsurers who are involved as well as give our views on possible new markets. Miller does not assess or guarantee the solvency of any (re)insurer, however we check the financial strength ratings provided by specialist agencies (such as Standard & Poor's and A.M. Best) for each participating market and each must be authorised internally at Miller for us to use. Any markets which do not meet a minimum criteria may still be used but only with specific client approval. In practice the current specialist agency financial strength ratings of all the reinsurers used by us on your programme are in excess of our minimum criteria for authorisation.

On an ongoing basis we monitor these ratings as well as developments in the market and will advise you in the event there are circumstances which lead a market to fall out of our authorised classification. Taking into consideration reinsurers' feedback from our meetings, the Miller authorisations of each of the markets we use on the CLLAS programme are unaffected.

For 2009 we will be approaching the current participants for their support and many of these have had long term relationships with CLLAS. As outlined in London, we and Dion, Durrell work closely together to strategically manage the size and layering of participations offered by each reinsurer to ensure that the most optimal result is achieved for CLLAS, in line with its objectives for renewal. At present there are no new reinsurance companies which we wish to approach with your programme this year, but there are several new Lloyd's syndicates which may be interested in supporting your account and we will be approaching them for their views in due course. The current Lloyd's rating by Standard & Poor's is A+ (strong) with a stable outlook.

Please don't hesitate to let me know if you have any questions or comments.

Yours sincerely

A handwritten signature in black ink, appearing to read "Mark Popple".

Mark Popple
Director – Professional Risks

Encl.

CLLAS Reinsurance

S&P Ratings over a 5 year period

October 2020

Appendix C

| Reinsurers | | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---------|----------|----------|----------|--------|----------|----------|----------|----------|----------|
| Lloyd's | Rating | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ |
| | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Negative | Negative | Stable |
| Aspen Re | Rating | A | A | A | A | A | A | A | A | A |
| | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Negative | Negative | Negative |
| Hannover Rueck | Rating | AA- | AA- | AA- | AA- | AA- | AA- | AA- | AA- | AA- |
| | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Transatlantic Reinsurance Company (UK) | Rating | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ |
| | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Arch Insurance Company (Canada Branch) | Rating | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ |
| | Outlook | Stable | Stable | Stable | Stable | Negative | Negative | Stable | Stable | Negative |
| Allied World Assurance Company Ltd. | Rating | A | A | A | A | A | A- | A- | A- | A- |
| | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Positive | Positive | Stable |
| CRC (Bermuda) Reinsurance Ltd. | Rating | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| | Outlook | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| RSA Insurance Group(formerly GCAN Insurance Company) | Rating | A+ | A | A | A | A | A | A | A | A |
| | Outlook | Negative | Negative | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| SCOR Canada Reinsurance Company | Rating | A+ | A+ | A+ | AA- | AA- | AA- | AA- | AA- | AA- |
| | Outlook | Stable | Stable | Positive | Stable | Stable | Stable | Stable | Stable | Stable |
| Swiss Reinsurance Company Ltd. (Canada Branch) | Rating | AA- | AA- | AA- | AA- | AA- | AA- | AA- | AA- | AA- |
| | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Negative |
| Toa Reinsurance Company of America | Rating | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ |
| | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Alleghany Corporation (formerly Transatlantic Reinsurance Company) (Parent) | Rating | BBB | BBB | BBB+ | BBB+ | BBB+ | BBB+ | BBB+ | BBB+ | BBB+ |
| | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Transatlantic Reinsurance Company (Canada) | Rating | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ |
| | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Colchester Reinsurance Ltd. | Rating | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| | Outlook | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Munich Re | Rating | AA- | AA- | AA- | AA- | AA- | AA- | AA- | AA- | AA- |
| | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Argo Group Operating Subsidiaries (AMA 1200 Parent) | Rating | A- | A- | A- | A- | A- | A- | A- | A- | A- |
| | Outlook | Stable | Negative | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Axis Reinsurance Company | Rating | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ |
| | Outlook | Stable | Stable | Stable | Stable | Stable | Negative | Negative | Stable | Negative |
| Continental Casualty Company (CNA) | Rating | A- | A | A | A | A | A | A | A | A+ |
| | Outlook | Positive | Positive | Stable | Stable | Stable | Stable | Stable | Positive | Stable |
| Allianz Global Risks | Rating | AA | AA | AA | AA | AA | AA | AA | AA | AA |
| | Outlook | Negative | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Negative |
| CNA Canada | Rating | N/A | N/A | N/A | A | A | A | A | A | A+ |
| | Outlook | N/A | N/A | N/A | Stable | Stable | Stable | Stable | Positive | Stable |

CLLAS Reinsurance

A.M Best Ratings over a 5 year period

October 2020

Appendix C

| Reinsurers | Registered Status | | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------------|---------|----------|----------|----------|----------|----------|----------|----------|----------|---------|
| Lloyd's | Registered | Rating | A | A | A | A | A | A | A | A | A+ |
| | | Outlook | Stable | Stable | Positive | Stable | Stable | Stable | Stable | Stable | Stable |
| Aspen Re | Registered | Rating | A | A | A | A | A | A | A | A | A |
| | | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Hannover Rueck | Registered | Rating | A | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ |
| | | Outlook | Positive | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Transatlantic Reinsurance Company (UK) | Registered | Rating | A | A | A | A | A+ | A+ | A+ | A+ | A+ |
| | | Outlook | Stable | Stable | Positive | Positive | Positive | Stable | Stable | Stable | Stable |
| Arch Insurance Company (Canada Branch) | Registered | Rating | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ |
| | | Outlook | Stable | Stable | Stable | Stable | Stable | Negative | Negative | Stable | Stable |
| Allied World Assurance Company Ltd. | Unregistered | Rating | A | A | A | A | A | A | A | A | A |
| | | Outlook | Positive | Stable | Stable | Stable | Stable | Negative | Stable | Stable | Stable |
| CRC (Bermuda) Reinsurance Ltd. | Unregistered | Rating | A | A- | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| | | Outlook | Stable | Stable | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| RSA Insurance Group(formerly GCAN Insurance Company) | Registered | Rating | A | A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| | | Outlook | Stable | Stable | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| SCOR Canada Reinsurance Company | Registered | Rating | A | A | A | A | A | A+ | A+ | A+ | A+ |
| | | Outlook | Stable | Stable | Stable | Positive | Positive | Positive | Stable | Stable | Stable |
| Swiss Reinsurance Company Ltd. (Canada Branch) | Registered | Rating | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ |
| | | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Toa Reinsurance Company of America | Registered | Rating | A+ | A+ | A+ | A+ | A+ | A | A | A | A |
| | | Outlook | Negative | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Alleghany Corporation (formerly Transatlantic Reinsurance Company) (Parent) | Registered | Rating | N/A | bbb+ | bbb+ | bbb+ | A- | A- | A- | A- | A- |
| | | Outlook | N/A | N/A | N/A | Positive | Stable | Stable | Stable | Stable | Stable |
| Transatlantic Reinsurance Company (Canada) | Registered | Rating | A | A | A | A | A+ | A+ | A+ | A+ | A+ |
| | | Outlook | Stable | Stable | Positive | Positive | Stable | Stable | Stable | Stable | Stable |
| Colchester Reinsurance Ltd. | Unregistered | Rating | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| | | Outlook | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Munich Re | Registered | Rating | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ |
| | | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Argo Group Operating Subsidiaries (AMA 1200 Parent) | Registered | Rating | A | A | A | A | A | A | A | A | A |
| | | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Axis Reinsurance Company | Registered | Rating | A | A | A+ | A+ | A+ | A+ | A+ | A+ | A |
| | | Outlook | Positive | Positive | Stable | Stable | Stable | Stable | Negative | Negative | Stable |
| Continental Casualty Company (CNA) | Registered | Rating | A | A | A | A | A | A | A | A | A |
| | | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Allianz Global Risks | Registered | Rating | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ | A+ |
| | | Outlook | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| CNA Canada | Registered | Rating | N/A | N/A | N/A | A* | A* | A* | A* | A* | A* |
| | | Outlook | N/A | N/A | N/A | Stable* | Stable* | Stable* | Stable* | Stable* | Stable* |

* As of March 31, 2012

Renewal Quotations

CLLAS Canadian Excess Program

| | Liberty Lead | Encon Lead |
|--|-----------------------|--------------------|
| | \$50x50 (\$431) | \$60x\$100 (\$374) |
| Liberty International Canada | 20% | 9.5% |
| Victor Insurance (formally Encon) | 10% | 25% |
| Travelers Insurance Company of Canada | 10% | 16.5% |
| Royal & Sun Alliance Insurance Company of Canada | 20% | 9.5% |
| AXA XL | 10% | |
| Axis Reinsurance Company | 10% | |
| Northbridge Insurance Company | 5% (10% on Associate) | 10% |
| The Sovereign General Insurance Company | | 16.5% |
| QBE Services Inc. | 10% | 8% |
| CLLAS | 5% (0% on Associate) | 5% |
| Total | 100% | 100% |

1. One CLLAS member purchases \$30,000,000 xs \$50,000,000. The new rate per lawyer is \$298 per lawyer and the new \$50,000,000 xs \$50,000,000 Insurer group will provide this layer.
2. We do have one Associate Member of CLLAS and they will purchase \$45,000,000 xs \$50,000,000 and the renewal rate is \$546 per lawyer.

Note: The expiring rate on the layer of \$110,000,000 excess of \$50,000,000 is \$740.00 per lawyer vs. the renewal rate of \$805.00 per lawyer, which is an overall 8.05% increase

Renewal Quotations

CLLAS International

| Insurer | Layer | Proposed Renewal |
|------------------|---|---|
| | | 2020 - 2021 |
| CNA (25%) | US\$30,000,000 each claim and aggregate | 15% Rate Increase or an Increased Retention with a 5% Rate Increase |
| AXA XL (16.50%) | | |
| Berkshire (25%) | | |
| Aspen Re (16.5%) | | |
| Lloyds (17.00%) | | |

Note: Each Participating firm will receive a renewal notice confirming their renewal terms.

CLLAS Reinsurance

Appendix D

Top 25 Reinsurers by % of Current Liability

ALL YEARS

| Watch | Name | Jurisdiction | Reg'd? | LAYERS | | | | | | | | | TOTAL | All-time Percent of Total | Prev. Year Percent of Total | Move- ment? |
|-------|---|--------------|--------|------------------|-------------------|----------------|----------------|----------------|-----------------|--------------|-----------------|------------------|-------------------|---------------------------------|-----------------------------------|----------------|
| | | | | \$.975MM XS | \$4/\$49MM XS | \$7.5MM XS | \$12.5MM XS | \$10MM XS | \$30/60MM XS | \$20MM XS | \$10-60MM XS | \$15-110MM XS | | | | |
| | | | | \$.025MM | \$1MM | \$5MM | \$12.5MM | \$25MM | \$65MM | \$140MM | \$160MM | \$50MM | | | | |
| | Underwriters at Lloyd's | London | Yes | 0 | 33,852,152 | 93,201 | 65,641 | 52,916 | 71,007 | 309 | 134,016 | 0 | 34,269,242 | 52.4% | 41.6% | Up |
| | AMA 1200 | Lloyd's | Yes | 0 | 12,620,215 | 0 | 0 | 0 | 52 | 0 | 0 | 0 | 12,620,267 | 19.3% | 12.7% | Up |
| ➔ | Colchester | Barbados | No | 0 | 12,186,581 | 0 | 0 | 0 | 0 | 0 | 24,393 | 12,188 | 12,223,161 | 18.7% | 11.1% | Up |
| | AML 2001 | Lloyd's | Yes | 0 | 5,946,749 | 0 | 8,292 | 5,719 | 0 | 23 | 0 | 0 | 5,960,783 | 9.1% | 5.6% | Up |
| | Allianz Global Risks | London | Yes | 0 | 4,806,207 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,806,207 | 7.4% | 3.2% | Up |
| | PPI 9969 | Lloyd's | Yes | 0 | 4,619,831 | 0 | 0 | 0 | 0 | 0 | 4,121 | 0 | 4,623,952 | 7.1% | 5.7% | Up |
| | AUL 1274 | Lloyd's | Yes | 0 | 4,300,263 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,300,263 | 6.6% | 3.1% | Up |
| | Vibe 5678 | Lloyd's | Yes | 0 | 3,841,942 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,841,942 | 5.9% | 1.4% | Up |
| | AXIS Re | Canada | Yes | 0 | 2,946,243 | 0 | 0 | 0 | 0 | 0 | 16,214 | 0 | 2,962,457 | 4.5% | 2.2% | Up |
| | CNA (Combined) | Combined | Mixed | 0 | 1,473,166 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,473,166 | 2.3% | 2.3% | Down |
| | CNA (Canada) | Canada | Yes | 0 | 1,437,625 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,437,625 | 2.2% | 2.3% | Down |
| | Hamilton (Combined) | Combined | Yes | 0 | 834,223 | 0 | 13,080 | 0 | 6,169 | 42 | 16,141 | 0 | 869,655 | 1.3% | 0.0% | Up |
| | AGD 2526 | Lloyd's | Yes | 0 | 847,425 | 1,217 | 0 | 0 | 69 | 0 | 354 | 0 | 849,065 | 1.3% | 1.9% | Down |
| | Hamilton 3334 | Lloyd's | Yes | 0 | 737,723 | 0 | 0 | 0 | 1,202 | 0 | 3,066 | 0 | 741,991 | 1.1% | 0.7% | Up |
| | Hannover (Combined) | Combined | Yes | 0 | 527,973 | 0 | 47,923 | 0 | 0 | 0 | 0 | 0 | 575,896 | 0.9% | 0.0% | Up |
| | Argenta 2121 | Lloyd's | Yes | 0 | 527,973 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 527,973 | 0.8% | 0.0% | Up |
| | Swiss Re (Combined) | Combined | Mixed | 0 | 0 | 0 | 0 | 32,839 | 46,780 | 702 | 67,235 | 257,917 | 405,472 | 0.6% | 2.9% | Down |
| | Westport Insurance Corp. (Swiss Re) | Canada | Yes | 0 | 0 | 0 | 0 | 0 | 44,672 | 0 | 66,591 | 257,917 | 369,179 | 0.6% | 0.3% | Up |
| | Acappella 2014 | Lloyd's | Yes | 0 | 136,857 | 0 | 0 | 0 | 4,155 | 0 | 19,874 | 0 | 160,885 | 0.2% | 0.2% | Up |
| | PEM 4000 | Lloyd's | Yes | 0 | 96,500 | 0 | 13,080 | 0 | 4,968 | 42 | 13,075 | 0 | 127,664 | 0.2% | 1.1% | Down |
| | Transatlantic Reinsurance Company (Combined) | Combined | Yes | 0 | 59,235 | 32,041 | 35,086 | 0 | 0 | 0 | 0 | 0 | 126,362 | 0.2% | 2.5% | Down |
| | Barbican 1955 | Lloyd's | Yes | 0 | 99,646 | 0 | 0 | 0 | 69 | 0 | 161 | 0 | 99,877 | 0.2% | 0.1% | Up |
| | Transatlantic Reinsurance Company (Canada) | Canada | Yes | 0 | 59,235 | 12,663 | 24,142 | 0 | 0 | 0 | 0 | 0 | 96,041 | 0.1% | 2.4% | Down |
| | AmTrust 1206 | Lloyd's | Yes | 0 | 77,029 | 0 | 0 | 0 | 5,019 | 0 | 12,715 | 0 | 94,763 | 0.1% | 0.2% | Down |
| | AFB 623/2623 | Lloyd's | Yes | 0 | 0 | 81,841 | 0 | 0 | 4,693 | 0 | 0 | 0 | 86,534 | 0.1% | 2.6% | Down |
| | Total Current Liabilities | | | 1,595,616 | 62,236,202 | 392,606 | 297,995 | 132,827 | 133,657 | 2,808 | 326,720 | 270,104 | 65,388,535 | | | |
| | Proportional Reinsurance: | | | | | | | | | | | | | | | |
| | London | | | 0 | 38,658,358 | 147,906 | 150,584 | 64,040 | 71,007 | 309 | 134,016 | 0 | 39,226,219 | 60.0% | 50.5% | Up |
| | Canada | | | 0 | 4,478,644 | 71,559 | 59,343 | 48,527 | 53,277 | 702 | 144,456 | 257,917 | 5,114,425 | 7.8% | 15.1% | Down |
| | Bermuda | | | 0 | 0 | 14,877 | 11,989 | 0 | 9,374 | 1,797 | 23,854 | 0 | 61,890 | 0.1% | 1.0% | Down |
| | Barbados | | | 0 | 12,186,581 | 0 | 0 | 0 | 0 | 0 | 24,393 | 12,188 | 12,223,161 | 18.7% | 11.1% | Up |
| | Total | | | 0 | 55,323,583 | 234,341 | 221,916 | 112,567 | 133,657 | 2,808 | 326,720 | 270,104 | 56,625,696 | 86.6% | 77.6% | Up |
| | CLLAS Proportional Retention | | | 1,595,616 | 6,912,619 | 158,264 | 76,079 | 20,260 | 0 | 0 | 0 | 0 | 8,762,839 | 13.4% | 22.4% | Down |
| ➔ | Colchester Loss Portfolio Transfer & Stop Loss | | | 62,958 | 6,912,619 | 158,264 | 76,079 | 20,260 | 0 | 0 | 0 | 0 | 7,230,181 | 11.1% | 20.3% | Down |
| | CLLAS Net Retention | | | | | | | | | | | | 1,532,658 | 2.3% | 2.0% | Up |

CLLAS Reinsurance

Appendix E

Reinsurers by % of Current Liability

CURRENT YEAR (2020/2021)

| CURRENT YEAR (2020/2021) | | | | LAYERS | | | | | TOTAL | Percent of Total | Prev. Year Percent of Total | Move-ment? |
|------------------------------|-------------------------------------|--------------|--------|----------|-----------|------------|------------|-------------|-----------|------------------|-----------------------------|------------|
| Watch | Name | Jurisdiction | Reg'd? | \$.975MM | \$.49MM | \$.30/60MM | \$.10-60MM | \$.15-110MM | | | | |
| | | | | XS | XS | XS | XS | XS | | | | |
| | | | | \$.025MM | \$1MM | \$65MM | \$160MM | XS \$50MM | | | | |
| | Underwriters at Lloyd's | London | Yes | 0 | 2,023,896 | 5,167 | 12,687 | 0 | 2,041,749 | 55.3% | 64.3% | Down |
| ➡ | Colchester | Barbados | No | 0 | 809,558 | 0 | 2,495 | 12,188 | 824,241 | 22.3% | 19.1% | Up |
| | AMA 1200 | Lloyd's | Yes | 0 | 703,964 | 0 | 0 | 0 | 703,964 | 19.1% | 19.1% | Up |
| | Hannover (Combined) | Combined | Yes | 0 | 527,973 | 0 | 0 | 0 | 527,973 | 14.3% | 0.0% | Up |
| | Argenta 2121 | Lloyd's | Yes | 0 | 527,973 | 0 | 0 | 0 | 527,973 | 14.3% | 0.0% | Up |
| | Allianz Global Risks | London | Yes | 0 | 439,977 | 0 | 0 | 0 | 439,977 | 11.9% | 7.5% | Up |
| | AML 2001 | Lloyd's | Yes | 0 | 439,977 | 0 | 0 | 0 | 439,977 | 11.9% | 10.3% | Up |
| | AUL 1274 | Lloyd's | Yes | 0 | 351,982 | 0 | 0 | 0 | 351,982 | 9.5% | 7.5% | Up |
| | AXIS Re | Canada | Yes | 0 | 246,387 | 0 | 1,248 | 0 | 247,635 | 6.7% | 4.8% | Up |
| | Swiss Re (Combined) | Combined | Mixed | 0 | 0 | 3,288 | 2,286 | 14,625 | 20,199 | 0.5% | 1.0% | Down |
| | Westport Insurance Corp. (Swiss Re) | Canada | Yes | 0 | 0 | 3,288 | 2,286 | 14,625 | 20,199 | 0.5% | 1.0% | Down |
| | MKL 3000 | Lloyd's | Yes | 0 | 0 | 934 | 3,511 | 0 | 4,445 | 0.1% | 0.1% | Up |
| | BRT 2987 | Lloyd's | Yes | 0 | 0 | 2,161 | 933 | 0 | 3,094 | 0.1% | 0.1% | Up |
| | Gerling Global Re | Canada | Yes | 0 | 0 | 376 | 2,495 | 0 | 2,871 | 0.1% | 0.1% | Up |
| | Catlin (Combined) | Combined | Yes | 0 | 0 | 0 | 2,348 | 0 | 2,348 | 0.1% | 0.0% | Up |
| | SJC 2003 | Lloyd's | Yes | 0 | 0 | 0 | 2,348 | 0 | 2,348 | 0.1% | 0.0% | Up |
| | AWAC | Bermuda | No | 0 | 0 | 564 | 1,747 | 0 | 2,310 | 0.1% | 0.1% | Up |
| | RSA (Combined) | Combined | Yes | 0 | 0 | 0 | 1,996 | 0 | 1,996 | 0.1% | 0.0% | Up |
| | Royal & Sun Alliance Co. of Canada | Canada | Yes | 0 | 0 | 0 | 1,996 | 0 | 1,996 | 0.1% | 0.0% | Up |
| | Endurance 5151 | Lloyd's | Yes | 0 | 0 | 0 | 1,872 | 0 | 1,872 | 0.1% | 0.0% | Up |
| | Hamilton (Combined) | Combined | Yes | 0 | 0 | 465 | 1,385 | 0 | 1,850 | 0.1% | 0.0% | Up |
| | PEM 4000 | Lloyd's | Yes | 0 | 0 | 465 | 1,385 | 0 | 1,850 | 0.1% | 0.0% | Up |
| | FDY 435 | Lloyd's | Yes | 0 | 0 | 424 | 1,140 | 0 | 1,564 | 0.0% | 0.0% | Up |
| | Probitas 1492 | Lloyd's | Yes | 0 | 0 | 0 | 1,497 | 0 | 1,497 | 0.0% | 0.0% | Up |
| | Canopus 4444 | Lloyd's | Yes | 0 | 0 | 762 | 0 | 0 | 762 | 0.0% | 0.0% | Up |
| | AFB 623/2623 | Lloyd's | Yes | 0 | 0 | 422 | 0 | 0 | 422 | 0.0% | 0.0% | Up |
| Total Current Liabilities | | | | 112,755 | 3,519,819 | 9,394 | 24,954 | 26,813 | 3,693,735 | | | |
| Proportional Reinsurance: | | | | | | | | | | | | |
| | London | | | 0 | 2,463,873 | 5,167 | 12,687 | 0 | 2,481,727 | 67.2% | 71.8% | Down |
| | Canada | | | 0 | 246,387 | 3,664 | 8,025 | 14,625 | 272,701 | 7.4% | 5.9% | Up |
| | Bermuda | | | 0 | 0 | 564 | 1,747 | 0 | 2,310 | 0.1% | 0.1% | Up |
| | Barbados | | | 0 | 809,558 | 0 | 2,495 | 12,188 | 824,241 | 22.3% | 19.1% | Up |
| | Total | | | 0 | 3,519,819 | 9,394 | 24,954 | 26,813 | 3,580,980 | 96.9% | 96.8% | Up |
| CLLAS Proportional Retention | | | | 112,755 | 0 | 0 | 0 | 0 | 112,755 | 3.1% | 3.2% | Down |
| ➡ | Colchester Aggregate | | | | | | | | 0 | 0.0% | 0.0% | Zero |
| CLLAS Net Retention | | | | | | | | | 112,755 | 3.1% | 3.2% | Down |

CLLAS Reinsurance

Appendix F

Reinsurers by % of Single Claim Exposure

CURRENT YEAR (2020/2021)

| Watch | Name | Jurisdiction | Reg'd? | LAYERS | | | | | TOTAL | Percent of Total | Prev. Year Percent of Total | Move-ment? |
|-------|-------------------------------------|--------------|--------|--------------|------------|--------------|--------------|------------|------------|------------------|-----------------------------|------------|
| | | | | \$.975MM XS | \$49MM XS | \$30/60MM XS | \$10-60MM XS | \$110MM XS | | | | |
| | | | | \$.025MM | \$1MM | \$65MM | \$160MM | \$50MM | | | | |
| | Underwriters at Lloyd's | London | Yes | 0 | 28,175,000 | 16,500,000 | 30,504,000 | 0 | 75,179,000 | 51.7% | 44.5% | Up |
| ➔ | Colchester | Barbados | No | 0 | 11,270,000 | 0 | 6,000,000 | 2,500,000 | 19,770,000 | 13.6% | 9.8% | Up |
| | Swiss Re (Combined) | Combined | Mixed | 0 | 0 | 10,500,000 | 5,496,000 | 3,000,000 | 18,996,000 | 13.1% | 23.4% | Down |
| | Westport Insurance Corp. (Swiss Re) | Canada | Yes | 0 | 0 | 10,500,000 | 5,496,000 | 3,000,000 | 18,996,000 | 13.1% | 23.4% | Down |
| | MKL 3000 | Lloyd's | Yes | 0 | 0 | 2,982,000 | 8,442,000 | 0 | 11,424,000 | 7.9% | 4.0% | Up |
| | AMA 1200 | Lloyd's | Yes | 0 | 9,800,000 | 0 | 0 | 0 | 9,800,000 | 6.7% | 6.7% | Unchanged |
| | BRT 2987 | Lloyd's | Yes | 0 | 0 | 6,900,000 | 2,244,000 | 0 | 9,144,000 | 6.3% | 5.4% | Up |
| | Hannover (Combined) | Combined | Yes | 0 | 7,350,000 | 0 | 0 | 0 | 7,350,000 | 5.1% | 0.0% | Up |
| | Argenta 2121 | Lloyd's | Yes | 0 | 7,350,000 | 0 | 0 | 0 | 7,350,000 | 5.1% | 0.0% | Up |
| | Gerling Global Re | Canada | Yes | 0 | 0 | 1,200,000 | 6,000,000 | 0 | 7,200,000 | 4.9% | 4.9% | Unchanged |
| | AXIS Re | Canada | Yes | 0 | 3,430,000 | 0 | 3,000,000 | 0 | 6,430,000 | 4.4% | 3.7% | Up |
| | Allianz Global Risks | London | Yes | 0 | 6,125,000 | 0 | 0 | 0 | 6,125,000 | 4.2% | 2.2% | Up |
| | AML 2001 | Lloyd's | Yes | 0 | 6,125,000 | 0 | 0 | 0 | 6,125,000 | 4.2% | 3.3% | Up |
| | AWAC | Bermuda | No | 0 | 0 | 1,800,000 | 4,200,000 | 0 | 6,000,000 | 4.1% | 4.1% | Unchanged |
| | Catlin (Combined) | Combined | Yes | 0 | 0 | 0 | 5,646,000 | 0 | 5,646,000 | 3.9% | 0.7% | Up |
| | SJC 2003 | Lloyd's | Yes | 0 | 0 | 0 | 5,646,000 | 0 | 5,646,000 | 3.9% | 0.7% | Up |
| | AUL 1274 | Lloyd's | Yes | 0 | 4,900,000 | 0 | 0 | 0 | 4,900,000 | 3.4% | 2.2% | Up |
| | Hamilton (Combined) | Combined | Yes | 0 | 0 | 1,485,000 | 3,330,000 | 0 | 4,815,000 | 3.3% | 0.0% | Up |
| | PEM 4000 | Lloyd's | Yes | 0 | 0 | 1,485,000 | 3,330,000 | 0 | 4,815,000 | 3.3% | 2.0% | Up |
| | RSA (Combined) | Combined | Yes | 0 | 0 | 0 | 4,800,000 | 0 | 4,800,000 | 3.3% | 3.3% | Unchanged |
| | Royal & Sun Alliance Co. of Canada | Canada | Yes | 0 | 0 | 0 | 4,800,000 | 0 | 4,800,000 | 3.3% | 3.3% | Unchanged |
| | Endurance 5151 | Lloyd's | Yes | 0 | 0 | 0 | 4,500,000 | 0 | 4,500,000 | 3.1% | 1.3% | Up |
| | FDY 435 | Lloyd's | Yes | 0 | 0 | 1,353,000 | 2,742,000 | 0 | 4,095,000 | 2.8% | 2.0% | Up |
| | Probitas 1492 | Lloyd's | Yes | 0 | 0 | 0 | 3,600,000 | 0 | 3,600,000 | 2.5% | 0.0% | Up |
| | Canopus 4444 | Lloyd's | Yes | 0 | 0 | 2,433,000 | 0 | 0 | 2,433,000 | 1.7% | 0.0% | Up |
| | AFB 623/2623 | Lloyd's | Yes | 0 | 0 | 1,347,000 | 0 | 0 | 1,347,000 | 0.9% | 0.8% | Up |

| | | | | | | | | | |
|--------------------------------|---------|------------|------------|------------|-----------|-------------|-------|-------|------|
| Maximum Exposure Any One Claim | 975,000 | 49,000,000 | 30,000,000 | 60,000,000 | 5,500,000 | 145,475,000 | | | |
| Proportional Reinsurance: | | | | | | | | | |
| London | 0 | 34,300,000 | 16,500,000 | 30,504,000 | 0 | 81,304,000 | 55.9% | 51.8% | Up |
| Canada | 0 | 3,430,000 | 11,700,000 | 19,296,000 | 3,000,000 | 37,426,000 | 25.7% | 34.9% | Down |
| Bermuda | 0 | 0 | 1,800,000 | 4,200,000 | 0 | 6,000,000 | 4.1% | 5.6% | Down |
| Barbados | 0 | 11,270,000 | 0 | 6,000,000 | 2,500,000 | 19,770,000 | 13.6% | 7.0% | Up |
| Total | 0 | 49,000,000 | 30,000,000 | 60,000,000 | 5,500,000 | 144,500,000 | 99.3% | 99.3% | Up |
| CLLAS Proportional Retention | 975,000 | 0 | 0 | 0 | 0 | 975,000 | 0.7% | 0.7% | Down |
| ➔ Colchester Aggregate | | | | | | n/a | n/a | n/a | |
| CLLAS Net Retention | | | | | | 975,000 | 0.7% | 0.7% | Down |

Reinsurers by % of Single Claim Exposure
CURRENT YEAR (2020/2021)

CURRENT YEAR (2020/2021)

| CURRENT YEAR (2020/2021) | | | | LAYERS | | | | | | | US\$30MM* (\$39MM) | TOTAL | Percent of Total |
|--------------------------------|--|--------------|--------|----------------|-------------|--------------|---------------|--------------|---------------|------------|-----------------------|-------|---------------------|
| Watch | Name | Jurisdiction | Reg'd? | \$.975MM | \$49MM | \$30/60MM | \$10-60MM | \$15-50MM | \$60MM | | | | |
| | | | | XS \$.025MM | XS \$1MM | XS \$65MM | XS \$160MM | XS \$50MM | XS \$100MM | | | | |
| | Underwriters at Lloyd's | London | Yes | 0 | 28,175,000 | 16,500,000 | 30,504,000 | 0 | 0 | 6,630,000 | 81,809,000 | 28.3% | |
| | Victor Insurance (PF) | Canada | Yes | 0 | 0 | 0 | 0 | 5,000,000 | 15,000,000 | 0 | 20,000,000 | 6.9% | |
| ➔ | Colchester | Barbados | No | 0 | 11,270,000 | 0 | 6,000,000 | 0 | 0 | 0 | 17,270,000 | 6.0% | |
| | Westport Insurance Corp. (Swiss Re) | Canada | Yes | 0 | 0 | 10,500,000 | 5,496,000 | 0 | 0 | 0 | 15,996,000 | 5.5% | |
| | Liberty International Canada (PF) | Canada | Yes | 0 | 0 | 0 | 0 | 10,000,000 | 5,700,000 | 0 | 15,700,000 | 5.4% | |
| | Royal & Sun Alliance Co. of Canada (PF) | Canada | Yes | 0 | 0 | 0 | 0 | 10,000,000 | 5,700,000 | 0 | 15,700,000 | 5.4% | |
| | Travelers Insurance Company of Canada (PF) | Canada | Yes | 0 | 0 | 0 | 0 | 5,000,000 | 9,900,000 | 0 | 14,900,000 | 5.2% | |
| | AXA XL (PF) | Canada | Yes | 0 | 0 | 0 | 0 | 5,000,000 | 0 | 6,435,000 | 11,435,000 | 4.0% | |
| | MKL 3000 | Lloyd's | Yes | 0 | 0 | 2,982,000 | 8,442,000 | 0 | 0 | 0 | 11,424,000 | 4.0% | |
| | The Sovereign General Insurance Company (PF) | Canada | Yes | 0 | 0 | 0 | 0 | 0 | 9,900,000 | 0 | 9,900,000 | 3.4% | |
| | QBE Insurance Group (PF) | Canada | Yes | 0 | 0 | 0 | 0 | 5,000,000 | 4,800,000 | 0 | 9,800,000 | 3.4% | |
| | AMA 1200 | Lloyd's | Yes | 0 | 9,800,000 | 0 | 0 | 0 | 0 | 0 | 9,800,000 | 3.4% | |
| | CNA (US) | US | Yes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 9,750,000 | 3.4% | |
| | Bershire (PF) | US | Yes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 9,750,000 | 3.4% | |
| | BRT 2987 | Lloyd's | Yes | 0 | 0 | 6,900,000 | 2,244,000 | 0 | 0 | 0 | 9,144,000 | 3.2% | |
| | Northbridge Insurance Company (PF) | Canada | Yes | 0 | 0 | 0 | 0 | 2,500,000 | 6,000,000 | 0 | 8,500,000 | 2.9% | |
| | Hannover (Combined) | Combined | Yes | 0 | 7,350,000 | 0 | 0 | 0 | 0 | 0 | 7,350,000 | 2.5% | |
| | Argenta 2121 | Lloyd's | Yes | 0 | 7,350,000 | 0 | 0 | 0 | 0 | 0 | 7,350,000 | 2.5% | |
| | Swiss Re (Combined) | Combined | Mixed | 0 | 0 | 1,200,000 | 6,000,000 | 0 | 0 | 0 | 7,200,000 | 2.5% | |
| | Gerling Global Re | Canada | Yes | 0 | 0 | 1,200,000 | 6,000,000 | 0 | 0 | 0 | 7,200,000 | 2.5% | |
| | Aspen Re (PF) | Canada | Yes | 0 | 0 | 0 | 0 | 0 | 0 | 6,435,000 | 6,435,000 | 2.2% | |
| | AXIS Re | Canada | Yes | 0 | 3,430,000 | 0 | 3,000,000 | 0 | 0 | 0 | 6,430,000 | 2.2% | |
| | Allianz Global Risks | London | Yes | 0 | 6,125,000 | 0 | 0 | 0 | 0 | 0 | 6,125,000 | 2.1% | |
| | AML 2001 | Lloyd's | Yes | 0 | 6,125,000 | 0 | 0 | 0 | 0 | 0 | 6,125,000 | 2.1% | |
| | AWAC | Bermuda | No | 0 | 0 | 1,800,000 | 4,200,000 | 0 | 0 | 0 | 6,000,000 | 2.1% | |
| | Catlin (Combined) | Combined | Yes | 0 | 0 | 0 | 5,646,000 | 0 | 0 | 0 | 5,646,000 | 2.0% | |
| | SIC 2003 | Lloyd's | Yes | 0 | 0 | 0 | 5,646,000 | 0 | 0 | 0 | 5,646,000 | 2.0% | |
| | CLLAS | Canada | Yes | 0 | 0 | 0 | 0 | 2,500,000 | 3,000,000 | 0 | 5,500,000 | 1.9% | |
| | Axis Reinsurance Company (PF) | Canada | Yes | 0 | 0 | 0 | 0 | 5,000,000 | 0 | 0 | 5,000,000 | 1.7% | |
| | AUL 1274 | Lloyd's | Yes | 0 | 4,900,000 | 0 | 0 | 0 | 0 | 0 | 4,900,000 | 1.7% | |
| | Hamilton (Combined) | Combined | Yes | 0 | 0 | 1,485,000 | 3,330,000 | 0 | 0 | 0 | 4,815,000 | 1.7% | |
| | PEM 4000 | Lloyd's | Yes | 0 | 0 | 1,485,000 | 3,330,000 | 0 | 0 | 0 | 4,815,000 | 1.7% | |
| | RSA (Combined) | Combined | Yes | 0 | 0 | 0 | 4,800,000 | 0 | 0 | 0 | 4,800,000 | 1.7% | |
| | Royal & Sun Alliance Co. of Canada | Canada | Yes | 0 | 0 | 0 | 4,800,000 | 0 | 0 | 0 | 4,800,000 | 1.7% | |
| | Endurance 5151 | Lloyd's | Yes | 0 | 0 | 0 | 4,500,000 | 0 | 0 | 0 | 4,500,000 | 1.6% | |
| | FDY 435 | Lloyd's | Yes | 0 | 0 | 1,353,000 | 2,742,000 | 0 | 0 | 0 | 4,095,000 | 1.4% | |
| | Probitas 1492 | Lloyd's | Yes | 0 | 0 | 0 | 3,600,000 | 0 | 0 | 0 | 3,600,000 | 1.2% | |
| | Canopus 4444 | Lloyd's | Yes | 0 | 0 | 2,433,000 | 0 | 0 | 0 | 0 | 2,433,000 | 0.8% | |
| | AFB 623/2623 | Lloyd's | Yes | 0 | 0 | 1,347,000 | 0 | 0 | 0 | 0 | 1,347,000 | 0.5% | |
| Maximum Exposure Any One Claim | | | | 975,000 | 49,000,000 | 30,000,000 | 60,000,000 | 50,000,000 | 60,000,000 | 39,000,000 | 288,975,000 | 30.4% | |
| Proportional Reinsurance: | | | | | | | | | | | | 54.4% | |
| | London | | | 0 | 34,300,000 | 16,500,000 | 30,504,000 | 0 | 0 | 6,630,000 | 87,934,000 | 6.7% | |
| | Canada | | | 0 | 3,430,000 | 11,700,000 | 19,296,000 | 50,000,000 | 60,000,000 | 12,870,000 | 157,296,000 | 2.1% | |
| | US | | | 0 | 0 | 0 | 0 | 0 | 0 | 19,500,000 | 19,500,000 | 6.0% | |
| | Bermuda | | | 0 | 0 | 1,800,000 | 4,200,000 | 0 | 0 | 0 | 6,000,000 | 0.3% | |
| | Barbados | | | 0 | 11,270,000 | 0 | 6,000,000 | 0 | 0 | 0 | 17,270,000 | 0.3% | |
| | Total | | | 0 | 49,000,000 | 30,000,000 | 60,000,000 | 50,000,000 | 60,000,000 | 39,000,000 | 288,000,000 | n/a | |
| CLLAS Proportional Retention | | | | 975,000 | 0 | 0 | 0 | 0 | 0 | 0 | 975,000 | 0.3% | |
| Colchester Aggregate | | | | | | | | | | | | n/a | |
| CLLAS Net Retention | | | | | | | | | | | 975,000 | | |



BEST'S CREDIT REPORT

Best's Credit Rating Effective Date

February 28, 2020

Analytical Contacts

Darian Ryan
Senior Financial Analyst
Darian.Ryan@ambest.com
+1(908) 439-2200 Ext. 5449

Jennifer Marshall, CPCU, ARM
Director
Jennifer.Marshall@ambest.com
+1(908) 439-2200 Ext. 5327

Information

[Best's Credit Rating Methodology](#)

[Understanding Best's Credit Ratings](#)

[Market Segment Outlooks](#)

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Allied World Assurance Company Holdings, Ltd.

AMB #: 058218

Ultimate Parent: AMB # 058364 - Fairfax Financial Holdings Limited

Best's Credit Ratings – for the Rating Unit Members

Financial Strength Rating (FSR)

| |
|-------------------------|
| A |
| Excellent |
| Outlook: Stable |
| Action: Affirmed |

Issuer Credit Rating (ICR)

| |
|-------------------------|
| a |
| Excellent |
| Outlook: Stable |
| Action: Affirmed |

Assessment Descriptors

| | |
|----------------------------|--------------------|
| Balance Sheet Strength | Strongest |
| Operating Performance | Adequate |
| Business Profile | Neutral |
| Enterprise Risk Management | Appropriate |

Rating Unit - Members

Rating Unit: Allied World Asr Co Hldgs Ltd | **AMB #:** 058218

AMB # Rating Unit Members
083090 Allied World Asr (Europe) DAC
012525 Allied World Asr Co (US) Inc
084808 Allied World Assurance Company
013865 Allied World Insurance Co
012526 Allied World National Assur Co

AMB # Rating Unit Members
012699 Allied World Specialty Ins Co
011719 Allied World Surplus Lines Ins
011219 Vantapro Specialty Ins Co
020586 Vault E&S Insurance Company

Best's Credit Rating - for the Holding Company

Issuer Credit Rating (ICR)

| |
|-------------------------|
| bbb |
| Good |
| Outlook: Stable |
| Action: Affirmed |



BEST'S CREDIT REPORT

AMB #: 058218 - Allied World Assurance Company Hldgs Ltd

Rating Rationale – for the Rating Unit Members

The Issuer Credit Ratings and Financial Strength Ratings of the member operating companies of the rating unit are determined in accordance with Best's building block rating methodology as applied to the consolidated group's financial statements, and the supporting analytics and results are described in the following sections of this report.

Balance Sheet Strength: **Strongest**

- Allied World Assurance Company Holdings Limited (Allied World) currently maintains the strongest level of balance sheet strength, supported by generally favorable reserve development, diversified investment profile and controlled growth.
- Liquidity measures are sound and supported by relatively short-term holdings, predominantly high quality fixed income securities and cash.
- Allied World guarantees the long-term debt of its subsidiary, Allied World Assurance Company Holdings I (Bermuda). Financial leverage and coverage measures are favorable.
- The group's ultimate parent is Fairfax Financial Holdings (Fairfax). Allied World benefits from Fairfax's supportive financial leverage and favorable liquidity, with cash and short-term investments readily available to support its insurance operations.

Operating Performance: **Adequate**

- The group's operating performance has been variable over the past five years due to catastrophe events and variability in both reserve development and net investment gains.
- The group's underwriting performance is benefiting from recently improved market conditions in most of its business segments as well as the lower catastrophe losses of the past two years.
- The group generates a low investment yield relative to its peers due to the investment strategy, which includes both lower-risk short-term bonds, and equities that are managed for long-term accretion to capital. Due to this strategy, investment yield is low but the equities have historically produced - volatile - but generally positive contributions to surplus.
- The investment portfolio is managed by Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa), which is the investment management subsidiary of Fairfax, which as previously mentioned is the group's ultimate parent.

Business Profile: **Neutral**

- The group is a specialty insurance and reinsurance entity that underwrites a diversified portfolio of property and casualty business.
- Growth in the group's insurance business in recent years has benefited from expanded branch networks as well as strong local broker relationships. The group has a successful track record of expansion in terms of geography with operations in Bermuda, Canada, Europe, Hong Kong, Lloyd's, and Singapore.
- Two-thirds of the group's premium is generated in the United States.
- The group increased its reinsurance premium in 2019 due to improving market conditions and increased rates.

Enterprise Risk Management: **Appropriate**

- Allied World's risk management capabilities are viewed as appropriately aligned with its risk profile. Comprehensive enterprise risk management framework with specific risk tolerances and risk appetites discussed and monitored both formally and informally. The group maintains a diversified portfolio of insurance products designed to limit volatility of earnings and equity. Despite the focus, the group incurred significant catastrophe losses in 2017 and has since increased its enterprise aggregate protection, which has reduced its 1-in-250-year aggregate and occurrence PMLs.
- The group monitors and estimates each of its anticipated risks as a percentage of capital. Stress and scenario tests are performed on the significant risks. Additionally, the group actively manages its cyber risks.
- The group also participates in risk management at the Fairfax group level under the direction of a chief risk officer. Risks are reviewed on a weekly basis with risk managers at the subsidiary level. This practice allows the group to share information, resources and best practices with the other operating entities.

**Outlook**

- The stable rating outlooks reflect AM Best's expectation that the group's strongest level of balance sheet strength will continue to be supported by adequate operating performance; diverse business profile, both geographically and by line of business; and well-defined enterprise risk management guidelines and controls.

Rating Drivers

- The ratings could be negatively impacted by a material increase in financial leverage of this intermediate holding company or at the ultimate parent level.
- The ratings could be negatively impacted by a deterioration in the group's operating performance to a level short of AM Best's expectation.
- The ratings could be positively affected by a trend of strong underwriting and operating performance that outperforms its peers over time while maintaining risk-adjusted capitalization at the Strongest assessment.

Rating Rationale - for the Holding Company

The rating of the holding company is determined by reference to the Issuer Credit Rating (ICR) of the operating insurance company members of the associated rating unit [Odyssey Group Holdings, Inc. AMB# 050722](#). It reflects consideration of holding company sources and uses of cash, the competing demands placed upon holding company resources and normal subordination of holding company creditors to claims of the policyholders of the operating insurance companies. In general, therefore, the holding company's Issuer Credit Rating is notched from those assigned to the operating companies of the rating unit.

Key Financial Indicators**Best's Capital Adequacy Ratio (BCAR) Scores (%)**

| Confidence Level | 95.0 | 99.0 | 99.5 | 99.6 |
|------------------|------|------|------|------|
| BCAR Score | 58.2 | 39.7 | 31.8 | 29.3 |

Source: Best's Capital Adequacy Ratio Model - Universal

| Key Financial Indicators | 2018 USD (000) | 2017 USD (000) | 2016 USD (000) | 2015 USD (000) | 2014 USD (000) |
|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net Premium Written: | | | | | |
| Non-Life | 2,368,800 | 2,238,800 | 2,255,900 | 2,448,000 | 2,322,000 |
| Composite | 2,368,800 | 2,238,800 | 2,255,800 | 2,448,000 | 2,322,000 |
| Net Income | -91,200 | -521,500 | 255,300 | 83,900 | 490,300 |
| Total Assets | 13,245,400 | 13,445,400 | 13,179,000 | 13,511,900 | 12,418,800 |
| Total Capital and Surplus | 2,817,100 | 2,523,600 | 3,551,800 | 3,532,500 | 3,778,200 |

Source: BestLink® - Best's Financial Suite

| Key Financial Ratios (%) | 2018 | 2017 | 2016 | 2015 | 2014 | Weighted 5 Year Average |
|---|--------|----------|--------|---------|---------|-------------------------------|
| Profitability: | | | | | | |
| Net Income Return on Revenue | -4.0 | -21.4 | 9.9 | 3.3 | 20.0 | 1.8 |
| Net Income Return on Capital and Surplus | -3.4 | -17.2 | 7.2 | 2.3 | 13.4 | 1.3 |
| Balance on Non-Life Technical Account (USD 000) | 42,500 | -585,900 | 91,000 | 120,400 | 322,700 | ... |
| Non-Life Combined Ratio | 98.2 | 126.4 | 96.1 | 95.2 | 85.2 | 100.1 |
| Net Investment Yield | 2.1 | 2.1 | 2.4 | 2.1 | 2.1 | 2.2 |
| Leverage: | | | | | | |
| Net Premium Written to Capital and Surplus | 84.1 | 88.7 | 63.5 | 69.3 | 61.5 | ... |

Source: BestLink® - Best's Financial Suite



Credit Analysis

Balance Sheet Strength

Allied World Assurance Company Holdings's risk-adjusted capital is supportive of its premium growth, catastrophe loss exposure and current loss reserve position, which has shown some variability in recent accident years. Additionally the company benefits from its position as a member of the Fairfax Financial Holdings (Fairfax) group of companies given Fairfax's favorable financial flexibility and historical support of its insurance operations. The company also has long term debt with manageable interest coverage.

Loss reserve development has been variable over the past several accident years as a result of development on the group's commercial casualty coverage and property losses. Allied World's exposure to property catastrophe losses has increased over the past few years due in part to its increased exposure to North American catastrophe losses as its more catastrophe-exposed direct book of business has grown relative to its reinsurance business.

The company maintains a diversified investment strategy with a long term value oriented approach, which provides adequate liquidity for the prompt payment of claims. The investment portfolio consists primarily of investment-grade, fixed-maturity securities of short-to medium-term duration. The average duration of the portfolio is relatively short when compared with the company's casualty insurance focus. The short-term nature of the majority of the group's portfolio helps moderate the risk associated with its equity investment strategy and significant balance of reinsurer funds held.

Capitalization

| Capital Generation Analysis | 2018 USD (000) | 2017 USD (000) | 2016 USD (000) | 2015 USD (000) | 2014 USD (000) |
|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Beginning Capital and Surplus | 2,523,600 | 3,551,800 | 3,532,500 | 3,778,200 | 3,519,800 |
| Net Income after Non-Controlling Interests | -91,200 | -521,500 | 255,300 | 83,900 | 490,300 |
| Currency Exchange Gains (Losses) | -5,300 | 3,000 | -2,300 | -9,300 | ... |
| Change in Paid-In Capital | 390,000 | 3,051,100 | -86,600 | -33,300 | -74,100 |
| Stockholder Dividends | ... | 438,000 | 91,500 | 92,400 | 81,700 |
| Other Changes in Capital and Surplus | ... | -3,122,800 | -55,600 | -194,600 | -76,100 |
| Net Change in Capital and Surplus | 293,500 | -1,028,200 | 19,300 | -245,700 | 258,374 |
| Ending Capital and Surplus | 2,817,100 | 2,523,600 | 3,551,800 | 3,532,500 | 3,778,200 |
| Net Change in Capital and Surplus (%) | 11.6 | -29.0 | 0.6 | -6.5 | 7.3 |

Source: BestLink® - Best's Financial Suite

| Liquidity Analysis | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|-------------|-------------|
| Net Operating Cash Flow (USD 000) | -265,800 | 63,300 | 399,300 | 512,800 | 416,900 |
| Liquid Assets to Total Liabilities (%) | 68.7 | 70.1 | 80.8 | 82.9 | 87.8 |

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

| Composition of Cash and Invested Assets | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|-------------|-------------|
| Total Cash and Invested Assets (USD 000) | 7,865,500 | 8,199,600 | 8,739,700 | 9,239,800 | 8,539,000 |
| Composition Percentages (%): | | | | | |
| Unaffiliated: | | | | | |
| Cash and Short Term Investments | 10.8 | 14.4 | 9.1 | 7.2 | 7.9 |
| Bonds | 69.6 | 68.6 | 77.1 | 77.9 | 71.1 |
| Stocks | 10.7 | 10.4 | 2.8 | 4.4 | 9.9 |
| Other Invested Assets | 9.0 | 6.6 | 11.0 | 10.5 | 11.2 |
| Total Unaffiliated Cash and Invested Assets | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total Cash and Invested Assets | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: BestLink® - Best's Financial Suite



BEST'S CREDIT REPORT

AMB #: 058218 - Allied World Assurance Company Hldgs Ltd

Balance Sheet Strength (Continued...)

Holding Company Assessment

Financial Leverage Summary - Holding Company AMB# 058364 Fairfax Financial Holdings Limited

| | |
|---------------------------------------|-------|
| Financial Leverage Ratio (%) | 10.80 |
| Adjusted Financial Leverage Ratio (%) | 10.80 |
| Interest Coverage (x) | 6.50 |

| Holding Company Analytics | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|--------|--------|--------|--------|--------|
| Debt to Capital and Surplus (%) | 19.0 | 36.8 | 23.0 | 37.3 | 21.6 |
| Liquid Assets to Total Liabilities (%) | 68.7 | 70.1 | 80.8 | 82.9 | 87.8 |
| Interest Expense (USD 000) | 32,900 | 43,600 | 63,700 | 61,400 | 57,800 |

Source: BestLink® - Best's Financial Suite

Operating Performance

Operating performance has been variable over the past five years, primarily as a result of fluctuating underwriting performance balanced by net investment gains as net investment income has been relatively steady.

The group's results are beginning to benefit from recently improved market conditions in both its primary casualty business segment (which represents the majority of its business written) and its property business. The group's five year performance has been dampened by adverse development on prior year casualty lines and significant natural catastrophe losses.

Casualty and property segments have benefited in 2019 from sizable rate increases and tightening of terms and conditions. Adverse loss reserve development on the group's 2019 calendar year results was manageable and mainly attributable to the group's more recent casualty business.

The group generates a low investment yield relative to its peers due to the investment allocation, which includes both lower- risk, lower-yielding short term bonds and equities and other assets that have been managed for long term accretion to capital. While investment income and yield are low as a result of the investment strategy, the equities and other assets have historically produced generally positive, albeit volatile, contributions to surplus.

The investment portfolio is managed by Hamblin Watsa Investment Counsel Ltd. ("Hamblin Watsa"), which is the investment management subsidiary of Fairfax, the group's ultimate parent.

| Financial Performance Summary | 2018 USD (000) | 2017 USD (000) | 2016 USD (000) | 2015 USD (000) | 2014 USD (000) |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Pre-Tax Income | -98,700 | -528,200 | 246,200 | 89,700 | 520,800 |
| Net Income (after Non-Controlling Interests) | -91,200 | -521,500 | 255,300 | 83,900 | 490,300 |

Source: BestLink® - Best's Financial Suite

| Operating and Performance Ratios (%) | 2018 | 2017 | 2016 | 2015 | 2014 |
|--------------------------------------|------|-------|------|------|------|
| Overall Performance: | | | | | |
| Return on Assets | -0.7 | -3.9 | 1.9 | 0.7 | 4.0 |
| Return on Capital and Surplus | -3.4 | -17.2 | 7.2 | 2.3 | 13.4 |
| Non-Life Performance: | | | | | |
| Loss and LAE Ratio | 70.5 | 94.8 | 64.1 | 63.8 | 54.9 |
| Expense Ratio | 27.7 | 31.6 | 32.1 | 31.4 | 30.3 |
| Combined Ratio | 98.2 | 126.4 | 96.1 | 95.2 | 85.2 |

Source: BestLink® - Best's Financial Suite

**Business Profile**

Allied World has established itself as a specialty insurance and reinsurance group that underwrites a diversified portfolio of property and casualty insurance and reinsurance lines of business. The group writes direct property and casualty insurance as well as reinsurance through operations in Australia, Bermuda, Canada, Europe, Hong Kong, Lloyd's, Singapore and the United States. Allied World Assurance Company Holdings Limited is domiciled in Bermuda. Fairfax Financial Holdings is the ultimate parent of the group.

Management monitors the performance of its direct underwriting operations based on the geographic location of the group's offices, the markets, and customers served and the type of accounts written. The group's two operating segments are Insurance and Reinsurance. The Insurance Segment includes the group's North America and Global Markets Operations. The North American Operation includes the group's direct specialty insurance operations in the United States, Bermuda and Canada. The Bermuda office underwrite primarily larger, Fortune 1000 casualty and property risks for accounts domiciled in North America, while the U.S. and Canada operations generally write small- and middle-market, non-Fortune 1000 accounts domiciled in North America, including public entities, private companies, and non-profit organizations. The North America Operation has established offices in Atlanta, Bermuda, Boston, Chicago, Costa Mesa (CA), Dallas, Farmington (CT), Los Angeles, Miami, New York City, Philadelphia, San Francisco, and Toronto. The Global Markets Operation includes the group's direct insurance business outside of North America operating primarily out of Europe, Asia, and Australia. The European offices focus on mid-sized to large European and multi-national companies domiciled outside of North America and continue diversifying into products for small and middle-market accounts. This segment also underwrites a variety of professional liability, general casualty, and healthcare liability products from its offices in Asia. The group's Asian business increased with its April 2015 acquisition of RSA's Hong Kong and Singapore operations. In June 2010, the company formed Syndicate 2232 at Lloyd's of London. The syndicate offers select product lines, which include international property, general casualty, and professional liability lines targeted at key territories such as countries in Latin America and the Asia-Pacific region.

The Reinsurance Segment includes the group's operations in the United States, Bermuda, Europe and Singapore. This segment currently writes reinsurance on both a treaty and a facultative basis, targeting several niche reinsurance markets, including property coverages, general casualty, professional liability, and specialty lines. The group's U.S. operations operate out of New York City and focus on general casualty, professional liability, property coverages, and specialty lines including marine, aerospace, and crop. The group's Bermuda operation focuses on property catastrophe, property treaty, and specialty casualty coverages. The group operates an office in Zug, Switzerland, that offers property, general casualty and professional liability products throughout Europe. Syndicate 2232 also offers international treaty reinsurance. The group operates in Asia with its Singapore office which serves as the company's hub for all classes of treaty reinsurance for the region. The group operates a Miami office to act as a Lloyd's coverholder, underwriting treaty business in Latin America and the Caribbean. Responsibility and accountability for the results of underwriting operations are assigned by major line of business within each of the operating segments.

The group markets its insurance and reinsurance products worldwide through selected third-party intermediaries. Direct insurance policies are written through various intermediaries, including excess and surplus lines wholesalers and regional and national retail brokerage firms. Reinsurance is mostly placed through a small group of globally known reinsurance brokers although the group continues to build relationships with smaller distribution partners.

Geographical Breakdown of Gross Premiums Written

| | 2018 USD (000) | 2017 USD (000) | 2016 USD (000) | 2015 USD (000) | 2014 USD (000) |
|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Other Asia | 379,400 | 370,600 | 352,200 | 313,100 | 167,300 |
| Total Asia | 379,400 | 370,600 | 352,200 | 313,100 | 167,300 |
| Other Europe | 371,900 | 311,900 | 296,300 | 326,900 | 318,600 |
| Total Europe | 371,900 | 311,900 | 296,300 | 326,900 | 318,600 |
| Canada | 30,800 | 24,900 | 18,500 | 16,000 | 13,000 |
| United States | 2,026,300 | 1,922,100 | 1,903,400 | 1,893,400 | 1,795,600 |
| Total North America | 2,057,100 | 1,947,000 | 1,921,900 | 1,909,400 | 1,808,600 |
| Bermuda | 560,500 | 469,000 | 495,400 | 543,600 | 640,900 |
| Total Caribbean | 560,500 | 469,000 | 495,400 | 543,600 | 640,900 |
| Total World-Wide | 3,368,900 | 3,098,500 | 3,065,800 | 3,093,000 | 2,935,400 |

Source: BestLink® - Best's Financial Suite



Enterprise Risk Management

Allied World maintains a comprehensive risk management program, which is viewed as appropriate for the complexity of its operations. Allied World's enterprise risk management ("ERM") consists of numerous formalized processes and controls that have been designed by senior management, with oversight by the Board of Directors, and implemented by employees across the organization. The economic capital model is a key element to the company's risk management. The company's ERM supports the firm-wide decision making process by aiming to provide reliable and timely risk information. The risk governance structure includes committees comprised of senior underwriting, actuarial, finance, legal, investment and operations staff that identify, monitor and help manage each of these risks. The management-based Risk Management Committee, chaired by the Chief Risk Officer, focuses primarily on identifying correlations among the primary categories of risk, developing metrics to assess the overall risk position, performing an annual risk assessment and reviewing continually factors that may impact organizational risk. This risk governance structure is complemented by the company's internal audit department.

Insurance companies in Bermuda are regulated by the Insurance Division of the Bermuda Monetary Authority. In Bermuda, there are no taxes on profits, income, dividends or capital gains. There is only a licensing fee which is dependent upon the level of authorized capital. Exempted companies are able to enter an agreement with the government whereby any such taxes imposed in the future would not be applicable until March 31, 2035. Allied World has entered into such an agreement with the Bermudian government. The Insurance Act provides that the statutory assets of an insurer must exceed its statutory liabilities by an amount greater than the prescribed minimum solvency margin, which for a Class 4 insurer such as Allied World is the greatest of \$100 million, 50% of net premiums written or 15% of net losses and loss expense reserves.



Financial Statements

| | 12/31/2018 | | 12/31/2017 |
|---|-------------------|--------------|-------------------|
| | USD (000) | % | USD (000) |
| Balance Sheet | | | |
| Cash and Short Term Investments | 847,900 | 6.4 | 1,179,600 |
| Bonds | 5,471,900 | 41.3 | 5,620,800 |
| Equity Securities | 840,500 | 6.4 | 856,300 |
| Other Invested Assets | 705,200 | 5.3 | 542,900 |
| Total Cash and Invested Assets | 7,865,500 | 59.4 | 8,199,600 |
| Reinsurers' Share of Reserves | 2,939,700 | 22.2 | 2,736,200 |
| Debtors / Amounts Receivable | 1,008,400 | 7.6 | 1,232,100 |
| Other Assets | 1,431,800 | 10.8 | 1,277,500 |
| Total Assets | 13,245,400 | 100.0 | 13,445,400 |
| Gross Technical Reserves: | | | |
| Unearned Premiums | 1,840,900 | 13.9 | 1,748,300 |
| Non-Life Reserves | 7,653,500 | 57.8 | 7,787,900 |
| Total Gross Technical Reserves | 9,494,400 | 71.7 | 9,536,200 |
| Debt / Borrowings | 536,400 | 4.0 | 928,200 |
| Other Liabilities | 397,500 | 3.0 | 457,400 |
| Total Liabilities | 10,428,300 | 78.7 | 10,921,800 |
| Paid-in Capital | 3,586,100 | 27.1 | 3,196,100 |
| Retained Earnings | -764,000 | -5.8 | -676,500 |
| Other Capital and Surplus | -5,000 | ... | 4,000 |
| Total Capital and Surplus | 2,817,100 | 21.3 | 2,523,600 |
| Total Liabilities, Mezzanine Items and Surplus | 13,245,400 | 100.0 | 13,445,400 |

Source: BestLink® - Best's Financial Suite

| | 12/31/2018 | | | | 12/31/2017 |
|--|-----------------------|-------------------|--------------------|--------------------|--------------------|
| | Non-Life USD (000) | Life USD (000) | Other USD (000) | Total USD (000) | Total USD (000) |
| Income Statement | | | | | |
| Gross premiums written | 3,368,900 | ... | ... | 3,368,900 | 3,098,500 |
| Net Premiums Earned | 2,330,100 | ... | ... | 2,330,100 | 2,221,200 |
| Net Investment Income | ... | ... | 165,500 | 165,500 | 178,200 |
| Net realized gains/(losses) | ... | ... | -223,200 | -223,200 | 25,600 |
| Other income | ... | ... | 12,300 | 12,300 | 14,600 |
| Total Revenue | 2,330,100 | ... | -45,400 | 2,284,700 | 2,439,600 |
| Losses and Benefits | 1,642,600 | ... | ... | 1,642,600 | 2,105,200 |
| Net Operating Expense | 645,000 | ... | 40,500 | 685,500 | 814,600 |
| Other Expense | ... | ... | 22,400 | 22,400 | 4,400 |
| Total Losses, Benefits, and Expenses | 2,287,600 | ... | 62,900 | 2,350,500 | 2,924,200 |
| Earnings before interest & taxes (EBIT) | 42,500 | ... | -108,300 | -65,800 | -484,600 |
| Interest Expense | ... | ... | ... | 32,900 | 43,600 |
| Income Taxes Incurred | ... | ... | ... | -7,500 | -6,700 |
| Net income before Non-Controlling interests | ... | ... | ... | -91,200 | -521,500 |
| Net income/(loss) from continuing operations | ... | ... | ... | -91,200 | -521,500 |
| Net Income | ... | ... | ... | -91,200 | -521,500 |

Source: BestLink® - Best's Financial Suite



BEST'S CREDIT REPORT

AMB #: 058218 - Allied World Assurance Company Hldgs Ltd

| | 12/31/2018 | 12/31/2017 |
|--|------------|------------|
| Statement of Cash Flows | USD (000) | USD (000) |
| Net cash provided/(used) in Operating Activities | -265,800 | 63,300 |
| Net cash provided/(used) in Investing Activities | -18,800 | 639,800 |
| Net cash provided/(used) in Financing Activities | -37,900 | -327,300 |
| Effect of Exchange Rates/Discontinued Operations on Cash | -9,200 | 6,400 |
| Total increase (decrease) in cash | -331,700 | 382,200 |
| Cash, beginning balance | 1,179,600 | 797,400 |
| Cash, ending balance | 847,900 | 1,179,600 |

Source: BestLink® - Best's Financial Suite

Related Methodology and Criteria

[Best's Credit Rating Methodology, 03/05/2020](#)

[Catastrophe Analysis in A.M. Best Ratings, 10/13/2017](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Understanding Universal BCAR, 05/23/2019](#)

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, AM Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, AM Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

Visit <http://www.ambest.com/ratings/index.html> for additional information or <http://www.ambest.com/terms.html> for details on the Terms of Use.

Copyright © 2020 A.M. Best Company, Inc. and/or its affiliates. ALL RIGHTS RESERVED. No part of this report or document may be distributed in any electronic form or by any means, or stored in a database or retrieval system, without the prior written permission of AM Best. For additional details, refer to our *Terms of Use* available at the AM Best website: www.ambest.com/terms.

Reports were prepared exclusively for the use of Meagan Mills. Not for redistribution unless otherwise permitted.

COLCHESTER REINSURANCE LIMITED

PERIODIC REPORTING PACKAGE

FOR THE TWELVE MONTHS ENDED JUNE 30, 2020

INDEX TO CONTENTS

2. STATEMENTS OF INCOME & RETAINED EARNINGS

3. NOTES TO THE FINANCIAL STATEMENTS

PREPARED BY: AON INSURANCE MANAGERS (BARBADOS) LTD

ACCOUNT EXECUTIVE: LEANNE KNIGHT

COLCHESTER REINSURANCE LIMITED
UNAUDITED BALANCE SHEET AS AT JUNE 30, 2020
(EXPRESSED IN CANADIAN \$)

| | | JUNE 30, 2020 | JUNE 30, 2019 |
|--|---|-----------------------------|-----------------------------|
| ASSETS | | | |
| Cash at bank - premier accounts | | 1,583,020.78 | 2,349,059.79 |
| Cash & cash equivalents | 1 | 1,583,020.78 | 2,349,059.79 |
| Royal Bank of Canada-Investments | 2 | 38,327,747.54 | 35,828,293.88 |
| Accrued interest receivable | 3 | 220,671.43 | 184,891.24 |
| Claims-Ins Recoverable | | 0.00 | 0.00 |
| Provision for Losses Recoverable | 4 | 7,042,000.00 | 6,424,000.00 |
| Deferred Reinsurance Premiums | 5 | 0.00 | 0.00 |
| Prepaid expenses | 6 | 8,204.00 | 5,066.88 |
| | | <u>45,598,622.97</u> | <u>42,442,252.00</u> |
| TOTAL ASSETS | | <u><u>47,181,643.75</u></u> | <u><u>44,791,311.79</u></u> |
| | | | |
| Insurance balances payable | | 0.00 | 0.00 |
| Accrued expenses | 7 | 174,576.00 | 79,059.50 |
| Claims payable | | 48,703.20 | 24,292.71 |
| | | <u>223,279.20</u> | <u>103,352.21</u> |
| RESERVES | | | |
| Unearned Premium Reserve | 9 | 0.00 | 0.00 |
| Outstanding losses | 8 | 8,777,000.00 | 7,567,000.00 |
| Outstanding losses - I.B.N.R. | 8 | 12,584,000.00 | 11,352,000.00 |
| | | <u>21,361,000.00</u> | <u>18,919,000.00</u> |
| SHAREHOLDERS EQUITY | | | |
| Share capital-common shares | | 1,100.00 | 1,100.00 |
| Class A preference shares | | 3,314,000.00 | 3,314,000.00 |
| Earned surplus at start of year | | 22,086,550.12 | 28,514,484.81 |
| Net profit/(loss) for the period | | (1,287,566.31) | (6,427,934.69) |
| | | <u>24,114,083.81</u> | <u>25,401,650.12</u> |
| Accum. Other Comprehensive Income | | 1,483,280.74 | 367,309.46 |
| TOTAL SHAREHOLDERS EQUITY | | <u><u>25,597,364.55</u></u> | <u><u>25,768,959.58</u></u> |
| | | | |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | | <u><u>47,181,643.75</u></u> | <u><u>44,791,311.79</u></u> |

COLCHESTER REINSURANCE LIMITED
UNAUDITED STATEMENT OF INCOME
FOR THE PERIOD JULY 1 2019 TO JUNE 30, 2020
(EXPRESSED IN CANADIAN \$)

| | MOVEMENT DURING QTR | 12 MONTHS TO JUNE 30, 2020 | 12 MONTHS TO JUNE 30, 2019 |
|--|------------------------|-------------------------------|-------------------------------|
| UNDERWRITING INCOME | | | |
| Premiums written | 0.00 | 1,330,072.00 | 428,717.05 |
| Unearned premium transfer | 332,518.00 | 0.00 | 0.00 |
| GROSS EARNED PREMIUMS | 332,518.00 | 1,330,072.00 | 428,717.05 |
| Reinsurers' ceded premiums | 0.00 | (1,261,726.16) | (1,068,609.99) |
| Deferred ceded premiums | (315,431.54) | 0.00 | 0.00 |
| Reinsurers' ceded premiums earned | (315,431.54) | (1,261,726.16) | (1,068,609.99) |
| | 17,086.46 | 68,345.84 | (639,892.94) |
| TOTAL UNDERWRITING INCOME | 17,086.46 | 68,345.84 | (639,892.94) |
| UNDERWRITING EXPENSES | | | |
| Net losses paid | 15,617.19 | 62,687.65 | 22,049,195.17 |
| Outstanding losses adjustment | 283,000.00 | 1,210,000.00 | (15,664,000.00) |
| Transfer to IBNR | 820,000.00 | 1,232,000.00 | 463,000.00 |
| Transfer to prov. for losses recoverable | (248,000.00) | (618,000.00) | (342,000.00) |
| NET INCURRED LOSSES | 870,617.19 | 1,886,687.65 | 6,506,195.17 |
| OTHER UNDERWRITING EXPENSES (see schedule) | 19,313.00 | 77,250.50 | 75,562.50 |
| TOTAL UNDERWRITING EXPENSES | 889,930.19 | 1,963,938.15 | 6,581,757.67 |
| UNDERWRITING PROFIT / (LOSS) | (872,843.73) | (1,895,592.31) | (7,221,650.61) |
| GENERAL AND ADMIN EXPENSES (see schedule) | 45,657.56 | 234,413.12 | 193,704.47 |
| | (918,501.29) | (2,130,005.43) | (7,415,355.08) |
| INTEREST INCOME & EXCEPTIONAL ITEMS | | | |
| Interest income | 217,732.89 | 964,146.52 | 1,278,798.65 |
| Profit/(loss) on sale of invts | 126,573.34 | 181,020.53 | 104,864.31 |
| Amortisation of investments | (49,482.08) | (179,808.22) | (247,222.31) |
| Investment management fees | (23,578.00) | (88,363.68) | (111,796.33) |
| Investment Custody Fees | (4,695.58) | (17,982.76) | (22,711.99) |
| | 266,550.57 | 859,012.39 | 1,001,932.33 |
| NET PROFIT/(LOSS) BEFORE TAX | (651,950.72) | (1,270,993.04) | (6,413,422.75) |
| INCOME TAX | 4,102.00 | 16,573.27 | 14,511.94 |
| DIVIDEND PAID | 0.00 | 0.00 | 0.00 |
| NET PROFIT/(LOSS) AFTER TAX | (656,052.72) | (1,287,566.31) | (6,427,934.69) |

COLCHESTER REINSURANCE LIMITED

ANALYSIS OF EXPENSES AS AT JUNE 30, 2020 FOR THE PERIOD JULY 1 2019 TO JUNE 30, 2020

| | MOVEMENT DURING QTR | 12 MONTHS TO JUNE 30, 2020 | 12 MONTHS TO JUNE 30, 2019 |
|-------------------------------------|------------------------|-------------------------------|-------------------------------|
| UNDERWRITING EXPENSES | | | |
| Brokerage commission | 19,313.00 | 77,250.50 | 75,562.50 |
| | <u>19,313.00</u> | <u>77,250.50</u> | <u>75,562.50</u> |
| GENERAL & ADMIN EXPENSES | | | |
| Management fees | 22,250.00 | 89,000.00 | 87,500.00 |
| Directors fees | 4,600.00 | 16,291.00 | 19,070.60 |
| Audit fees | 7,475.00 | 34,803.76 | 31,848.58 |
| Tax consultancy fees | 0.00 | 4,325.66 | 0.00 |
| Actuarial fees | 4,884.00 | 58,294.92 | 30,876.15 |
| Legal fees | 3,105.00 | 3,105.00 | 0.00 |
| Insurance Costs - D&O | 1,997.00 | 7,987.50 | 7,987.50 |
| Secretarial fees | 0.00 | 6,641.62 | 6,827.34 |
| Bank and L.O.C charges | 225.56 | 1,097.71 | 1,030.31 |
| Communication expenses | 1,121.00 | 4,585.47 | 3,772.35 |
| Travel | 0.00 | 8,280.48 | 4,791.64 |
| | <u>45,657.56</u> | <u>234,413.12</u> | <u>193,704.47</u> |

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

1. CASH ON DEPOSIT

| | |
|--|----------------------------|
| Royal Bank - Canadian Dollar Call Account | 22,771.29 |
| Royal Bank - Premier Canadian Dollar Account | 1,560,249.49 |
| | <u>1,583,020.78</u> |

2. INVESTMENTS

| | |
|-----------------------------|-----------------------------|
| Investment at cost | 37,120,926.78 |
| Amortization | (276,459.98) |
| Portfolio at amortized cost | <u>36,844,466.80</u> |
| Unrealized gain / (loss) | 1,483,280.74 |
| Portfolio at market value | <u>38,327,747.54</u> |

3. ACCRUED INTEREST RECEIVABLE

| | |
|-------------------|--------------------------|
| Investments - RBC | 220,671.43 |
| | <u>220,671.43</u> |

4. PROVISION FOR LOSS RECOVERABLES (DISCOUNTED)

Canadian Lawyers Liability Assurance Society

| U/W Year | CASE RESERVES | IBNR | TOTAL |
|-----------------|----------------------|----------------------------|----------------------------|
| 2004/2005 | 0.00 | 0.00 | 0.00 |
| 2005/2006 | 0.00 | 0.00 | 0.00 |
| 2006/2007 | 0.00 | 6,000.00 | 6,000.00 |
| 2007/2008 | 0.00 | 16,000.00 | 16,000.00 |
| 2008/2009 | 0.00 | 22,000.00 | 22,000.00 |
| 2009/2010 | 0.00 | 0.00 | 0.00 |
| 2010/2011 | 0.00 | 0.00 | 0.00 |
| 2011/2012 | 0.00 | 100,000.00 | 100,000.00 |
| 2012/2013 | 0.00 | 122,000.00 | 122,000.00 |
| 2013/2014 | 0.00 | 126,000.00 | 126,000.00 |
| 2014/2015 | 0.00 | 215,000.00 | 215,000.00 |
| 2015/2016 | 0.00 | 529,000.00 | 529,000.00 |
| 2016/2017 | 0.00 | 909,000.00 | 909,000.00 |
| 2017/2018 | 0.00 | 1,111,000.00 | 1,111,000.00 |
| 2018/2019 | 0.00 | 1,609,000.00 | 1,609,000.00 |
| 2019/2020 | 0.00 | 2,277,000.00 | 2,277,000.00 |
| | <u>0.00</u> | <u>7,042,000.00</u> | <u>7,042,000.00</u> |

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

5. DEFERRED REINSURANCE PREMIUMS

| | | |
|----------------------------------|-----------------------|-------------|
| Reinsurers' Premium to be earned | (\$1,261,726.16*12/0) | 0.00 |
| | | 0.00 |

6. PREPAID EXPENSES

| | | |
|-----------------------|-----------------|-----------------|
| Annual Government Tax | US\$12,500 p.a. | 8,204.00 |
| | | 8,204.00 |

7. ACCOUNTS PAYABLE/ACCRUED EXPENSES

| | |
|-------------------------|-------------------|
| Audit fees | 29,900.00 |
| Management Fees | 22,250.00 |
| Investment Fees | 70,000.00 |
| Investment Custody Fees | 4,684.00 |
| Brokerage Commission | 19,313.00 |
| Actuarial Fees | 11,017.00 |
| Director's Fees | 16,291.00 |
| Office Expenses | 1,121.00 |
| | 174,576.00 |

8. OUTSTANDING LOSSES (DISCOUNTED)

Canadian Lawyers Liability Assurance Society

| U/W Year | CASE RESERVES | IBNR | TOTAL |
|-----------|---------------------|----------------------|----------------------|
| 2004/2005 | 0.00 | 0.00 | 0.00 |
| 2005/2006 | 0.00 | 0.00 | 0.00 |
| 2006/2007 | 0.00 | 57,000.00 | 57,000.00 |
| 2007/2008 | 3,500,000.00 | 540,000.00 | 4,040,000.00 |
| 2008/2009 | 0.00 | 213,000.00 | 213,000.00 |
| 2009/2010 | 2,500,000.00 | 514,000.00 | 3,014,000.00 |
| 2010/2011 | 124,000.00 | 283,000.00 | 407,000.00 |
| 2011/2012 | 367,000.00 | 323,000.00 | 690,000.00 |
| 2012/2013 | 0.00 | 230,000.00 | 230,000.00 |
| 2013/2014 | 910,000.00 | 303,000.00 | 1,213,000.00 |
| 2014/2015 | 0.00 | 329,000.00 | 329,000.00 |
| 2015/2016 | 900,000.00 | 903,000.00 | 1,803,000.00 |
| 2016/2017 | 131,000.00 | 1,390,000.00 | 1,521,000.00 |
| 2017/2018 | 0.00 | 1,593,000.00 | 1,593,000.00 |
| 2018/2019 | 0.00 | 2,355,000.00 | 2,355,000.00 |
| 2019/2020 | 345,000.00 | 3,551,000.00 | 3,896,000.00 |
| | 8,777,000.00 | 12,584,000.00 | 21,361,000.00 |

9. UNEARNED PREMIUM RESERVE

| | | |
|----------|--------------------|-------------|
| Premiums | (\$1,330,072/12*0) | 0.00 |
| | | 0.00 |

COLCHESTER REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

10. LOSS/EQUITY RATIO

| | |
|--------------------|---------------|
| Loss Reserves | 21,361,000.00 |
| Shareholder Equity | 24,114,083.81 |
| Ratio | 89% |

An actuarial report is required to be submitted to the Supervisor of Insurance when the Loss Reserve/Equity Ratio exceeds 200%.

11. MARGIN OF SOLVENCY

Assets must exceed liabilities by:

- (1) (US\$125,000 in the first year of operation)
- (2) (US\$125,000, if premium Income of the previous year < US\$750,000)
- (3) (20% of premium income of the previous year, if premium income > US\$750,000 but < US\$5,000,000)
- (4) (US\$1,000,000 + 1/10 of premium income of the previous year, if premium income > US\$5,000,000)

| | |
|--------------------------------------|------------|
| Premiums Earned at December 31, 2018 | 639,892.94 |
|--------------------------------------|------------|

| | |
|--------------------------------------|------------|
| Minimum Solvency Margin re (2) above | 163,650.00 |
|--------------------------------------|------------|

| | | |
|---|---------------|-----------------------------|
| Total Assets | 47,181,643.75 | |
| Less: Non-admitted Assets | | |
| Long Term Investments | 0.00 | |
| Prepayments | 8,204.00 | |
| Total Admitted Assets | 47,173,439.75 | |
| Total Liabilities | 21,584,279.20 | |
| Solvency Margin (Excess of Assets over Liabilities) | | 25,589,160.55 |
| Excess over Minimum Solvency Margin | | <u>25,425,510.55</u> |

COLCHESTER REINSURANCE LIMITED
UNDERWRITING ANALYSIS AS AT JUNE 30, 2020
FOR THE PERIOD APRIL 1, 2020 TO JUNE 30, 2020

| | Inward Reinsurance of CLLAS EOL 49Mx1M-20% | Inward Reinsurance of CLLAS Agg. Stop Loss 10Mx5M-100% | Inward Reinsurance of CLLAS Excess Layers 40Mx160M-7.5% 60Mx160M-7.5% | Outward Retro. of Colchester EOL 5Mx5M-20% | Outward Retro. of Colchester EOL 40Mx10M-20% | Outward Retro. of Colchester Agg. Stop Loss 15Mx2.5M-100% | Outward Retro. of Colchester Excess Layers 40Mx160M-5% 60Mx160M-5% | Total |
|----------------------------------|--|--|--|--|--|---|---|--------------|
| Limits | | | | | | | | |
| Policy No. | CLLAS00117 | ADD 47 to 89-011 | CLLAS00217 | PCOLC000116 | PCOLC000216 | PCOLC000316 | PCOLC000816 | |
| Policy Period | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | |
| Premiums Written | - | - | - | | | - | | - |
| Trfd from Unearned Prem. Reserve | 295,594.50 | 22,137.50 | 14,786.00 | | | | | 332,518.00 |
| Premiums Earned | 295,594.50 | 22,137.50 | 14,786.00 | | | | | 332,518.00 |
| Reinsurance Premiums Ceded | | | | - | - | - | - | - |
| Trfd from Deferred Reins. Prem. | | - | | (246,622.39) | - | (54,762.50) | (14,046.65) | (315,431.54) |
| Reinsurance Premiums Earned | | - | | (246,622.39) | - | (54,762.50) | (14,046.65) | (315,431.54) |
| Net Premiums Earned | | | | | | | | 17,086.46 |

App. 1a

COLCHESTER REINSURANCE LIMITED
UNDERWRITING ANALYSIS AS AT JUNE 30, 2020
FOR THE PERIOD JULY 1, 2019 TO JUNE 30, 2020

| | Inward Reinsurance of CLLAS EOL 49Mx1M-20% | Inward Reinsurance of CLLAS Agg. Stop Loss 10Mx5M-100% | Inward Reinsurance of CLLAS Excess Layers 40Mx160M-5% 60Mx160M-5% | Outward Retro. of Colchester EOL 5Mx5M-20% | Outward Retro. of Colchester EOL 40Mx10M-20% | Outward Retro. of Colchester Agg. Stop Loss 15Mx2.5M-100% | Outward Retro. of Colchester Excess Layers 40Mx160M-5% 60Mx160M-5% | Total |
|----------------------------------|--|--|--|--|--|---|---|-----------------------|
| Limits | | | | | | | | |
| Policy No. | CLLAS00116 | ADD 46 to 89-011 | CLLAS00216 | PCOLC000116 | PCOLC00021 | PCOLC000316 | PCOLC000816 | |
| Policy Period | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | 1-Jul-19 to 30-Jun-20 | |
| Premiums Written | 1,182,378.00 | 88,550.00 | 59,144.00 | | | - | | 1,330,072.00 |
| Trfd from Unearned Prem. Reserve | - | - | - | | | | | - |
| Premiums Earned | <u>1,182,378.00</u> | <u>88,550.00</u> | <u>59,144.00</u> | | | | | <u>1,330,072.00</u> |
| Reinsurance Premiums Ceded | | | | (986,489.55) | - | (219,050.00) | (56,186.61) | (1,261,726.16) |
| Trfd from Deferred Reins. Prem. | | - | | - | | - | - | - |
| Reinsurance Premiums Earned | | <u>-</u> | | <u>(986,489.55)</u> | <u>-</u> | <u>(219,050.00)</u> | <u>(56,186.61)</u> | <u>(1,261,726.16)</u> |
| Net Premiums Earned | | | | | | | | <u>68,345.84</u> |

App. 1b



Consolidated Financial Statements

Allied World Assurance Company Holdings, Ltd and Subsidiaries

As of and for the years ended

December 31, 2019 and 2018

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

| | Page No. |
|---|-----------------|
| Report of Independent Auditors | 2 |
| Consolidated Balance Sheets as of December 31, 2019 and 2018 | 4 |
| Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2019 and 2018 | 5 |
| Consolidated Statements of Shareholders' Equity for the years ended December 31, 2019 and 2018 | 6 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018 | 7 |
| Notes to Consolidated Financial Statements | 8 |



Report of Independent Auditors

To the Board of Directors of Allied World Assurance Company Holdings, Ltd

We have audited the accompanying consolidated financial statements of Allied World Assurance Company Holdings, Ltd (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income (loss), of shareholders' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matter

Accounting principles generally accepted in the United States of America require that the information about incurred and paid loss developments for all years preceding year end December 31, 2019 and the related historical claims payout percentage disclosure for short-duration insurance contracts on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

New York, NY
April 7, 2020

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

CONSOLIDATED BALANCE SHEETS

as of December 31, 2019 and 2018

(Expressed in millions of United States dollars, except share and per share amount)

| | As of December 31, 2019 | As of December 31, 2018 |
|--|-------------------------------|-------------------------------|
| ASSETS: | | |
| Fixed maturity investments, at fair value (amortized cost: 2019 \$5,369.5; 2018: \$5,490.7) | \$ 5,415.5 | \$ 5,471.9 |
| Equity securities, at fair value (cost: 2019 \$1,125.5; 2018: \$1,038.9) | 1,050.9 | 840.5 |
| Other invested assets | 834.9 | 705.2 |
| Total investments | 7,301.3 | 7,017.6 |
| Cash and cash equivalents | 534.6 | 571.3 |
| Restricted cash | 416.7 | 283.7 |
| Insurance balances receivable | 978.0 | 825.3 |
| Funds held | 524.5 | 566.3 |
| Prepaid reinsurance | 811.0 | 573.6 |
| Reinsurance recoverable | 2,617.6 | 2,352.8 |
| Reinsurance recoverable on paid losses | 209.6 | 182.3 |
| Accrued investment income | 36.1 | 26.4 |
| Net deferred acquisition costs | 114.2 | 114.2 |
| Goodwill | 938.8 | 937.9 |
| Intangible assets | 659.2 | 710.0 |
| Other assets | 131.3 | 174.0 |
| Total assets | \$ 15,272.9 | \$ 14,335.4 |
| LIABILITIES: | | |
| Reserve for losses and loss expenses | 7,672.7 | 7,653.5 |
| Unearned premiums | 2,139.2 | 1,807.7 |
| Reinsurance balances payable | 418.6 | 239.6 |
| Reinsurance funds held | 133.0 | — |
| Senior notes: | | |
| Principal amount | 500.0 | 500.0 |
| Add unamortized premium and debt issuance costs | 6.1 | 7.2 |
| Senior notes, net of unamortized premium and debt issuance costs | 506.1 | 507.2 |
| Other long-term debt | 43.1 | 43.5 |
| Net deferred tax liabilities | 46.5 | 40.6 |
| Accounts payable and accrued liabilities | 177.6 | 461.5 |
| Total liabilities | \$ 11,136.8 | \$ 10,753.6 |
| SHAREHOLDERS' EQUITY: | | |
| Common shares: 2019: Common shares 2019 and 2018: par value USD \$120 per share (Class A shares 2019 and 2018: 32,589 shares issued and outstanding; Class B shares 2019: 76,444 and 2018: 68,676 shares issued and outstanding) | 13.1 | 12.1 |
| Additional paid-in capital | 4,455.4 | 4,268.6 |
| Accumulated other comprehensive gain (loss) | (3.9) | (6.9) |
| Retained earnings (deficit) | (324.8) | (693.9) |
| Total shareholders' equity available to Allied World Assurance Company Holdings, Ltd | \$ 4,139.8 | \$ 3,579.9 |
| Shareholder's equity non-VIE non-controlling interests | 1.3 | 3.3 |
| Shareholder's equity VIE non-controlling interests | (5.0) | (1.4) |
| Total shareholders' equity | \$ 4,136.1 | \$ 3,581.8 |
| Total liabilities and shareholders' equity | \$ 15,272.9 | \$ 14,335.4 |

See accompanying notes to the consolidated financial statements.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
for the years ended December 31, 2019 and 2018
(Expressed in millions of United States dollars)

| | 2019 | 2018 |
|--|------------|------------|
| REVENUES: | | |
| Gross premiums written | \$ 3,860.3 | \$ 3,368.9 |
| Premiums ceded | (1,341.3) | (1,000.1) |
| Net premiums written | 2,519.0 | 2,368.8 |
| Change in unearned premiums | (93.5) | (82.0) |
| Net premiums earned | 2,425.5 | 2,286.8 |
| Net investment income | 218.0 | 160.8 |
| Net realized and unrealized investment gains (losses) | 213.2 | (204.2) |
| Other income | 36.0 | 12.3 |
| Total revenue | 2,892.7 | 2,255.7 |
| EXPENSES: | | |
| Net losses and loss expenses | 1,707.9 | 1,642.6 |
| Acquisition costs | 299.9 | 248.8 |
| General and administrative expenses | 363.0 | 352.9 |
| Other expense | 35.2 | 31.2 |
| Amortization of intangible assets | 51.3 | 52.9 |
| Interest expense | 31.8 | 28.2 |
| Foreign exchange loss (gain) | 14.8 | 3.5 |
| Total expenses | 2,503.9 | 2,360.1 |
| Income (loss) before income taxes | 388.8 | (104.4) |
| Income tax expense (benefit) | 25.3 | (14.1) |
| NET INCOME (LOSS) INCLUDING NON-CONTROLLING INTERESTS | 363.5 | (90.3) |
| Net income (loss) non-controlling non-VIE interests | (2.0) | (3.7) |
| Net income (loss) non-controlling VIE interests | (3.6) | 0.3 |
| NET INCOME (LOSS) AFTER DEDUCTING NON-CONTROLLING INTERESTS | 369.1 | (86.9) |
| Other comprehensive gain (loss): foreign currency translation adjustment | 3.0 | (5.3) |
| COMPREHENSIVE INCOME (LOSS) INCLUDING NON-CONTROLLING INTERESTS | \$ 366.5 | \$ (95.6) |
| Comprehensive income (loss) non-controlling non-VIE interests | (2.0) | (3.8) |
| Comprehensive income (loss) non-controlling VIE interests | (3.6) | 0.1 |
| COMPREHENSIVE INCOME (LOSS) AFTER DEDUCTING NON-CONTROLLING INTERESTS | \$ 372.1 | \$ (91.9) |

See accompanying notes to the consolidated financial statements.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the years ended December 31, 2019 and 2018
(Expressed in millions of United States dollars)

| | 2019 | 2018 |
|--|-------------------|-------------------|
| Share capital | | |
| Balance at the beginning of the year | \$ 12.1 | \$ 12.0 |
| Issuance of common shares, net of issuance costs | 1.0 | 0.1 |
| Balance at the end of the year | 13.1 | 12.1 |
| Additional paid-in-capital | | |
| Balance at the beginning of the year | 4,268.6 | 4,292.9 |
| Dividends paid | (126.4) | (61.3) |
| Issuance of common shares, net of issuance costs | 319.9 | 60.5 |
| Purchase of Fairfax subordinate voting shares | (20.8) | (32.5) |
| Amortization of stock based compensation | 14.1 | 9.0 |
| Balance at the end of the year | 4,455.4 | 4,268.6 |
| Accumulated other comprehensive gain (loss) | | |
| Balance at the beginning of the year | (6.9) | (1.6) |
| Foreign currency translation adjustment | 3.0 | (5.3) |
| Balance at the end of the year | (3.9) | (6.9) |
| Retained earnings | | |
| Balance at the beginning of the year | (693.9) | (607.3) |
| Net income (loss) | 363.5 | (90.3) |
| Non-controlling interest | 5.6 | 3.7 |
| Balance at the end of the year | (324.8) | (693.9) |
| Non-controlling interest | | |
| Balance at the beginning of the year | 1.9 | 5.6 |
| Non-controlling interest equity | (5.6) | (3.7) |
| Balance at the end of the year | (3.7) | 1.9 |
| Total shareholders' equity | <u>\$ 4,136.1</u> | <u>\$ 3,581.8</u> |

See accompanying notes to the consolidated financial statements.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2019 and 2018

(Expressed in millions of United States dollars)

| | 2019 | 2018 |
|--|-----------|-----------|
| CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 363.5 | \$ (90.3) |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | |
| Net realized losses (gains) on sales of investments | 26.3 | 14.1 |
| Mark-to-market adjustments | (236.3) | 214.3 |
| Stock compensation expense | 13.9 | 9.7 |
| Distributed and undistributed income of equity method investments | 2.3 | 1.0 |
| Depreciation and amortization | 55.3 | 65.5 |
| Loss on retroactive reinsurance | 24.7 | — |
| Changes in: | | |
| Reserve for losses and loss expenses, net of reinsurance recoverables | (245.6) | (280.3) |
| Unearned premiums, net of prepaid reinsurance | 94.1 | 78.3 |
| Insurance balances receivable | (152.7) | 36.5 |
| Reinsurance recoverable on paid losses | (27.3) | (6.7) |
| Funds held | 41.8 | (134.4) |
| Reinsurance balances payable | 179.0 | (47.0) |
| Reinsurance funds held | 133.0 | — |
| Net deferred acquisition costs | 0.0 | (55.3) |
| Net deferred tax liabilities | 5.9 | (26.5) |
| Accounts payable and accrued liabilities | 19.3 | (34.9) |
| Other items, net | (35.9) | (14.0) |
| Net cash provided by (used in) operating activities | 261.3 | (270.0) |
| CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES: | | |
| Purchases of securities | (5,916.7) | (7,396.7) |
| Purchases of other invested assets | (97.2) | (304.1) |
| Sales of securities | 5,988.8 | 7,355.9 |
| Sales of other invested assets | 3.7 | 334.3 |
| Purchases of fixed assets | (5.1) | (8.2) |
| Net cash provided by (used in) investing activities | (26.5) | (18.8) |
| CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES: | | |
| Dividends paid | (126.4) | (61.3) |
| Issuance of common shares, net of issuance costs | — | 60.6 |
| Proceeds from capital contributions | — | 320.0 |
| Purchases of Fairfax subordinate voting shares | (20.8) | (32.5) |
| Repayment of senior notes | — | (320.0) |
| Repayment of credit facility - principal | — | (5.1) |
| Repayment of other long-term debt | (0.2) | (0.3) |
| Net cash provided by (used in) financing activities | (147.4) | (38.6) |
| Effect of exchange rate changes on foreign currency cash | 8.9 | (9.2) |
| NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH | 96.3 | (336.6) |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR | 855.0 | 1,191.6 |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR | \$ 951.3 | \$ 855.0 |
| Supplemental disclosure of cash flow information: | | |
| — Cash paid (received) for income taxes | \$ (4.0) | \$ 3.0 |
| — Cash paid (received) for interest expense | \$ 31.4 | \$ 21.8 |

See accompanying notes to the consolidated financial statements.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

1. GENERAL

Allied World Assurance Company Holdings, Ltd (the "Company") through its wholly-owned subsidiaries is a global provider of a diversified portfolio of property and casualty insurance and reinsurance. References to "\$" are to the lawful currency of the United States.

On July 6, 2017, Fairfax Financial Holdings Limited ("Fairfax"), through Fairfax Financial Holdings (Switzerland) GmbH ("Fairfax Switzerland"), completed the acquisition of 94.6% of the outstanding shares of Allied World Assurance Company Holdings, AG ("Allied World AG") for purchase consideration of \$3,977.9 million. Contemporaneously with the closing of the acquisition of Allied World AG, Ontario Municipal Employees Retirement System ("OMERS"), the pension plan manager for government employees in the province of Ontario, Alberta Investment Management Corporation ("AIMCo") and certain other third parties (together "the co-investors") invested \$1,580.0 million for an indirect equity interest in Allied World AG. The remaining 5.4% of the outstanding shares of Allied World AG was acquired by Fairfax Switzerland on August 17, 2017 for purchase consideration of \$229.0 million in a merger transaction under Swiss law pursuant to which Allied World Assurance Company Holdings, GmbH ("Allied World Switzerland") became the surviving entity. This merger resulted in the co-investors holding an indirect ownership interest in Allied World Switzerland of 32.6%.

On July 2, 2019, Allied World Switzerland re-domesticated to Bermuda and became a Bermuda company. In connection with this re-domestication, Allied World Switzerland changed its name to "Allied World Assurance Company Holdings, Ltd" (hereinafter referred to as "AWACH Bermuda"). On July 3, 2019, Fairfax Switzerland, the 100% direct parent entity of Allied World Switzerland also re-domesticated to Bermuda and became a Bermuda company. In connection with this re-domestication, Fairfax Switzerland changed its name to "Fairfax Financial Holdings (Bermuda), Ltd" (hereinafter referred to as "FFH (Bermuda)"). On July 10, 2019, FFH (Bermuda) effected a merger with AWACH Bermuda under Bermuda law pursuant to which FFH (Bermuda) became the surviving entity and assumed all of the assets and liabilities of AWACH Bermuda. In connection with this merger, the surviving entity assumed AWACH Bermuda's name, Allied World Assurance Company Holdings, Ltd. Furthermore, the prior period financial results were revised from AWACH Bermuda to the surviving merged entity Allied World Assurance Company Holdings, Ltd. This primarily resulted in the purchase price accounting adjustments recorded by FFH (Bermuda) to be reflected in the prior period.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates reflected in the Company's financial statements include, but are not limited to:

- The premium estimates for certain reinsurance agreements,
- Recoverability of deferred acquisition costs,
- The reserve for outstanding losses and loss expenses,
- Valuation of ceded reinsurance recoverables,
- Determination of impairment of goodwill and other intangible assets, and
- Valuation of financial instruments.

Intercompany accounts and transactions have been eliminated on consolidation and all entities meeting consolidation requirements have been included in the consolidated financial statements. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

The significant accounting policies are as follows:

a) Premiums and Acquisition Costs

Premiums are recorded as written on the inception date of the policy. For certain types of business written by the Company, notably assumed reinsurance, the exact premium income may not be known at the policy inception date. In the case

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

of quota share reinsurance treaties assumed by the Company, the underwriter makes an estimate of premium income at inception. The underwriter's estimate is based on statistical data provided by reinsureds and the underwriter's judgment and experience. Such estimations are refined over the reporting period of each treaty as actual written premium information is reported by ceding companies and intermediaries. Premiums resulting from changes in the estimate of the premium income are recorded in the period the estimate is changed. Certain insurance and reinsurance contracts may require that the premium be adjusted at the expiry of the contract to reflect the change in exposure or loss experience of the insured or reinsured.

Premiums are recognized as earned over the period of policy coverage in proportion to the risks to which they relate. Reinsurance premiums under a losses-occurring reinsurance contract are earned over the coverage period. Reinsurance premiums under a risks-attaching reinsurance contract are earned over the same period as the underlying policies, or risks, covered by the contract. As a result, the earning pattern of a risks-attaching reinsurance contract may extend up to 24 months, reflecting the inception dates of the underlying policies. Premiums relating to the unexpired periods of coverage are recorded on the consolidated balance sheets as "unearned premiums".

Acquisition costs, comprised of commissions, brokerage fees and insurance taxes, are costs that are directly related to the successful acquisition of new and renewal business and are deferred. Although permitted under U.S. GAAP to defer certain internal costs that are directly related to the successful acquisition of new and renewal business, the Company does not defer such costs. Acquisition costs that are deferred, and carried on the consolidated balance sheets as an asset, are expensed as the premiums to which they relate are earned. Expected losses and loss expenses, other costs and anticipated investment income related to these unearned premiums are considered in determining the recoverability or deficiency of deferred acquisition costs. If it is determined that deferred acquisition costs are not recoverable, they are expensed. Further analysis is performed to determine if a liability is required to provide for losses which may exceed the related unearned premiums.

Acquisition costs recorded in the consolidated statements of comprehensive income ("consolidated income statements") includes other acquisition-related costs such as profit commissions that are expensed as incurred and the amortization of insurance-related intangible assets.

b) Reserve for Losses and Loss Expenses

The reserve for losses and loss expenses is comprised of two main elements: outstanding loss reserves ("OSLR," also known as case reserves) and reserves for losses incurred but not reported ("IBNR"). OSLR relate to known claims and represent management's best estimate of the likely loss payment. Reserves for IBNR relates to reserves established by the Company for claims that have occurred but have not yet been reported to us as well as for changes in the values of claims that have been reported to us but are not yet settled. See Note 6 for additional information.

c) Ceded Reinsurance

In the ordinary course of business, the Company uses both treaty and facultative reinsurance to minimize its net loss exposure to any one catastrophic loss event or to an accumulation of losses from a number of smaller events. Reinsurance premiums ceded are expensed and any commissions recorded thereon are earned over the period the reinsurance coverage is provided in proportion to the risks to which they relate. For reinsurance treaties that have contractual minimum premium provisions, premiums ceded are recorded at the inception of the treaty based on the minimum premiums. Prepaid reinsurance represents unearned premiums ceded to reinsurance companies. Any unearned ceding commission is included in "net deferred acquisitions costs" on the consolidated balance sheets and is recorded as a reduction to the overall net deferred acquisition cost balance in the consolidated income statements.

Reinsurance recoverable includes the balances due from those reinsurance companies under the terms of the Company's reinsurance agreements for unpaid losses and loss reserves, including IBNR, and is presented net of a provision for uncollectible reinsurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the estimated claim liability associated with the reinsured policy. The Company determines the portion of the IBNR liability that will be recoverable under its reinsurance contracts by reference to the terms of the reinsurance protection purchased. This determination is necessarily based on the estimate of IBNR and accordingly, is subject to the same uncertainties as the estimate of IBNR.

The Company remains liable to the extent that its reinsurers do not meet their obligations under the reinsurance contracts; therefore, the Company regularly evaluates the financial condition of its reinsurers and monitors concentration of credit risk.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

d) Investments

The Company has elected the fair value option permitted under U.S. GAAP for all of its fixed maturity investments and equity securities at the time each security was acquired. The Company classifies these investments as securities, and they are carried at fair value with any change in unrealized gains or losses recognized in the consolidated income statements and included in “net realized and unrealized investment gains (losses)”. As a result of this investment classification, the Company does not record any change in unrealized gains or losses on investments as a separate component of accumulated other comprehensive income on the consolidated balance sheets.

Other invested assets consist primarily of investments in hedge funds, private equity funds and loans, which the Company has elected the fair value option as permitted under U.S. GAAP at the time each investment was acquired. In addition, included in the Company’s other invested assets are various investments which are accounted for using the equity method of accounting, and real estate held for investment purposes. The Company uses the equity method where it has significant influence. Equity method investments are recorded at cost and adjusted for the Company’s proportionate share of earnings or losses on a quarterly lag basis. An other-than-temporary impairment charge related to the equity method investments is assessed when facts and circumstances exists that indicate an impairment may exist. An other-than-temporary impairment charge is recorded when it is determined that the carrying value of the equity method investment is below its fair value and the Company does not have the intent and ability to hold to recovery. See Note 3 for additional information regarding an other-than-temporary impairment charge recorded in 2019 related to one of the Company’s equity method investments. Other investments are recorded based on valuation techniques depending on the nature of the individual assets.

At each measurement date, the Company obtains the fair values for substantially all of the Company’s financial instruments from Fairfax, which utilizes a market or income approach to determine a financial instrument’s fair value. Considerable judgment may be required in interpreting market data used to develop estimates of fair value. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these consolidated financial statements. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair values.

Valuation techniques used by the Company’s independent pricing service providers and third party broker-dealers include use of prices from similar instruments where observable market prices exist, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. The Company and Fairfax assesses the reasonableness of pricing received from these third party sources by comparing the fair values received to recent transaction prices for similar assets where available, to industry accepted discounted cash flow models (that incorporate estimates of the amount and timing of future cash flows and market observable in puts such as credit spreads and discount rates) and to option pricing models (that incorporate market observable inputs including the quoted price, volatility and dividend yield of the underlying security and the risk free rate).

Detailed valuations are performed for those financial instruments that are priced internally, while external pricing received from independent pricing service providers and third party broker-dealers are evaluated by the Company and Fairfax for reasonableness.

Investment securities are recorded on a trade date basis. Investment income is recognized when earned and includes the accrual of discount or amortization of premium on fixed maturity investments using the effective yield method and is net of related expenses. Interest income for fixed maturity investments is accrued and recognized based on the contractual terms of the fixed maturity investments and is included in “net investment income” in the consolidated income statements. For asset-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised on a regular basis. Revised prepayment assumptions are applied to securities on a retrospective basis to the date of acquisition. The cumulative adjustments to amortized cost required due to these changes in effective yields and maturities are recognized in net investment income in the same period as the revision of the assumptions. The Company’s share of undistributed net income from equity method investments is included in net investment income. The return on investments is managed on a total financial statement portfolio return basis, which includes the undistributed net income from equity method investments, and as such have classified these amounts in net investment income.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Realized gains and losses on the disposition of investments, which are based upon the first-in first-out method of identification, are included in “net realized and unrealized investment gains (losses)” in the consolidated income statements. See Note 5 for additional information regarding the fair value of financial instruments.

e) Consolidation

Subsidiaries - The Company's consolidated financial statements include the assets, liabilities, equity, revenue, expenses and cash flows of the Company. A subsidiary is an entity over which the Company has control. The Company controls an entity when the Company has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Assessment of control is based on the substance of the relationship between the Company and the entity and includes consideration of both existing voting rights and, if applicable, potential voting rights that are currently exercisable and convertible. The operating results of subsidiaries acquired are included in the consolidated financial statements from the date control is acquired (typically the acquisition date). The operating results of subsidiaries that are divested during the year are included up to the date control ceased (typically the disposition date) and any difference between the fair value of the consideration received and the carrying value of a divested subsidiary is recognized in the consolidated income statements. Accounting policies of subsidiaries have been aligned with those of the Company where necessary.

The Company is involved in the normal course of business with variable interest entities (“VIEs”) as a passive investor in certain of its hedge fund and private equity fund investments. The Company performs a qualitative assessment at the date when it becomes initially involved in the VIE, followed by ongoing reassessments related to its involvement in VIEs. The Company’s maximum exposure to loss with respect to these investments is limited to the investment carrying amounts reported in the Company’s consolidated balance sheets and any unfunded commitments.

Under U.S. GAAP, certain limited partnership investments and similar legal entity investments are considered VIEs because there are no substantive kick-out or other participating rights. These VIEs have not been consolidated because the Company has determined it is not considered the primary beneficiary, as it does not have both the power to direct the activities that most significantly impact the economic performance of the entity and the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. As such, the Company continues to record its interests in these entities at fair value, with changes in fair value recorded in the consolidated income statements. The Company's interests in these entities are recorded in “other invested assets” in the consolidated balance sheets. The Company's maximum exposure to loss in these entities, which is the sum of the carrying value and the unfunded commitment, was \$598.6 million as of December 31, 2019 and \$606.8 millions as of December 31, 2018.

The Company also has a variable interest in a reciprocal insurance entity that was created during 2017 and of which it is the primary beneficiary. The net liabilities of the reciprocal insurance entity as of December 31, 2019 and December 31, 2018 were \$7.3 million and \$2.5 million, respectively. The net loss for this entity for the years ended December 31, 2019 and 2018 was \$7.6 million and \$2.3 million, respectively.

f) Translation of Foreign Currencies

Functional and presentation currency - The consolidated financial statements are presented in U.S. dollars, which is the functional and presentation currency of the consolidated group.

Foreign currency transactions - Foreign currency transactions are translated into the functional currencies of the Company's subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statements. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction. Non-monetary items carried at fair value are translated at the date the fair value is determined.

Translation of foreign subsidiaries - The functional currencies of some of the Company's subsidiaries differ from the consolidated group U.S. dollar presentation currency. As a result, the assets and liabilities of these foreign subsidiaries (including goodwill and fair value adjustments arising on their acquisition, where applicable) are translated on consolidation at

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

the rates of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average rate of exchange for the period. The net unrealized gain or loss resulting from this translation is recognized in accumulated other comprehensive income, and only recycled to the consolidated income statements upon reduction of an investment in a foreign subsidiary.

g) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include amounts held in banks, time deposits, commercial paper, discount notes and U.S. Treasury Bills with maturities of less than three months from the date of purchase. Restricted cash primarily relates to cash held in trust accounts in favor of cedents, other counterparties or government authorities, as well as accounts that are pledged as collateral for the Company's letter of credit facilities.

h) Income Taxes

The Company and certain of its subsidiaries operate in jurisdictions where they are subject to income taxation. Current and deferred income taxes are charged or credited to operations, or to shareholders' equity in certain cases, based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes payable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the financial statements and those used in the various jurisdictional tax returns.

It is the Company's policy to recognize interest accrued related to unrecognized tax benefits in "interest expense" and penalties in "general and administrative expenses" in the consolidated income statements. The Company has not recorded any interest or penalties during the years ended December 31, 2019 and 2018 and the Company has not accrued any payment of interest and penalties as of December 31, 2019 and 2018.

i) Share-based Awards

The Company participates in the Fairfax Financial Restricted Share Plan (the "Fairfax Plan"). The Fairfax Plan generally provide officers, key employees and directors who were employed by or provided services to the Company with awards of restricted shares of Fairfax common stock. As part of the Fairfax Plan, the Company purchases, from time to time, Fairfax shares for issuances to employees. The Fairfax shares are recorded in "additional paid-in capital" in the consolidated balance sheet and based on the fair value at the time of purchase. The restricted share awards generally vest over three or five years.

j) Goodwill and Intangible Assets

The Company classifies its intangible assets into three categories: (1) intangible assets with finite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization, and (3) goodwill. Intangible assets, other than goodwill, generally consist of customer renewal rights, distribution channels, internally generated software, non-compete covenants, trademarks, and insurance licenses.

For intangible assets with finite lives, the value of the assets is amortized over their expected useful lives and the expense is included in "amortization of intangible assets" in the consolidated income statements. The Company tests assets for impairment if conditions exist that indicate the carrying value may not be recoverable. If, as a result of the evaluation, the Company determines that the value of the intangible assets is impaired, then the value of the assets will be written-down in the period in which the determination of the impairment is made.

For indefinite lived intangible assets, the Company does not amortize the intangible asset but evaluates and compares the fair value of the assets to their carrying values on an annual basis or more frequently if circumstances warrant. If, as a result of the evaluation, the Company determines that the value of the intangible assets is impaired, then the value of the assets will be written-down in the period in which the determination of the impairment is made.

Goodwill represents the excess of the cost of acquisitions over the fair value of net assets acquired and is not amortized. Goodwill is assigned at acquisition to the applicable reporting unit(s) based on the expected benefit to be received by the reporting units from the business combination. The Company determines the expected benefit based on several factors including the purpose of the business combination, the strategy of the Company subsequent to the business combination and structure of the acquired company subsequent to the business combination. A reporting unit is a component of the Company's business that has discrete financial information that is reviewed by management. In determining the reporting unit, the

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Company analyzes the inputs, processes, outputs and overall operating performance of the reporting unit. The Company has one reporting unit to which the goodwill is allocated to.

For goodwill, the Company performs an annual impairment test, or more frequently if circumstances are warranted. The Company may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of the qualitative assessment will determine if an entity needs to proceed with the two-step goodwill impairment test. For the years ended December 31, 2019 and 2018, the Company elected to bypass the qualitative assessment and performed the quantitative assessment of the goodwill impairment test.

The goodwill impairment test compares the fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value then the goodwill impairment is recognized as the difference between the carrying value of a reporting unit and its fair value as calculated in the goodwill impairment test.

The Company recorded no goodwill impairments during the years ended December 31, 2019 and 2018.

k) Derivative Instruments

The Company utilizes derivative financial instruments as part of its overall risk management strategy. The Company recognizes all derivative financial instruments at fair value as either assets or liabilities on the consolidated balance sheets. The accounting for gains and losses associated with changes in the fair value of a derivative and the effect on the consolidated financial statements depends on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of the asset or liability hedged.

The Company may use currency forward contracts and foreign currency swaps to manage currency exposure. The Company may also utilize various derivative instruments such as interest rate futures, interest rate swaps and index options, for the purpose of managing market exposures, interest rate volatility, portfolio duration, hedging certain investments, or enhancing investment performance. These derivatives are not designated as hedges and accordingly are carried at fair value on the consolidated balance sheets within "other assets" or "accounts payable and accrued liabilities" with realized and unrealized gains and losses included in the consolidated income statements.

In addition, the Company's derivative instruments include insurance and reinsurance contracts that are required to be accounted for as derivatives. This will be the case when the insurance or reinsurance contract provides indemnification to the insured or cedent as a result of a change in a variable versus an identifiable insurable event. The Company considers these insurance and reinsurance contracts to be an extension of its overall insurance operations. The insurance and reinsurance derivative contracts are recorded at fair value, with net premiums received recognized in "net premiums earned" over the period of policy coverage in proportion to the risk to which it relates, and other changes in the fair value of this contract is recorded in "other income" or "other expense" in the consolidated income statements. To the extent losses are incurred or ceded under these contracts, those net losses would be recorded in "net losses and loss expenses". During the year ended December 31, 2019, the Company recorded net premiums earned of \$1.7 million, other income of \$3.1 million, and other expense of \$1.7 million related to these insurance and reinsurance derivative contracts. During the year ended December 31, 2018, the Company recorded net premiums earned of \$1.6 million, other income of \$6.1 million, and other expense of \$6.3 million related to these insurance and reinsurance derivative contracts.

l) Funds Held and Reinsurance Funds Held

In the ordinary course of business, the Company's assumed insurance contracts allow the cedent to retain a portion of the premium that would be ceded to the Company. Premiums retained in this manner are presented as funds held on the consolidated balance sheet. The Company also has ceded premium and received cash collateral as part of a loss portfolio transfer, which is presented as a reinsurance funds held on the consolidated balance sheet. See Note 8 for more details.

m) New Accounting Pronouncements

In August 2016, the Financial Accounts Standards Board ("FASB") issued Accounting Standards Update 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 clarifies the classification of receipts and payments in the statement of cash flows. ASU 2016-15 provides guidance related to (1) settlement and payment of zero coupon debt instruments, (2) contingent consideration, (3) proceeds from settlement of insurance claims, (4) proceeds from settlement of corporate and bank-owned life insurance policies, (5)

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

distributions from equity method investees, (6) cash receipts from beneficial interests obtained by a transferor, and (7) general guidelines for cash receipts and payments that have more than one aspect of classification. The only item above that will impact the Company is the guidance related to distributions from equity method investees. The Company currently utilizes the nature of distribution approach for classifying such distributions and adopted ASU 2016-15 as of beginning January 1, 2019, which is the timeline for nonpublic entities. As the nature of distribution approach is an acceptable method under ASU 2016-15, the adoption of ASU 2016-15 did not have a material impact to the Company.

In September 2017, the FASB issued Accounting Standards Update 2017-13 “Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments” (“ASU 2017-13”). ASU 2017-13 allows for public business entities that otherwise would not meet the definition of public business entities but for a requirement to include or for the inclusion of their financial statements or financial information in another entities filing with the U.S. Securities and Exchange Commission, to adopt ASU 2014-09 (Topic 606) and ASU 2016-02 (Topic 842) according to the timelines for non-public entities. The Company has early adopted the updates related to Topic 606, which did not have a material impact to the financial statements, for reporting periods beginning January 1, 2018 and will early adopt the Topic 842 updates for reporting periods beginning January 1, 2020.

In February 2016, the FASB issued Accounting Standards Update 2016-02, “Leases” (“ASU 2016-02”). ASU 2016-02 changes current U.S. GAAP for lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous U.S. GAAP. In November 2019, the FASB issued ASU 2019-10, Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842): Effective Dates (“ASU 2019-02”), which delayed the effective date for ASU 2016-02 for non-public business entities until annual periods beginning after December 15, 2020, with early application permitted. The Company will early adopt Topic 842 for reporting periods beginning January 1, 2020. The Company expects the adoption of ASU 2016-02 to not have a material impact to net assets, and an increase in lease assets and lease liabilities by potentially \$94 million and \$114 million, respectively. The Company plans to apply the transition election of presenting a transition adjustment as of January 1, 2020 and the practical expedients of not reassessing expired, or existing contracts for lease determination or classification, not recording a lease asset or lease liability for short term leases (i.e., less than 12 months) and not separating lease and non-lease components.

In June 2016, the FASB issued Accounting Standards Update 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). ASU 2016-13 modifies U.S. GAAP related to the recognition of credit losses by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 would apply to financial assets such as loans, debt securities, trade receivables, off-balance sheet credit exposures, reinsurance receivables, and other financial assets that have the contractual right to receive cash. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The Company's invested assets are measured at fair value through net income, and therefore those invested assets would not be impacted by the adoption of ASU 2016-13. The Company has other financial assets, such as reinsurance recoverables, that could be impacted by the adoption of ASU 2016-13. ASU 2016-13 is effective for annual periods beginning after January 1, 2020, including interim periods. In November 2018, the FASB issued Accounting Standards Update 2018-19, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses” (“ASU 2018-19”). The amendments in ASU 2018-09 mitigate transition complexity by requiring that for nonpublic business entities the amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2022 (see ASU 2019-10 below). In April 2019, the FASB issued Accounting Standards Update 2019-04 - Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments (“ASU 2019-04”). The amendments in ASU 2019-04 clarify and provide additional application guidance to measure and account for credit losses. In November 2019, the FASB issued ASU 2019-10, which delayed the effective date for ASU 2016-13 for non-public business entities until annual periods beginning after December 15, 2022, with early application permitted. The Company is currently assessing the impact that the adoption of ASU 2016-13 will have on future financial statements and disclosures. Specifically, the Company is developing a credit impairment methodology for its reinsurance recoverables based on the guidance in ASU 2016-13.

In August 2017, the FASB issued Accounting Standards Update 2017-12 “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities” (“ASU 2017-12”). ASU 2017-12 permits hedge accounting for risk components in hedging relationships involving nonfinancial and interest rate risks for certain types of cash flow hedges. ASU 2017-12 modifies how entities designate fair value hedges of interest rate risk and also how they measure changes in fair value of hedged items in fair value hedges of interest rates. With regards to amounts excluded from hedge effectiveness, among other changes, ASU 2017-12 permits entities to exclude the portions of changes in fair values of currency swaps that are attributable

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

to cross-currency basis spreads from the assessment of hedge effectiveness. In instances where quantitative testing of hedge effectiveness is required, after the initial quantitative testing, entities may perform subsequent assessments qualitatively, so long as they document on a quarterly basis that the facts and circumstances relating to the hedging relationships have not changed. ASU 2017-12 eliminates the requirement to disclose the ineffective portion of the changes in fair value of hedging instruments, but does create some new disclosure requirements pertaining to cash flow and fair value hedges. In November 2019, the FASB issued ASU 2019-02, which delayed the effective date for ASU 2016-13 for non-public business entities until annual periods beginning after December 15, 2021, including interim periods. Early application is permitted in any interim period after the issuance of the update. As the Company only utilizes economic hedging instruments and to date has not elected hedge accounting treatment for such instruments, it does not expect the adoption of ASU 2017-12 to have a material impact on its financial statements.

In October 2018, the FASB issued Accounting Standards Update 2018-17, "Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variance Interest Entities" ("ASU 2018-17"). ASU 2018-17 provides that a private company (reporting entity) may elect not to apply VIE guidance to legal entities under common control (including common control leasing arrangements) if both the parent and the legal entity being evaluated for consolidation are not public business entities. Also regarding decision-making fees, indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. ASU 2018-17 is effective for the Company for fiscal years beginning after December 15, 2020 and for interim periods with fiscal years beginning after December 15, 2021. The Company is currently assessing the impact that the adoption of ASU 2018-17 will have on future financial statements and disclosures.

In December 2019, the FASB issued Accounting Standards Update 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"). ASU 2019-12 simplifies the accounting for income taxes as well as removes certain exceptions within ASC 740. ASU 2019-12 is effective for annual and interim periods after December 15, 2021 for non-public companies. The Company is currently assessing the impact that the adoption of ASU 2019-12 will have on future financial statements and disclosures.

3. INVESTMENTS

a) Securities

Securities accounted for at fair value with changes in fair value recognized in the consolidated income statements by category are as follows:

| | December 31, 2019 | | December 31, 2018 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Fair Value | Amortized Cost | Fair Value | Amortized Cost |
| U.S. government and government agencies | \$ 2,347.7 | \$ 2,340.4 | \$ 3,157.0 | \$ 3,180.7 |
| Non-U.S. government and government agencies | 490.9 | 491.8 | 436.2 | 449.1 |
| States, municipalities and political subdivisions | 2.3 | 2.1 | 2.3 | 3.2 |
| Corporate debt | 2,545.7 | 2,504.9 | 1,842.6 | 1,809.6 |
| Asset-backed | 28.9 | 30.2 | 33.8 | 48.0 |
| Total fixed maturity investments | <u>\$ 5,415.5</u> | <u>\$ 5,369.5</u> | <u>\$ 5,471.9</u> | <u>\$ 5,490.7</u> |
| | | | | |
| | December 31, 2019 | | December 31, 2018 | |
| | Fair Value | Cost | Fair Value | Cost |
| Equity securities | \$ 1,050.9 | \$ 1,125.5 | \$ 840.5 | \$ 1,038.9 |
| Other invested assets | 779.9 | 804.5 | 658.4 | 675.5 |
| | <u>\$ 1,830.8</u> | <u>\$ 1,930.0</u> | <u>\$ 1,498.9</u> | <u>\$ 1,714.4</u> |

Other invested assets, included in the table above, include investments in private equity funds, hedge funds and a high yield loan fund that are accounted for at fair value, but excludes other private securities, that are accounted for using the equity method of accounting, and real estate investment, that is accounted for at cost less accumulated depreciation, described below in Note 3(b).

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

The maturity distribution of the fixed income portfolio (on a fair value basis), as of December 31, 2019 and December 31, 2018, respectively was as follows:

| | December 31, 2019 | December 31, 2018 |
|--|--------------------------|--------------------------|
| Due in one year or less | \$ 2,882.2 | \$ 2,868.3 |
| Due after one year through five years | 2,045.9 | 2,273.3 |
| Due after five years through ten years | 317.6 | 274.0 |
| Due after ten years | 140.9 | 22.5 |
| Asset-backed | 28.9 | 33.8 |
| Total | <u>\$ 5,415.5</u> | <u>\$ 5,471.9</u> |

The following table shows the credit quality of our fixed income portfolio, as rated by S&P, as of December 31, 2019:

| Fixed Income Credit Quality: | December 31, 2019 | | December 31, 2018 | |
|-------------------------------------|--------------------------|-------------------|--------------------------|-------------------|
| Rating | Fair Value | Percentage | Fair Value | Percentage |
| U.S. government and agencies | \$ 2,347.7 | 43.4% | 3,157.0 | 57.7% |
| AAA/Aaa | 379.9 | 7.0% | 347.3 | 6.3% |
| AA/Aa | 406.9 | 7.5% | 381.9 | 7.0% |
| A/A | 1,118.7 | 20.7% | 756.1 | 13.8% |
| BBB/Baa | 1,004.8 | 18.5% | 672.4 | 12.3% |
| Total BBB/Baa and above | 5,258.0 | 97.1% | 5,314.7 | 97.1% |
| BB/Ba | 11.9 | 0.2% | 0.0 | 0.0% |
| CCC+ and below | 145.6 | 2.7% | 157.2 | 2.9% |
| Total | <u>\$ 5,415.5</u> | <u>100.0%</u> | <u>5,471.9</u> | <u>100.0%</u> |

b) Other Invested Assets

Details regarding the carrying value, redemption characteristics and unfunded investment commitments of the other invested assets portfolio as of December 31, 2019 and 2018 were as follows:

| Fund Type | Carrying Value as of December 31, 2019 | Investments with Redemption Restrictions | Estimated Remaining Restriction Period | Investments without Redemption Restrictions | Redemption Frequency(1) | Redemption Notice Period(1) | Unfunded Commitments |
|---|---|---|---|--|--------------------------------|------------------------------------|-----------------------------|
| Private equity | \$ 307.3 | \$ 287.7 | 1-14 Years* | \$ 19.6 | | | \$ 32.6 |
| Levered credit | 129.0 | 129.0 | 5-9 Years | — | | | 89.7 |
| Real estate | 227.9 | 227.9 | 7-10 Years | — | | | 48.2 |
| Total private equity | 664.2 | 644.6 | | 19.6 | | | 170.5 |
| Relative value credit | 11.8 | | | 11.8 | Quarterly | 45 Days | — |
| Total hedge funds | 11.8 | — | | 11.8 | | | — |
| Total other invested assets at fair value | 676.0 | 644.6 | | 31.4 | | | 170.5 |
| Other private securities | 33.3 | — | | 33.3 | | | — |
| Real estate investment | 21.7 | — | | 21.7 | | | — |
| Loans | 103.9 | — | | 103.9 | | | — |
| Total other invested assets | <u>\$ 834.9</u> | <u>\$ 644.6</u> | | <u>\$ 158.9</u> | | | <u>\$ 170.5</u> |

*\$7.7 million of private equity investments have lock-up periods until dissolution.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

| <u>Fund Type</u> | <u>Carrying Value as of December 31, 2018</u> | <u>Investments with Redemption Restrictions</u> | <u>Estimated Remaining Restriction Period</u> | <u>Investments without Redemption Restrictions</u> | <u>Redemption Frequency(1)</u> | <u>Redemption Notice Period(1)</u> | <u>Unfunded Commitments</u> |
|---|---|---|---|--|--------------------------------|------------------------------------|-----------------------------|
| Private equity | \$ 290.5 | \$ 290.5 | 1-15 Years | \$ — | | | \$ 29.6 |
| Levered credit | 131.3 | 131.3 | 5-10 Years | — | | | 118.4 |
| Real estate | 219.9 | 219.9 | 7-11 Years | — | | | 41.3 |
| Total private equity | 641.7 | 641.7 | | — | | | 189.3 |
| Distressed | 1.6 | — | | 1.6 | Quarterly | 60 Days | — |
| Relative value credit | 15.1 | — | | 15.1 | Quarterly | 60 Days | — |
| Total hedge funds | 16.7 | — | | 16.7 | | | — |
| Total other invested assets at fair value | 658.4 | 641.7 | | 16.7 | | | 189.3 |
| Other private securities | 32.5 | — | | 32.5 | | | — |
| Real estate investment | 14.3 | — | | 14.3 | | | — |
| Total other invested assets | \$ 705.2 | \$ 641.7 | | \$ 63.5 | | | \$ 189.3 |

(1) The redemption frequency and notice periods only apply to the investments without redemption restrictions.

In general, the Company has invested in hedge funds that require at least 30 days' notice of redemption, and may be redeemed on a monthly, quarterly, semi-annual, annual or longer basis, depending on the fund. Certain hedge funds have lock-up periods ranging from one to three years from initial investment. A lock-up period refers to the initial amount of time an investor is contractually required to invest before having the ability to redeem. Funds that provide for periodic redemptions may, depending on the funds' governing documents, have the ability to deny or delay a redemption request, called a "gate." The fund may implement this restriction because the aggregate amount of redemption requests as of a particular date exceeds a specified level, generally ranging from 15% to 25% of the fund's net assets. The gate is a method for executing an orderly redemption process to reduce the possibility of adversely affecting investors in the fund. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion settled in cash sometime after the redemption date. Certain funds may impose a redemption fee on early redemptions. Interests in private equity funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the fund.

The following describes each investment type:

- **Private equity (primary and secondary):** Primary equity funds include funds that may invest in companies and general partnership interests, as well as direct investments. Secondary funds buy limited partnership interests from existing limited partners of primary private equity funds. As owners of private equity, funds may seek liquidity by selling their existing interests, plus any remaining commitment, to secondary market participants. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the funds.
- **Levered credit (including mezzanine debt):** Levered credit funds invest across the capital structures of upper middle market and middle market companies in connection with leveraged buyouts, mergers and acquisitions, recapitalizations, growth financings, refinancings and other corporate purposes. The most common position in the capital structure of mezzanine funds will be between the senior secured debt holder and the equity; however, the funds in which we are invested may include secured debt, subordinated debt, preferred stock and/or private equity. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the funds.
- **Real estate funds:** Private real estate funds invest directly (through debt and equity) in commercial real estate (multifamily, industrial, office, student housing and retail) as well as residential property. Real estate managers have diversified portfolios that generally follow core, core-plus, value-added or opportunistic strategies. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the funds.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

- **Relative value credit funds:** These funds seek to take exposure to credit-sensitive securities, long and/or short, based upon credit analysis of issuers and securities and credit market views.
- **Other private securities:** These securities mostly include strategic non-controlling minority investments in private asset management companies that are accounted for using the equity method of accounting.
- **Real estate investment:** This includes an interest in a commercial building.
- **Loans:** This includes a loan to a related party AGT Foods and Ingredients Inc. ("AGT").

c) Net Investment Income

| | Year Ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 | 2018 |
| Fixed maturity investments | \$ 145.1 | \$ 123.2 |
| Equity securities | 24.7 | 16.6 |
| Other invested assets: hedge funds and private equity | 57.1 | 38.1 |
| Other invested assets: other private securities | 5.6 | 4.6 |
| Cash and cash equivalents | 18.5 | 11.5 |
| Expenses | (33.0) | (33.2) |
| Net investment income | <u>\$ 218.0</u> | <u>\$ 160.8</u> |

d) Net Realized and Unrealized Gains and Losses

| | Year Ended December 31, | |
|---|-------------------------|-------------------|
| | 2019 | 2018 |
| Gross realized gains on sale of invested assets | \$ 206.0 | \$ 53.9 |
| Gross realized losses on sale or impairment of invested assets ⁽¹⁾ | (190.0) | (59.7) |
| Net realized and unrealized gains (losses) on derivatives | (0.9) | 19.2 |
| Mark-to-market gains (losses): | | |
| Debt securities | 89.1 | (32.7) |
| Equity securities | 118.8 | (197.8) |
| Other invested assets | (9.8) | 12.9 |
| Net realized and unrealized investment gains (losses) ⁽¹⁾ | <u>\$ 213.2</u> | <u>\$ (204.2)</u> |

(1) Inclusive of a \$2.5 million dollar impairment loss on an equity method investment during the year ended December 31, 2019.

e) Pledged Assets

As of December 31, 2019 and 2018, \$2,377.0 million and \$3,252.9 million, respectively, of cash and cash equivalents and investments were deposited, pledged or held in trust accounts in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions and insurance laws.

In addition, as of December 31, 2019 and 2018, a further \$618.8 million and \$635.8 million, respectively, of cash and cash equivalents and investments were pledged as collateral for the Company's letter of credit facilities. See Note 10(d) for details on the Company's credit facilities.

4. DERIVATIVE INSTRUMENTS

As of December 31, 2019 and 2018, none of the Company's derivatives were designated as hedges for accounting purposes. The following table summarizes information on the location and amounts of derivative fair values on the consolidated balance sheets:

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

| | December 31, 2019 | | | | December 31, 2018 | | | |
|----------------------------|---|--------------------------------------|---|--|---|--------------------------------------|---|--|
| | Asset Derivative Notional Amount | Asset Derivative Fair Value | Liability Derivative Notional Amount | Liability Derivative Fair Value | Asset Derivative Notional Amount | Asset Derivative Fair Value | Liability Derivative Notional Amount | Liability Derivative Fair Value |
| Foreign exchange contracts | \$ 117.2 | \$ 1.2 | \$ 107.9 | \$ 2.6 | \$ 267.6 | \$ 4.2 | \$ 114.5 | \$ 1.5 |
| Insurance contracts | 225.0 | 15.3 | — | — | 225.0 | 12.2 | — | — |
| Reinsurance contracts | — | — | 120.0 | 8.3 | — | — | 120.0 | 6.6 |
| Total derivatives | <u>\$ 342.2</u> | <u>\$ 16.5</u> | <u>\$ 227.9</u> | <u>\$ 10.9</u> | <u>\$ 492.6</u> | <u>\$ 16.4</u> | <u>\$ 234.5</u> | <u>\$ 8.1</u> |

Derivative assets and derivative liabilities are classified within “other assets” or “accounts payable and accrued liabilities” on the consolidated balance sheets.

The following table provides the net realized and unrealized gains (losses) on derivatives not designated as accounting hedges recorded on the consolidated income statements:

| | Year Ended December 31, | |
|---|-------------------------|----------------|
| | 2019 | 2018 |
| Foreign exchange contracts | \$ — | \$ 1.0 |
| Total included in foreign exchange loss (gain) | — | 1.0 |
| Foreign exchange contracts | (0.9) | 19.1 |
| Interest rate futures | — | 0.1 |
| Total included in net realized and unrealized investment gains (losses) | (0.9) | 19.2 |
| Insurance contracts | 3.1 | 4.7 |
| Reinsurance contracts | (1.7) | (4.9) |
| Total included in other income (other expense) | 1.4 | (0.2) |
| Total realized and unrealized gains (losses) on derivatives | <u>\$ 0.5</u> | <u>\$ 20.0</u> |

Derivative Instruments Not Designated as Hedging Instruments

The Company is exposed to foreign currency risk in its investment portfolio. Accordingly, the fair values of the Company’s investment portfolio are partially influenced by the change in foreign exchange rates. These foreign currency hedging activities have not been designated as specific hedges for financial reporting purposes.

The Company’s insurance and reinsurance subsidiaries and branches operate in various foreign countries and consequently the Company’s underwriting portfolio is exposed to foreign currency risk. The Company manages foreign currency risk by seeking to match liabilities under the insurance policies and reinsurance contracts that it writes and that are payable in foreign currencies with cash and investments that are denominated in such currencies. When necessary, the Company may also use derivatives to economically hedge unmatched foreign currency exposures, specifically forward contracts and currency options.

The Company has also entered into insurance and reinsurance contracts that are required to be accounted for as derivatives. This will be the case when the insurance or reinsurance contract provides indemnification to the insured or cedent as a result of a change in a variable versus an identifiable insurable event, such as a single-trigger industry loss warranties. The Company considers these insurance and reinsurance contracts to be an extension of its overall insurance operations.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon whether the inputs to the valuation of an asset or liability are observable or unobservable in the market at the measurement date, with quoted market prices being the highest level (Level 1) and unobservable inputs being the lowest level (Level 3). A fair value measurement will fall within the level of the hierarchy based on the input that is significant to determining such measurement. The three levels are defined as follows:

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

- **Level 1** - Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets. The fair values of all US government securities, and the company's common stocks that are based on published quotes in active markets are included in the Level 1 fair value hierarchy.
- **Level 2** - Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in active markets and other market observable inputs.

The fair value of the vast majority of the Company's investments in bonds are priced based on information provided by independent pricing service providers while much of the remainder, along with our foreign currency forward contracts are based primarily on non-binding third party broker-dealer quotes that are prepared using Level 2 inputs. Where third party broker-dealer quotes are used, typically one quote is obtained from a broker-dealer with expertise in the instrument being priced.

The following asset categories are priced using level 2 inputs; all long term Non-U.S government and government agencies, all State and Municipals, Corporate debt and Asset backed securities where they have been priced using observable market inputs, Common stocks where prices are obtained from market exchanges in active markets, the Company's Senior Notes based on reported trades and the Company's other long-term debt where the fair value is based on the value of the debt using current interest rates.

- **Level 3** - Inputs include unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these instruments or related observable inputs that can be corroborated at the measurement date. Transfers between fair value hierarchy categories are considered effective from the beginning of the annual reporting period in which the transfer is identified. The following asset categories are priced using level 3 inputs; some of the Company's Corporate debt, Asset-backed securities and Equity securities and all of the Company's Real estate and Loan investments. See below for more details.

The following table shows the fair value of the Company's financial instruments and where in the fair value hierarchy the fair value measurements are included as of the dates indicated below:

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

| December 31, 2019 | Carrying amount | Total fair value | Level 1 | Level 2 | Level 3 |
|---|--------------------|---------------------|------------|---------|---------|
| ASSETS: | | | | | |
| Fixed maturity investments: | | | | | |
| U.S. government and government agencies | \$ 2,347.7 | \$ 2,347.7 | \$ 2,347.7 | \$ — | \$ — |
| Non-U.S. government and government agencies | 490.9 | 490.9 | 126.1 | 364.8 | — |
| States, municipalities and political subdivisions | 2.3 | 2.3 | — | 2.3 | — |
| Corporate debt | 2,545.7 | 2,545.7 | — | 2,423.9 | 121.9 |
| Asset-backed | 28.9 | 28.9 | — | 24.4 | 4.5 |
| Total fixed maturity investments | 5,415.5 | 5,415.5 | 2,473.8 | 2,815.4 | 126.4 |
| Equity securities | 1,050.9 | 1,050.9 | 511.4 | 311.4 | 228.1 |
| Other invested assets ⁽¹⁾ | 676.0 | 676.0 | — | — | — |
| Real estate | 21.7 | 21.7 | — | — | 21.7 |
| Loans | 103.9 | 103.9 | — | — | 103.9 |
| Total investments | 7,268.0 | 7,268.0 | 2,985.2 | 3,126.8 | 480.1 |
| Derivative assets: | | | | | |
| Foreign exchange contracts | 1.2 | 1.2 | — | 1.2 | — |
| Insurance contracts | 15.3 | 15.3 | — | — | 15.3 |
| LIABILITIES: | | | | | |
| Derivative liabilities: | | | | | |
| Foreign exchange contracts | 2.6 | 2.6 | — | 2.6 | — |
| Reinsurance contracts | 8.3 | 8.3 | — | — | 8.3 |
| Senior notes | 506.1 | 524.1 | — | 524.1 | — |
| Other long-term debt | 43.1 | 46.3 | — | 46.3 | — |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

| December 31, 2018 | Carrying amount | Total fair value | Level 1 | Level 2 | Level 3 |
|---|--------------------|---------------------|----------------|----------------|--------------|
| ASSETS: | | | | | |
| Fixed maturity investments: | | | | | |
| U.S. government and government agencies | \$ 3,157.0 | \$ 3,157.0 | \$ 3,157.0 | \$ — | \$ — |
| Non-U.S. government and government agencies | 436.2 | 436.2 | — | 436.2 | — |
| States, municipalities and political subdivisions | 2.3 | 2.3 | — | 2.3 | — |
| Corporate debt | 1,842.6 | 1,842.6 | — | 1,713.3 | 129.3 |
| Asset-backed | 33.8 | 33.8 | — | 27.4 | 6.4 |
| Total fixed maturity investments | 5,471.9 | 5,471.9 | 3,157.0 | 2,179.2 | 135.7 |
| Equity securities | 840.5 | 840.5 | — | 645.1 | 195.5 |
| Real estate | 14.3 | 14.3 | — | — | 14.3 |
| Other invested assets ⁽¹⁾ | 658.4 | 658.4 | — | — | — |
| Total investments | 6,985.1 | 6,985.1 | 3,157.0 | 2,824.3 | 345.5 |
| Derivative assets: | | | | | |
| Foreign exchange contracts | 4.2 | 4.2 | — | 4.2 | — |
| Insurance contracts | 12.2 | 12.2 | — | — | 12.2 |
| LIABILITIES: | | | | | |
| Derivative liabilities: | | | | | |
| Foreign exchange contracts | 1.5 | 1.5 | — | 1.5 | — |
| Reinsurance contracts | 6.6 | 6.6 | — | — | 6.6 |
| Senior notes | 507.2 | 490.4 | — | 490.4 | — |
| Other long-term debt | 43.5 | 40.8 | — | 40.8 | — |

(1) In accordance with U.S. GAAP, other invested assets, excluding other private securities, and real estate investments, are measured at fair value using the net asset value per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy.

Non-recurring Fair Value of Financial Instruments

The Company measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually, or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include investments accounted for using the equity method, goodwill and intangible assets. The Company uses a variety of techniques to measure the fair value of these assets when appropriate, as described below:

Investments accounted for using the equity method: When the Company determines that the carrying value of these assets may not be recoverable, the Company records the assets at fair value with the loss recognized in income. In such cases, the Company measures the fair value of these assets using the techniques discussed above.

Goodwill and intangible assets: The Company tests goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, but at least annually for goodwill and indefinite-lived intangibles. When the Company determines that goodwill and indefinite-lived intangible assets may be impaired, the Company may use various techniques, including discounted expected future cash flows and market multiple models, to measure fair value.

Level 3 Financial Instruments

As of December 31, 2019, the Company held financial assets of \$495.4 million and financial liabilities of \$8.3 million that were measured using Level 3 valuation inputs. As of December 31, 2018, the company held financial assets of \$357.7 million and financial liabilities of \$6.6 million that were measured using Level 3 valuation inputs. During the year ended December 31, 2019, the Company transferred \$57.6 million of financial assets from Level 2 to Level 3 and purchased \$167.4 million of financial assets that were included in Level 3. During the year ended December 31, 2018, the Company transferred

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

\$0.8 million of financial assets from Level 2 to Level 3, transferred \$27.5 million out of Level 3 and purchased \$157.5 million of financial assets that were included in Level 3. For the Company's Level 3 investments, the effect on earnings, was an unrealized and realized loss of \$10.1 million and \$40.2 million for the years ending December 31, 2019 and 2018, respectively.

The following asset categories have securities that are valued in the Level 3 hierarchy;

- **Corporate Debt:** When the significant inputs used to price the Corporate debt are broker-dealer quotes and the Company is not able to determine if those quotes are based on observable market inputs, they are included in the Level 3 hierarchy.
- **Asset-Backed Securities:** When the significant inputs used to price the asset-backed securities are broker-dealer quotes and the Company is not able to determine if those quotes are based on observable market inputs, they are included in the Level 3 hierarchy.
- **Equity Securities:** The Company has certain securities that are valued by Fairfax that are included in the Level 3 fair value hierarchy. When fair value is determined by Fairfax, the fair value is determined by reference to various valuation measures for comparable companies and transactions, including relevant valuation multiples. Investments are classified as Level 3 because the valuation multiples applied by the Company were adjusted for differences in attributes between the investment and the underlying companies or transactions from which the valuation multiples were derived. Preferred stocks are priced using a combination of independent pricing service providers and internal valuation models that rely on directly or indirectly observable inputs.
- **Real Estate:** Comprised of a commercial real estate investment what was purchased during the year ended 2018. The Company engaged a 3rd party valuator to determine the fair value of the investment. The fair value of the Real Estate was calculated using an income capitalization approach and the key unobservable input is the discount rate, which was 8.75%.
- **Loans:** Comprised of a related party loan between the Company and AGT Food and Ingredients Inc. ("AGT"). The fair value of the loan was calculated using a discounted cash flow approach. The key unobservable input is the discount rate, which was 10.9%. In addition, the Company acquired a 5% participation interest in a Corporate loan on September 30, 2019. The fair value of this loan was approximated at cost as at December 31, 2019. The unrealized loss due to the change in the instrument-specific credit risk of the loans was \$1.6 million for the year ended December 31, 2019. As the loans were acquired in 2019, there is no change in instrument-specific credit risk in 2018.
- **Derivative instruments:** The fair value of the insurance and reinsurance contracts are based on an internal model that estimates the expected value based on multiple scenarios (i.e., Monte-Carlo simulation) and discounted back to current value. The key unobservable inputs are the discount rate, which was 10%, and the values of the underlying insured risks. Given that the inputs to the internal model are unobservable, the fair value of the insurance and reinsurance contracts are included in the Level 3 fair value hierarchy.

6. RESERVE FOR LOSSES AND LOSS EXPENSES

a) Basis for estimating the reserves for losses and loss expenses

The reserve for losses and loss expenses is comprised of two main elements: outstanding loss reserves ("OSLR," also known as case reserves) and reserves for losses incurred but not reported ("IBNR"). OSLR relate to known claims and represent management's best estimate of the likely loss settlement. IBNR reserves relate primarily to unreported 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. IBNR reserves also relate to estimated development of reported events that based on industry information, management's experience and actuarial evaluation, can reasonably be expected to reach the Company's attachment point and are reasonably likely to result in a loss. The Company also includes in IBNR reserves changes in the values of claims that have been reported but are not yet settled. Each claim is settled individually based upon its merits and it is not unusual for a claim to take years after being reported to settle, especially if legal action is involved. As a result, reserves for losses and loss expenses include significant estimates for IBNR reserves.

The reserve for IBNR is estimated by management for each line of business based on various factors, including underwriters' expectations about loss experience, actuarial analysis, comparisons with the results of industry benchmarks and loss experience to date. The Company implicitly factors into IBNR reserves inflation by assuming an inflation rate consistent with historical trends. The IBNR reserves are calculated as the ultimate amount of losses and loss expenses less cumulative paid

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

losses and loss expenses and OSLR. The Company's actuaries employ generally accepted actuarial methodologies to determine estimated ultimate loss reserves.

The Company believes that its current estimates of liabilities appropriately reflect its current knowledge of the business and the prevailing market, social, legal and economic conditions while giving due consideration to historical trends and volatility evidenced in the liabilities over the longer term. Although management believes that OSLR and the IBNR reserves are sufficient to cover losses assumed by the Company, there can be no assurance that losses will not deviate from the Company's reserves, possibly by material amounts. The methodology of estimating loss reserves is periodically reviewed to ensure that the assumptions made continue to be appropriate. The Company recognizes any changes in its loss reserve estimates, including prior year loss reserve development, and the related reinsurance recoverables in the periods in which they are determined and are recorded in "net losses and loss expenses" in the consolidated income statements.

The reserve for losses and loss expenses consists of the following:

| | December 31, | |
|---|---------------------|-------------------|
| | 2019 | 2018 |
| Outstanding loss reserves | \$ 2,451.8 | \$ 2,222.0 |
| Reserves for losses incurred but not reported | 5,220.9 | 5,431.5 |
| Reserve for losses and loss expenses | <u>\$ 7,672.7</u> | <u>\$ 7,653.5</u> |

b) Reserve for losses and loss expenses rollforward

The table below is a reconciliation of the beginning and ending liability for unpaid losses and loss expenses. Losses incurred and paid are reflected net of reinsurance recoverables.

| | Year Ended December 31, | |
|--|--------------------------------|-------------------|
| | 2019 | 2018 |
| Gross liability at beginning of year | \$ 7,653.5 | \$ 7,787.9 |
| Reinsurance recoverable at beginning of year | (2,352.8) | (2,206.9) |
| Net liability at beginning of year | <u>5,300.7</u> | <u>5,581.0</u> |
| Net losses incurred related to: | | |
| Current year | 1,651.2 | 1,739.2 |
| Loss on retroactive reinsurance | 9.7 | — |
| Prior years | 47.0 | (96.6) |
| Total incurred | <u>1,707.9</u> | <u>1,642.6</u> |
| Net paid losses related to: | | |
| Current year | 260.9 | 262.9 |
| Prior years | 1,604.7 | 1,641.7 |
| Total paid | <u>1,865.6</u> | <u>1,904.6</u> |
| Loss portfolio transfer | (90.1) | — |
| Foreign exchange revaluation and other | 2.3 | (18.3) |
| Net liability at end of year | <u>5,055.2</u> | <u>5,300.7</u> |
| Reinsurance recoverable at end of year | 2,617.5 | 2,352.8 |
| Gross liability at end of year | <u>\$ 7,672.7</u> | <u>\$ 7,653.5</u> |

For the year ended December 31, 2019, the Company recorded net unfavorable prior year reserve development primarily related to net adverse prior year reserve development of the professional liability line of business related to the 2014, 2015 and 2016 accident years and the property line of business primarily related to the 2018 accident year, partially offset by a reduction in unallocated loss adjustment expenses. During the year ended December 31, 2019, the Company entered into a loss portfolio transfer with Darag Insurance (Guernsey) Limited ("Darag"), and paid \$90.1 million in premiums to cede \$65.4 million of loss reserves related to the Company's U.S. primary casualty line of business. This loss portfolio transfer is accounted for as

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

retroactive reinsurance and resulted in an initial loss of \$24.7 million. In addition, the Company incurred net losses, before reinstatement premiums, of \$81.5 million in catastrophe-related losses. The net losses incurred from Townsville Floods, Hurricane Dorian, Typhoon Faxai, and Typhoon Hagibis were \$12.4 million, \$14.7 million, \$21.1 million, \$33.3 million, respectively.

For the year ended December 31, 2018, the Company recorded net favorable prior year reserve development primarily related to better than expected emergence on the 2017 catastrophe losses and a reduction in unallocated loss adjustment expenses, partially offset by net adverse prior year reserve development in the casualty line of business primarily related to the 2012, 2014 and 2015 accident years and the professional liability line of business primarily related to the 2012 accident year. During the year ended December 31, 2018, the Company incurred net losses, before reinstatement premiums, of \$237.0 million in catastrophe-related losses. The net losses incurred from Hurricane Florence, Typhoon Jebi, Typhoon Mangkhut, Hurricane Michael, and the Woolsey and Camp California wildfires were \$26.7 million, \$59.0 million, \$16.2 million, \$50.5 million, \$24.0 million, \$60.6 million, respectively.

The Company has not accrued any additional premiums or return premiums as a result of the net prior year reserve development during the years ended December 31, 2019 and 2018.

Although the Company has historically experienced favorable and unfavorable development in its insurance and reinsurance lines, there is no assurance that conditions and trends that have affected the development of liabilities in the past will continue. It is not appropriate to extrapolate future redundancies based on prior years' development. The methodology of estimating loss reserves is periodically reviewed to ensure that the key assumptions used in the actuarial models continue to be appropriate.

c) Incurred and Paid Loss Development Triangles

The following information presents the incurred and paid claims information as of December 31, 2019, net of reinsurance, as well as cumulative claim frequency and total IBNR reserves by accident year. The information about incurred and paid claims development presented for the years ended December 31, 2010 to December 31, 2018 is presented as supplementary information.

The incurred and paid loss development triangles are presented based on the following:

i. Groupings

Disaggregated based on lines of business within each operating segment. There are a total of 10 incurred and paid loss development triangles presented of which eight relate to the Insurance segment and three of which relate to the Reinsurance segment. The 10 incurred and paid loss development triangles were selected to create categories that were relatively homogeneous yet were not so small as to have insufficient actuarial credibility, and are consistent with how the Company discloses gross premiums written and net premiums earned by line of business, as well as disaggregated to reflect the reserves acquired from the Hong Kong, Singapore and Labuan branches of RSA in 2015 on a prospective basis. The Company has lines of business that are 100% ceded, several retrocessions on reinsurance, personal lines, homeowners insurance and the loss portfolio transfer with Darag that are not presented in the incurred and paid loss development triangles.

ii. Presentation

The incurred and paid loss development triangles include ten years of historical information. All incurred and paid loss development triangles are presented net of reinsurance and excludes unallocated loss adjustment expenses, allowance for uncollectible reinsurance recoverables, currency translation adjustments and fair value adjustments related to acquired reserves as those balances are not estimated for each accident year.

Acquisitions will be presented in the incurred and paid loss development triangles based on how the acquired reserves impact the nature, amount, timing and uncertainty of the cash flows related the settlement of the reserve for losses and loss expenses. As it relates to the reserves for losses and loss expenses acquired from RSA, those reserves are presented from the date in which they were acquired (April 1, 2015) as separate incurred and paid loss development triangles until such time when it is appropriate to combine with the equivalent Insurance segment incurred and paid loss development triangles. The Company has made changes to how reserves are settled and estimated, and therefore the incurred and paid development information prior to the acquisition will no longer provide relevant information regarding the nature,

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

amount, timing and uncertainty of how these reserves will settle in the future. Also, the Company does not have sufficient information at this disaggregated level to present the Insurance segment incurred and paid loss development triangles on a retrospective basis, including the incurred and paid information from the acquired RSA reserves.

iii. Foreign exchange

Reserves for losses and loss expenses and paid losses that are not recorded in the United States dollar functional currency are revalued at the United States dollar conversion rate at the end of the period.

iv. IBNR

The 'Total IBNR' by accident year disclosed with the incurred and paid loss development triangles includes (1) IBNR reserves for unreported events and (2) changes in the values of claims that have been reported but are not yet settled.

v. Claim count

Cumulative reported claims included in the tables below, which are reflected as the actual claim counts shown, consist of any reported indemnity claim or expense by claimant (e.g., insured) as of December 31, 2019 with a reserve balance greater than one United States dollar (or equivalent foreign currency). By including only claims with reserves greater than one United States dollar (or equivalent foreign currency), the tables do not include any notifications of claims which may or may not result in an indemnity claim. The cumulative claim count information for the acquired RSA operations are higher, on a relative basis, than the other lines of business cumulative claim count information as the acquired RSA operations have a higher percentage of retail business. This will result in reporting, on average, higher frequency of reported claims with lower severity per claim. The Company has determined that it is impractical to provide cumulative reported claim information for the lines of business in the Reinsurance segment as this information is not provided to the Company from the cedents. The Company also does not believe cumulated reported claim counts for its Reinsurance segment provides any meaningful information related to the nature, amount, timing and uncertainty of the cash flows related to the settled of the reserve for losses and loss expenses.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Insurance Segment:

Casualty - Excluding RSA acquired reserves

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | December 31, 2019 | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------|-------------------|----------------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total IBNR | Cumulative Reported Claims |
| 2010 | \$ 148.0 | \$ 171.0 | \$ 172.7 | \$ 165.4 | \$ 159.7 | \$ 149.3 | \$ 131.5 | \$ 131.7 | \$ 124.7 | \$ 123.8 | \$ 7.8 | 289 |
| 2011 | | 130.5 | 150.3 | 160.5 | 159.6 | 152.5 | 159.7 | 166.6 | 171.9 | 173.9 | 15.7 | 382 |
| 2012 | | | 155.4 | 159.6 | 162.0 | 176.8 | 196.2 | 218.5 | 226.7 | 234.3 | 21.0 | 481 |
| 2013 | | | | 193.3 | 201.7 | 217.0 | 244.7 | 243.5 | 239.7 | 255.3 | 31.8 | 730 |
| 2014 | | | | | 229.3 | 234.4 | 244.6 | 274.2 | 298.0 | 306.1 | 43.9 | 906 |
| 2015 | | | | | | 304.7 | 299.1 | 304.8 | 326.3 | 337.5 | 72.8 | 999 |
| 2016 | | | | | | | 284.5 | 273.8 | 276.3 | 287.1 | 80.4 | 1,061 |
| 2017 | | | | | | | | 264.8 | 263.9 | 291.4 | 123.5 | 911 |
| 2018 | | | | | | | | | 264.8 | 267.9 | 169.7 | 911 |
| 2019 | | | | | | | | | | 280.9 | 254.0 | 1,146 |
| | | | | | | | | | | <u>\$ 2,558.2</u> | | |

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 2010 | \$ 0.6 | \$ 28.4 | \$ 65.9 | \$ 72.9 | \$ 83.1 | \$ 87.4 | \$ 96.9 | \$ 105.2 | \$ 106.8 | \$ 114.4 |
| 2011 | | 2.1 | 11.4 | 33.1 | 63.1 | 89.1 | 101.9 | 120.2 | 137.7 | 140.7 |
| 2012 | | | 6.5 | 26.5 | 54.0 | 86.4 | 115.6 | 158.4 | 178.1 | 201.9 |
| 2013 | | | | 9.7 | 38.9 | 70.6 | 104.1 | 153.8 | 174.1 | 209.7 |
| 2014 | | | | | 9.0 | 59.1 | 105.1 | 166.9 | 213.5 | 241.6 |
| 2015 | | | | | | 12.1 | 38.3 | 90.4 | 175.9 | 229.3 |
| 2016 | | | | | | | 10.3 | 41.7 | 87.7 | 159.4 |
| 2017 | | | | | | | | 11.2 | 48.9 | 101.2 |
| 2018 | | | | | | | | | 9.1 | 59.7 |
| 2019 | | | | | | | | | | 9.5 |
| | | | | | | | | | | <u>\$ 1,467.4</u> |
| | | | | | | | | | | <u>\$ 49.2</u> |
| | | | | | | | | | | <u>\$ 1,140.0</u> |

All outstanding liabilities before 2010, net of reinsurance

Liability for losses and loss expenses, net of reinsurance

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Casualty - RSA acquired reserves

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | December 31, 2019 | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|-------------------|----------------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total IBNR | Cumulative Reported Claims |
| 2010 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 3.2 | \$ 2.7 | \$ 1.7 | \$ 1.7 | \$ 1.7 | \$ — | 121 |
| 2011 | | — | — | — | — | 7.2 | 6.2 | 5.7 | 5.7 | 5.4 | — | 179 |
| 2012 | | | — | — | — | 19.3 | 17.8 | 17.8 | 17.6 | 17.1 | — | 444 |
| 2013 | | | | — | — | 53.7 | 43.3 | 43.4 | 42.9 | 41.6 | — | 1,251 |
| 2014 | | | | | — | 99.6 | 69.0 | 72.5 | 72.5 | 69.3 | 0.3 | 3,452 |
| 2015 | | | | | | 99.5 | 78.7 | 76.6 | 74.5 | 72.6 | 3.9 | 6,945 |
| 2016 | | | | | | | 61.6 | 60.4 | 58.9 | 56.7 | 5.9 | 6,947 |
| 2017 | | | | | | | | 38.1 | 41.6 | 38.0 | 3.7 | 7,101 |
| 2018 | | | | | | | | | 35.8 | 38.3 | 3.5 | 7,791 |
| 2019 | | | | | | | | | | 33.8 | 8.9 | 7,133 |
| | | | | | | | | | | <u>\$ 374.5</u> | | |

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 2010 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 1.1 | \$ 1.5 | \$ 1.4 | \$ 1.6 | \$ 1.6 |
| 2011 | | — | — | — | — | 2.7 | 4.7 | 5.1 | 5.2 | 5.3 |
| 2012 | | | — | — | — | 8.2 | 14.2 | 16.1 | 17.3 | 16.8 |
| 2013 | | | | — | — | 13.3 | 28.2 | 36.8 | 40.0 | 40.5 |
| 2014 | | | | | — | 16.8 | 37.2 | 51.6 | 63.0 | 65.4 |
| 2015 | | | | | | 12.2 | 31.6 | 48.0 | 61.5 | 64.8 |
| 2016 | | | | | | | 13.6 | 28.9 | 38.0 | 43.1 |
| 2017 | | | | | | | | 9.8 | 19.8 | 23.3 |
| 2018 | | | | | | | | | 9.5 | 17.0 |
| 2019 | | | | | | | | | | 7.7 |
| | | | | | | | | | | <u>\$ 285.5</u> |
| | | | | | | | | | | <u>\$ —</u> |
| | | | | | | | | | | <u>\$ 89.0</u> |

All outstanding liabilities before 2010, net of reinsurance

Liability for losses and loss expenses, net of reinsurance

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Professional liability

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | December 31, 2019 | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|-------------------|----------------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total IBNR | Cumulative Reported Claims |
| 2010 | \$ 300.5 | \$ 305.4 | \$ 302.2 | \$ 288.2 | \$ 253.7 | \$ 233.0 | \$ 230.9 | \$ 230.9 | \$ 221.5 | \$ 217.4 | \$ 11.3 | 522 |
| 2011 | | 300.8 | 323.7 | 351.5 | 368.3 | 350.8 | 345.0 | 343.4 | 350.1 | 341.0 | 13.6 | 762 |
| 2012 | | | 313.8 | 388.4 | 411.3 | 424.5 | 417.2 | 475.2 | 505.2 | 502.2 | 36.0 | 864 |
| 2013 | | | | 340.2 | 371.4 | 381.1 | 394.9 | 410.3 | 421.0 | 415.3 | 40.9 | 921 |
| 2014 | | | | | 337.0 | 367.8 | 370.6 | 368.9 | 373.3 | 377.4 | 42.8 | 794 |
| 2015 | | | | | | 391.7 | 398.8 | 412.3 | 417.4 | 432.0 | 85.1 | 743 |
| 2016 | | | | | | | 361.8 | 374.4 | 366.5 | 385.6 | 114.7 | 796 |
| 2017 | | | | | | | | 309.5 | 323.1 | 316.7 | 154.5 | 708 |
| 2018 | | | | | | | | | 292.3 | 295.1 | 194.2 | 765 |
| 2019 | | | | | | | | | | 293.1 | 244.6 | 601 |
| | | | | | | | | | | <u>\$3,575.8</u> | | |

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 2010 | \$ 9.1 | \$ 42.9 | \$ 74.3 | \$ 107.5 | \$ 133.8 | \$ 149.8 | \$ 179.5 | \$ 187.3 | \$ 196.3 | \$ 203.2 |
| 2011 | | 14.1 | 67.5 | 152.2 | 203.2 | 245.8 | 289.0 | 296.3 | 311.4 | 317.2 |
| 2012 | | | 17.2 | 79.4 | 142.7 | 215.0 | 280.3 | 335.9 | 382.8 | 414.5 |
| 2013 | | | | 12.3 | 63.6 | 155.3 | 231.5 | 272.9 | 326.3 | 348.6 |
| 2014 | | | | | 13.2 | 81.7 | 157.5 | 206.6 | 263.2 | 309.0 |
| 2015 | | | | | | 11.0 | 75.0 | 143.2 | 218.0 | 298.4 |
| 2016 | | | | | | | 12.4 | 67.5 | 160.1 | 230.5 |
| 2017 | | | | | | | | 9.7 | 65.5 | 118.0 |
| 2018 | | | | | | | | | 11.4 | 61.7 |
| 2019 | | | | | | | | | | 24.8 |
| | | | | | | | | | | <u>\$2,325.9</u> |
| All outstanding liabilities before 2010, net of reinsurance | | | | | | | | | | <u>\$ 59.4</u> |
| Liability for losses and loss expenses, net of reinsurance | | | | | | | | | | <u><u>\$1,309.3</u></u> |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Property

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | December 31, 2019 | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|-------------------|----------------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total IBNR | Cumulative Reported Claims |
| 2010 | \$ 153.8 | \$ 155.1 | \$ 146.1 | \$ 143.3 | \$ 143.2 | \$ 144.3 | \$ 141.4 | \$ 141.0 | \$ 140.1 | \$ 140.6 | \$ 0.1 | 624 |
| 2011 | | 191.2 | 186.6 | 174.2 | 166.7 | 166.3 | 164.0 | 163.8 | 163.1 | 162.9 | 0.3 | 770.0 |
| 2012 | | | 182.9 | 169.0 | 159.4 | 156.4 | 156.2 | 155.9 | 155.8 | 155.1 | 0.7 | 1,083 |
| 2013 | | | | 107.3 | 93.7 | 88.6 | 87.9 | 87.2 | 86.2 | 85.5 | — | 1,677 |
| 2014 | | | | | 126.1 | 134.2 | 125.2 | 124.3 | 121.6 | 120.6 | 0.5 | 2,535 |
| 2015 | | | | | | 156.9 | 152.5 | 155.8 | 153.0 | 151.3 | 0.2 | 3,885 |
| 2016 | | | | | | | 152.6 | 159.9 | 155.6 | 150.5 | 0.5 | 4,357 |
| 2017 | | | | | | | | 305.7 | 258.4 | 265.0 | 1.6 | 3,485 |
| 2018 | | | | | | | | | 204.1 | 218.1 | 6.7 | 3,356 |
| 2019 | | | | | | | | | | 140.0 | 35.0 | 2,542 |
| | | | | | | | | | | <u>\$1,589.6</u> | | |

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 2010 | \$ 63.3 | \$ 108.2 | \$ 123.9 | \$ 135.1 | \$ 138.4 | \$ 139.4 | \$ 140.0 | \$ 140.3 | \$ 140.3 | \$ 140.8 |
| 2011 | | 35.6 | 98.6 | 142.5 | 159.0 | 161.0 | 163.0 | 163.6 | 163.7 | 163.7 |
| 2012 | | | 24.0 | 107.3 | 139.3 | 150.5 | 153.9 | 154.6 | 154.6 | 154.9 |
| 2013 | | | | 29.5 | 65.4 | 78.8 | 83.8 | 84.8 | 85.0 | 85.2 |
| 2014 | | | | | 39.0 | 92.3 | 110.1 | 115.0 | 115.6 | 116.4 |
| 2015 | | | | | | 58.3 | 122.7 | 141.6 | 147.2 | 148.4 |
| 2016 | | | | | | | 51.8 | 109.6 | 117.3 | 136.7 |
| 2017 | | | | | | | | 65.9 | 188.9 | 232.8 |
| 2018 | | | | | | | | | 75.0 | 154.8 |
| 2019 | | | | | | | | | | 55.7 |
| | | | | | | | | | | <u>\$1,389.4</u> |
| | | | | | | | | | | <u>\$ 1.4</u> |
| | | | | | | | | | | <u>\$ 201.6</u> |

All outstanding liabilities before 2010, net of reinsurance

Liability for losses and loss expenses, net of reinsurance

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Programs

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | December 31, 2019 | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|-------------------|----------------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total IBNR | Cumulative Reported Claims |
| 2010 | \$ 70.7 | \$ 72.5 | \$ 86.4 | \$ 80.8 | \$ 78.8 | \$ 75.5 | \$ 75.0 | \$ 74.5 | \$ 74.6 | \$ 74.2 | \$ 1.0 | 477 |
| 2011 | | 54.0 | 61.9 | 62.6 | 58.1 | 52.5 | 53.5 | 51.9 | 50.3 | 50.0 | 1.3 | 443 |
| 2012 | | | 56.7 | 60.5 | 62.4 | 59.5 | 58.7 | 58.9 | 59.6 | 58.9 | 1.9 | 488 |
| 2013 | | | | 64.9 | 62.0 | 59.9 | 56.3 | 53.9 | 52.6 | 52.6 | 3.4 | 856 |
| 2014 | | | | | 74.9 | 73.9 | 70.0 | 67.7 | 63.2 | 59.4 | 7.2 | 1,131 |
| 2015 | | | | | | 86.8 | 86.2 | 81.9 | 74.8 | 70.8 | 10.7 | 1,261 |
| 2016 | | | | | | | 113.6 | 114.6 | 117.3 | 110.1 | 21.9 | 1,543 |
| 2017 | | | | | | | | 147.7 | 154.4 | 148.4 | 43.0 | 2,445 |
| 2018 | | | | | | | | | 157.1 | 158.2 | 75.0 | 2,951 |
| 2019 | | | | | | | | | | 209.2 | 147.4 | 3,437 |
| | | | | | | | | | | <u>\$ 991.8</u> | | |

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 2010 | \$ 2.9 | \$ 17.9 | \$ 42.4 | \$ 52.3 | \$ 59.9 | \$ 63.4 | \$ 66.3 | \$ 67.8 | \$ 68.9 | \$ 70.2 |
| 2011 | | 3.8 | 15.2 | 26.7 | 34.7 | 41.3 | 45.3 | 47.1 | 47.6 | 48.0 |
| 2012 | | | 3.8 | 17.6 | 29.6 | 38.3 | 44.5 | 48.1 | 52.1 | 54.0 |
| 2013 | | | | 5.7 | 15.8 | 24.4 | 33.0 | 40.0 | 44.0 | 46.7 |
| 2014 | | | | | 6.4 | 16.9 | 27.5 | 39.3 | 44.5 | 47.4 |
| 2015 | | | | | | 9.3 | 26.3 | 37.3 | 46.3 | 52.8 |
| 2016 | | | | | | | 14.1 | 43.8 | 66.2 | 77.5 |
| 2017 | | | | | | | | 22.1 | 63.7 | 87.1 |
| 2018 | | | | | | | | | 27.8 | 63.3 |
| 2019 | | | | | | | | | | 42.2 |
| | | | | | | | | | | <u>\$ 589.2</u> |
| | | | | | | | | | | <u>\$ 4.2</u> |
| | | | | | | | | | | <u>\$ 406.8</u> |

All outstanding liabilities before 2010, net of reinsurance

Liability for losses and loss expenses, net of reinsurance

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Other specialty - Excluding RSA acquired reserves

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | | | | | | | | | | December 31, 2019 | |
|------------------|-----------|--------|--------|--------|--------|--------|--------|--------|--------|-----------------|-------------------|----------------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total IBNR | Cumulative Reported Claims |
| 2010 | \$ 1.0 | \$ 0.9 | \$ 0.9 | \$ 0.7 | \$ 0.5 | \$ 0.3 | \$ 0.4 | \$ 0.5 | \$ 0.9 | \$ 2.8 | \$ 0.1 | 12 |
| 2011 | | 17.5 | 19.9 | 19.3 | 18.7 | 18.7 | 18.7 | 18.6 | 18.4 | 18.3 | 0.5 | 21 |
| 2012 | | | 25.5 | 25.5 | 24.2 | 23.0 | 22.9 | 22.9 | 26.1 | 24.7 | 0.7 | 28 |
| 2013 | | | | 23.8 | 32.7 | 37.3 | 36.8 | 45.3 | 48.9 | 48.3 | 3.0 | 194 |
| 2014 | | | | | 62.4 | 74.6 | 86.1 | 80.4 | 79.0 | 80.3 | 5.6 | 1,102 |
| 2015 | | | | | | 91.4 | 94.7 | 98.5 | 96.9 | 99.0 | 8.8 | 1,552 |
| 2016 | | | | | | | 125.4 | 129.7 | 132.8 | 133.6 | 24.3 | 2,296 |
| 2017 | | | | | | | | 175.7 | 156.1 | 160.6 | 46.4 | 2,926 |
| 2018 | | | | | | | | | 158.8 | 160.1 | 65.1 | 3,265 |
| 2019 | | | | | | | | | | 162.8 | 105.5 | 2,505 |
| | | | | | | | | | | <u>\$ 890.5</u> | | |

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | | | | | | | | | | | |
|------------------|-----------|------|------|--------|--------|--------|--------|--------|--------|-----------------|--|--|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | | |
| 2010 | \$ — | \$ — | \$ — | \$ 0.1 | \$ 0.1 | \$ 0.1 | \$ 0.4 | \$ 0.4 | \$ 0.7 | \$ 1.0 | | |
| 2011 | | 4.1 | 11.2 | 14.5 | 15.1 | 15.9 | 16.7 | 17.7 | 17.8 | 17.8 | | |
| 2012 | | | 0.5 | 10.3 | 16.2 | 19.2 | 19.6 | 20.0 | 24.1 | 23.3 | | |
| 2013 | | | | 1.0 | 7.2 | 20.3 | 23.2 | 26.9 | 37.7 | 38.9 | | |
| 2014 | | | | | 14.0 | 39.7 | 51.2 | 62.8 | 67.4 | 70.8 | | |
| 2015 | | | | | | 16.8 | 42.8 | 55.0 | 69.6 | 82.2 | | |
| 2016 | | | | | | | 29.3 | 56.0 | 75.0 | 90.1 | | |
| 2017 | | | | | | | | 24.1 | 55.8 | 82.9 | | |
| 2018 | | | | | | | | | 19.3 | 56.2 | | |
| 2019 | | | | | | | | | | 26.2 | | |
| | | | | | | | | | | <u>\$ 489.4</u> | | |
| | | | | | | | | | | <u>\$ —</u> | | |
| | | | | | | | | | | <u>\$ 401.1</u> | | |

All outstanding liabilities before 2010, net of reinsurance

Liability for losses and loss expenses, net of reinsurance

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Other specialty - RSA acquired reserves

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | | | | | | | | | | December 31, 2019 | |
|------------------|-----------|------|------|------|------|--------|--------|--------|--------|-----------------|-------------------|----------------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total IBNR | Cumulative Reported Claims |
| 2010 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 1.1 | \$ 1.2 | \$ 1.2 | \$ 1.2 | \$ 1.2 | \$ — | 102 |
| 2011 | | — | — | — | — | 1.3 | 2.7 | 2.6 | 2.0 | 1.9 | — | 203 |
| 2012 | | | — | — | — | 2.5 | 2.7 | 2.5 | 2.2 | 2.0 | — | 337 |
| 2013 | | | | — | — | 7.4 | 7.3 | 6.9 | 6.6 | 6.0 | — | 697 |
| 2014 | | | | | — | 21.6 | 22.9 | 20.7 | 19.1 | 18.8 | — | 1,986 |
| 2015 | | | | | | 40.7 | 43.5 | 42.5 | 40.0 | 38.7 | (0.1) | 12,740 |
| 2016 | | | | | | | 32.3 | 37.7 | 33.1 | 31.6 | 6.7 | 15,024 |
| 2017 | | | | | | | | 54.3 | 43.5 | 39.8 | 1.0 | 11,050 |
| 2018 | | | | | | | | | 34.7 | 39.7 | 16.5 | 9,104 |
| 2019 | | | | | | | | | | 26.5 | 8.5 | 9,389 |
| | | | | | | | | | | <u>\$ 206.2</u> | | |

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | | | | | | | | | | | |
|------------------|-----------|------|------|------|------|--------|--------|--------|--------|-----------------|--|--|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | | |
| 2010 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 0.1 | \$ 0.3 | \$ 0.6 | \$ 0.9 | \$ 1.1 | | |
| 2011 | | — | — | — | — | 0.3 | 0.9 | 1.3 | 1.5 | 1.6 | | |
| 2012 | | | — | — | — | 0.4 | 1.5 | 1.8 | 1.9 | 1.8 | | |
| 2013 | | | | — | — | 2.3 | 3.4 | 4.5 | 5.1 | 5.1 | | |
| 2014 | | | | | — | 5.7 | 10.4 | 12.8 | 13.9 | 14.7 | | |
| 2015 | | | | | | 7.5 | 20.1 | 28.5 | 33.1 | 34.6 | | |
| 2016 | | | | | | | 6.9 | 13.2 | 17.2 | 18.6 | | |
| 2017 | | | | | | | | 6.5 | 29.3 | 33.3 | | |
| 2018 | | | | | | | | | 4.8 | 13.4 | | |
| 2019 | | | | | | | | | | 6.8 | | |
| | | | | | | | | | | <u>\$ 131.0</u> | | |
| | | | | | | | | | | <u>\$ 0.1</u> | | |
| | | | | | | | | | | <u>\$ 75.3</u> | | |

All outstanding liabilities before 2010, net of reinsurance

Liability for losses and loss expenses, net of reinsurance

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Reinsurance Segment:

Property

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | As of December 31, 2019 | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|-------------------------|----------------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total IBNR | Cumulative Reported Claims |
| 2010 | \$ 80.0 | \$ 78.4 | \$ 72.7 | \$ 68.2 | \$ 67.5 | \$ 69.0 | \$ 66.5 | \$ 65.8 | \$ 65.8 | \$ 65.6 | \$ (0.1) | n/a |
| 2011 | | 219.7 | 223.7 | 207.0 | 199.1 | 195.2 | 198.8 | 199.7 | 199.8 | 199.9 | 0.4 | n/a |
| 2012 | | | 191.0 | 143.1 | 131.1 | 129.3 | 124.4 | 124.4 | 122.3 | 122.5 | 0.2 | n/a |
| 2013 | | | | 177.3 | 144.6 | 136.2 | 124.0 | 123.3 | 122.2 | 121.6 | 0.3 | n/a |
| 2014 | | | | | 196.7 | 166.8 | 153.1 | 150.8 | 150.3 | 149.6 | 0.7 | n/a |
| 2015 | | | | | | 198.9 | 173.5 | 154.7 | 155.1 | 155.3 | 1.5 | n/a |
| 2016 | | | | | | | 180.8 | 199.6 | 200.3 | 198.4 | 2.9 | n/a |
| 2017 | | | | | | | | 430.7 | 401.3 | 447.7 | 24.6 | n/a |
| 2018 | | | | | | | | | 331.1 | 357.0 | (21.1) | n/a |
| 2019 | | | | | | | | | | 232.1 | 113.5 | n/a |
| | | | | | | | | | | <u>\$2,049.7</u> | | |

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | |
| 2010 | \$ 11.0 | \$ 37.9 | \$ 49.8 | \$ 57.1 | \$ 62.7 | \$ 64.3 | \$ 64.7 | \$ 64.4 | \$ 64.5 | \$ 64.9 |
| 2011 | | 53.7 | 116.8 | 163.1 | 182.0 | 190.2 | 193.6 | 196.0 | 197.1 | 197.9 |
| 2012 | | | 38.5 | 87.7 | 105.8 | 111.7 | 114.6 | 117.5 | 118.1 | 119.2 |
| 2013 | | | | 29.8 | 85.4 | 111.4 | 116.5 | 119.0 | 120.4 | 121.3 |
| 2014 | | | | | 57.5 | 112.8 | 131.3 | 138.4 | 141.7 | 146.1 |
| 2015 | | | | | | 53.0 | 103.2 | 134.9 | 142.5 | 145.3 |
| 2016 | | | | | | | 52.8 | 130.3 | 158.3 | 180.6 |
| 2017 | | | | | | | | 102.4 | 262.8 | 313.1 |
| 2018 | | | | | | | | | 78.3 | 257.3 |
| 2019 | | | | | | | | | | 48.7 |
| | | | | | | | | | | <u>\$1,594.4</u> |
| | | | | | | | | | | <u>\$ 0.6</u> |
| | | | | | | | | | | <u>\$ 455.9</u> |

All outstanding liabilities before 2010, net of reinsurance

Liability for losses and loss expenses, net of reinsurance

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Casualty

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | As of December 31, 2019 | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------|-------------------------|----------------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total IBNR | Cumulative Reported Claims |
| 2010 | \$ 200.1 | \$ 222.3 | \$ 226.4 | \$ 223.7 | \$ 213.9 | \$ 198.7 | \$ 196.8 | \$ 192.7 | \$ 191.5 | \$ 182.4 | \$ 24.1 | n/a |
| 2011 | | 165.2 | 184.7 | 189.5 | 192.9 | 185.8 | 180.8 | 180.7 | 181.2 | 173.2 | 23.7 | n/a |
| 2012 | | | 190.5 | 214.8 | 217.1 | 223.9 | 231.6 | 230.0 | 227.6 | 219.3 | 26.2 | n/a |
| 2013 | | | | 177.4 | 192.6 | 198.7 | 215.0 | 210.5 | 193.5 | 183.2 | 32.2 | n/a |
| 2014 | | | | | 167.2 | 179.7 | 182.3 | 174.8 | 163.2 | 149.2 | 41.8 | n/a |
| 2015 | | | | | | 159.3 | 157.6 | 167.7 | 184.9 | 168.7 | 49.0 | n/a |
| 2016 | | | | | | | 130.2 | 120.2 | 128.2 | 147.5 | 62.6 | n/a |
| 2017 | | | | | | | | 120.7 | 107.7 | 139.4 | 54.9 | n/a |
| 2018 | | | | | | | | | 125.0 | 117.5 | 72.2 | n/a |
| 2019 | | | | | | | | | | 127.7 | 119.5 | n/a |
| | | | | | | | | | | <u>\$ 1,608.1</u> | | |

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 2010 | \$ 2.6 | \$ 32.2 | \$ 58.8 | \$ 76.6 | \$ 98.3 | \$ 115.0 | \$ 127.4 | \$ 135.3 | \$ 142.1 | \$ 145.4 |
| 2011 | | 8.4 | 26.9 | 49.1 | 71.4 | 93.3 | 105.1 | 117.6 | 132.2 | 136.8 |
| 2012 | | | 12.6 | 39.3 | 57.4 | 92.5 | 127.5 | 151.7 | 166.4 | 176.8 |
| 2013 | | | | 7.8 | 22.4 | 60.2 | 81.4 | 98.7 | 119.5 | 128.0 |
| 2014 | | | | | 1.7 | 12.5 | 31.0 | 44.7 | 62.2 | 76.7 |
| 2015 | | | | | | 1.5 | 14.4 | 34.3 | 59.1 | 83.0 |
| 2016 | | | | | | | | 11.3 | 27.6 | 59.5 |
| 2017 | | | | | | | | | 12.1 | 26.9 |
| 2018 | | | | | | | | | 5.9 | 17.2 |
| 2019 | | | | | | | | | | 2.7 |
| | | | | | | | | | | <u>\$ 853.0</u> |
| | | | | | | | | | | <u>\$ 117.8</u> |
| | | | | | | | | | | <u>\$ 872.9</u> |

All outstanding liabilities before 2010, net of reinsurance

Liability for losses and loss expenses, net of reinsurance

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Specialty

Incurred Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | As of December 31, 2019 | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|-------------------------|----------------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total IBNR | Cumulative Reported Claims |
| 2010 | \$ 11.3 | \$ 7.7 | \$ 9.0 | \$ 8.8 | \$ 8.6 | \$ 9.0 | \$ 8.1 | \$ 8.0 | \$ 7.8 | \$ 7.7 | 0.1 | n/a |
| 2011 | | 30.0 | 26.9 | 21.9 | 22.7 | 23.9 | 21.4 | 20.9 | 20.7 | 20.6 | 0.5 | n/a |
| 2012 | | | 123.2 | 132.2 | 138.5 | 137.4 | 136.7 | 136.9 | 137.2 | 136.8 | 2.0 | n/a |
| 2013 | | | | 111.6 | 106.7 | 100.4 | 102.1 | 101.3 | 101.1 | 101.1 | 1.4 | n/a |
| 2014 | | | | | 120.9 | 124.7 | 118.3 | 115.8 | 114.2 | 113.6 | 1.5 | n/a |
| 2015 | | | | | | 129.9 | 128.0 | 123.2 | 119.2 | 119.2 | 3.8 | n/a |
| 2016 | | | | | | | 118.4 | 114.7 | 113.6 | 113.1 | 2.6 | n/a |
| 2017 | | | | | | | | 138.1 | 103.0 | 105.7 | 3.8 | n/a |
| 2018 | | | | | | | | | 101.6 | 97.5 | 4.6 | n/a |
| 2019 | | | | | | | | | | 102.7 | 75.2 | n/a |
| | | | | | | | | | | <u>\$ 918.0</u> | | |

Cumulative Paid Claims and Loss Adjustment Expenses, Net of Reinsurance

| Accident Year | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | |
| 2010 | \$ 2.1 | \$ 4.1 | \$ 6.1 | \$ 6.5 | \$ 7.0 | \$ 7.1 | \$ 7.3 | \$ 7.4 | \$ 7.5 | \$ 7.5 |
| 2011 | | 3.2 | 12.7 | 16.3 | 17.5 | 18.4 | 19.0 | 19.1 | 19.6 | 19.7 |
| 2012 | | | 24.5 | 108.1 | 122.0 | 125.7 | 128.1 | 130.4 | 133.1 | 133.5 |
| 2013 | | | | 3.4 | 75.7 | 92.0 | 93.4 | 96.4 | 98.1 | 98.6 |
| 2014 | | | | | 14.8 | 102.7 | 107.6 | 108.6 | 110.0 | 110.6 |
| 2015 | | | | | | 7.1 | 95.2 | 109.7 | 112.6 | 114.5 |
| 2016 | | | | | | | 9.9 | 94.1 | 98.8 | 103.6 |
| 2017 | | | | | | | | 8.8 | 91.1 | 96.1 |
| 2018 | | | | | | | | | 7.9 | 87.0 |
| 2019 | | | | | | | | | | 19.2 |
| | | | | | | | | | | <u>\$ 790.3</u> |
| | | | | | | | | | | <u>\$ 1.2</u> |
| | | | | | | | | | | <u>\$ 128.9</u> |

All outstanding liabilities before 2010, net of reinsurance

Liability for losses and loss expenses, net of reinsurance

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

d) Reconciliation of incurred and paid loss development triangles to the reserve for losses and loss expenses

The following table reconciles the net reserve for losses and loss expenses derived from the incurred and paid loss development triangles to the reserve for losses and loss expenses in the consolidated balance sheet as of December 31, 2019:

| | | December 31, 2019 |
|---|----|-------------------|
| Net reserve for losses and loss expenses per the loss development triangles: | | |
| Insurance: | | |
| Casualty | \$ | 1,140.0 |
| Casualty - RSA acquired reserves | | 89.0 |
| Professional liability | | 1,309.3 |
| Property | | 201.6 |
| Programs | | 406.8 |
| Other specialty | | 401.1 |
| Other specialty - RSA acquired reserves | | 75.3 |
| Reinsurance: | | |
| Property | | 455.9 |
| Casualty | | 872.9 |
| Specialty | | 128.9 |
| Total net reserves for losses and loss expenses per the loss development triangles: | \$ | 5,080.8 |
| Reinsurance recoverable for each loss development triangle: | | |
| Insurance: | | |
| Casualty | \$ | 1,140.0 |
| Casualty - RSA acquired reserves | | 8.5 |
| Professional liability | | 761.4 |
| Property | | 172.6 |
| Programs | | 99.7 |
| Other specialty | | 221.6 |
| Other specialty - RSA acquired reserves | | 27.1 |
| Reinsurance: | | |
| Property | | 22.5 |
| Casualty | | — |
| Specialty | | 0.3 |
| Total reinsurance recoverables included in the loss development triangles: | \$ | 2,453.7 |
| Total gross reserves for losses and loss expenses included in the loss development triangles: | \$ | 7,534.5 |
| Other balances not included in the loss development triangles: | | |
| Unallocated loss adjustment expenses | | 102.5 |
| Other reserves not included in the loss development triangles | | 38.4 |
| Currency translation adjustment | | (2.8) |
| Other | | 0.1 |
| | | 138.2 |
| Total gross reserves for losses and loss expenses | \$ | 7,672.7 |

e) Methods for estimating the reserve for losses and loss expenses, including IBNR reserves, and changes in methodologies

In general, the methods, and related assumptions, used for estimating the reserve for losses and loss expenses, including IBNR, are predicated on whether the line of business falls into one of the following two categories: short-tail line or long-tail line. In certain lines of business, claims are generally reported and paid within a relatively short period of time (“short-tail lines”) during and following the policy coverage period. This generally enables the Company to determine with greater certainty the estimate of ultimate losses and loss expenses. The estimate of reserves for short-tail lines of business relies primarily on traditional loss reserving methodologies, utilizing selected paid and reported loss development factors, which are further explained below. Short-tail lines of business in the Insurance segment include general property, energy and inland marine, all of which are included in the ‘property incurred and paid loss development triangle’ and aviation, accident and health, and marine, which are included in the ‘other specialty incurred and paid loss development triangle’. Short-tail lines of business in the Reinsurance segment include property reinsurance in the ‘property incurred and paid loss development triangle’, and crop and marine, which are included in the ‘specialty incurred and paid loss development triangle’.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

The casualty insurance and casualty reinsurance lines of business include general liability risks, healthcare, programs, professional liability and other specialty risks, such as environmental and construction risks. For most of the Company's lines of business, claims may be reported or settled several years after the coverage period has terminated ("long-tail lines"), which increases uncertainties of the reserve estimates in such lines. In addition, the attachment points for these long-tail lines can be relatively high, making reserving for these lines of business more difficult than short-tail lines due to having to estimate whether the severity of the estimated losses will exceed the attachment point. The Company establishes a case reserve when sufficient information is gathered to make a reasonable estimate of the liability, which often requires a significant amount of information and time. Due to the lengthy reporting pattern of these casualty lines, reliance is placed on industry benchmarks supplemented by the Company's own experience. For expected loss ratio selections, the Company considers its existing experience supplemented with analysis of loss trends, rate changes and experience of peer companies. Long-tail lines of business in the Insurance segment are included in the 'casualty incurred and paid loss development triangle', 'professional liability incurred and paid loss development triangle', 'programs incurred and paid loss development triangle', and 'other specialty incurred and paid loss development triangle'. Long-tail lines of business in the Reinsurance segment include casualty reinsurance in the 'casualty incurred and paid loss development triangle'.

In the Reinsurance segment, reinsurance contracts are reviewed individually, based upon individual characteristics and loss experience emergence. Loss reserves on assumed reinsurance often have unique features that make them more difficult to estimate than direct insurance. The Company establishes loss reserves upon receipt of advice from a cedent that a reserve is merited. The Company's claims staff may establish additional loss reserves where, in their judgment, the amount reported by a cedent is potentially inadequate. The following are the most significant features that make estimating loss reserves on assumed reinsurance difficult:

- Reinsurers rely upon the cedents and reinsurance intermediaries to report losses in a timely fashion.
- Reinsurers must rely upon cedents to price the underlying business appropriately.
- Reinsurers have less predictable loss emergence patterns than direct insurers, particularly when writing excess-of-loss reinsurance.

For excess-of-loss reinsurance, cedents generally are required to report losses that either exceed 50% of the retention, have a reasonable probability of exceeding the retention or meet serious injury reporting criteria. For quota share reinsurance treaties, cedents are required to give a periodic statement of account, generally monthly or quarterly. These periodic statements typically include information regarding written premiums, earned premiums, unearned premiums, ceding commissions, brokerage amounts, applicable taxes, paid losses and outstanding losses. They can be submitted 60 to 90 days after the close of the reporting period. Some quota share reinsurance treaties have specific language regarding earlier notice of serious claims.

Reinsurance generally has a greater time lag than direct insurance in the reporting of claims. The time lag is caused by the claim first being reported to the cedent, then the intermediary (such as a broker) and finally the reinsurer. This lag can be up to six months or longer in certain cases. There is also a time lag because the insurer may not be required to report claims to the reinsurer until certain reporting criteria are met. The Company uses reporting factors based on data from the Reinsurance Association of America to adjust for time lags. The Company also uses historical treaty-specific reporting factors when applicable. Loss and premium information are entered into the reinsurance system by the Company's claims and accounting departments on a timely basis.

The expected loss ratios that are assigned to each treaty are based upon analysis and modeling performed by a team of pricing actuaries. The historical data reviewed by the team of pricing actuaries is considered in setting the reserves for each cedent. The historical data in the submissions is matched against the carried reserves for the historical treaty years.

Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what the Company expects the ultimate resolution and administration of claims will cost. These estimates are based on actuarial and statistical projections and on an assessment of currently available data, as well as estimates of future trends in claims severity and frequency, judicial theories of liability and other factors. Loss reserve estimates are refined as experience develops and as claims are reported and resolved. In addition, the relatively long periods between when a loss occurs and when it may be reported to the Company's claims department for the casualty insurance and casualty reinsurance lines of business increase the uncertainties of our reserve estimates in such lines.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

The Company utilizes a variety of standard actuarial methods in its analysis. The selections from these various methods are based on the loss development characteristics of the specific line of business. For lines of business with long reporting periods such as casualty reinsurance, the Company may rely more on an expected loss ratio method (as described below) until losses begin to develop. For lines of business with short reporting periods such as property insurance, the Company may rely more on a paid loss development method (as described below) as losses are reported relatively quickly. The actuarial methods utilized by the Company include:

Paid Loss Development Method. Ultimate losses are estimated by calculating past paid loss development factors and applying them to exposure periods with further expected paid loss development. The paid loss development method assumes that losses are paid at a consistent rate. The paid loss development method provides an objective test of reported loss projections because paid losses contain no reserve estimates. In some circumstances, paid losses for recent periods may be too varied for accurate predictions. For many coverages, especially casualty coverages, claim payments are made slowly and it may take years for claims to be fully reported and settled. These payments may be unreliable for determining future loss projections because of shifts in settlement patterns or because of large settlements in the early stages of development. Choosing an appropriate “tail factor” to determine the amount of payments from the latest development period to the ultimate development period may also require considerable judgment, especially for coverages that have long payment patterns. When necessary, the Company has had to supplement paid loss development patterns with appropriate benchmarks.

Reported Loss Development Method. Ultimate losses are estimated by calculating past reported loss development factors and applying them to exposure periods with further expected reported loss development. Since reported losses include payments and case reserves, changes in both of these amounts are incorporated in this method. This approach provides a larger volume of data to estimate ultimate losses than the paid loss development method. Thus, reported loss patterns may be less varied than paid loss patterns, especially for coverages that have historically been paid out over a long period of time but for which claims are reported relatively early and have case loss reserve estimates established. This method assumes that reserves have been established using consistent practices over the historical period that is reviewed. Changes in claims handling procedures, large claims or significant numbers of claims of an unusual nature may cause results to be too varied for accurate forecasting. Also, choosing an appropriate “tail factor” to determine the change in reported loss from the latest development period to the ultimate development period may require considerable judgment. When necessary, the Company has had to supplement reported loss development patterns with appropriate benchmarks.

Expected Loss Ratio Method. To estimate ultimate losses under the expected loss ratio method, earned premium is multiplied by an expected loss ratio. The expected loss ratio is selected utilizing industry data, historical Company data and professional judgment. This method is particularly useful for new lines of business where there are no historical losses or where past loss experience is not credible.

Bornhuetter-Ferguson Paid Loss Method. The Bornhuetter-Ferguson paid loss method is a combination of the paid loss development method and the expected loss ratio method. The amount of losses yet to be paid is based upon the expected loss ratios and the expected percentage of losses unpaid. These expected loss ratios are modified to the extent paid losses to date differ from what would have been expected to have been paid based upon the selected paid loss development pattern. This method avoids some of the distortions that could result from a large development factor being applied to a small base of paid losses to calculate ultimate losses. This method will react slowly if actual loss ratios develop differently because of major changes in rate levels, retentions or deductibles, the forms and conditions of reinsurance coverage, the types of risks covered or a variety of other changes.

Bornhuetter-Ferguson Reported Loss Method. The Bornhuetter-Ferguson reported loss method is similar to the Bornhuetter-Ferguson paid loss method with the exception that it uses reported losses and reported loss development factors.

In general, the Company will adjust its reliance on actuarial methods utilized for certain casualty lines of business and accident or treaty years within each of the operating segments shifting from the expected loss ratio method to the Bornhuetter-Ferguson reported loss method to loss development methods in varying degrees depending on the class of business, for example excess casualty versus primary casualty, and how old the accident or treaty year is. Placing greater reliance on more responsive actuarial methods for certain casualty lines of business and accident or treaty years within each of the Company’s operating segments is a natural progression that allows further refinement to the estimate of the reserve for losses and loss expenses. The Company will continue to utilize the expected loss ratio method for the most recent accident and treaty years until the Company has sufficient experience to utilize other acceptable actuarial methodologies. The Company will continue to evaluate and monitor the development of losses and the impact it has on the Company’s current and future assumptions.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

We will continue to evaluate and monitor the development of these losses and the impact it has on our current and future assumptions. We believe recognition of the reserve changes in the period they were recorded was appropriate since a pattern of reported losses had not emerged and the loss years were previously too immature to deviate from the expected loss ratio method in prior periods.

f) Average historical claims duration

The following is unaudited supplementary information about average historical claims duration for lines of business within each operating segment as of December 31, 2019, except for the average historical claims duration related to the reserve for losses and loss expenses acquired from RSA. It is impractical to provide the average historical claims duration information for the RSA acquisition, as the Company does not have sufficient information at this disaggregated level. Providing the average historical claims duration for the acquired RSA reserves for losses and loss expenses since acquisition does not provide meaningful information regarding the trends and uncertainties of this business as there is not sufficient historical information, and as such it has not been provided in the table below. The tables below present the average annual payout of incurred claims by age, net of reinsurance. This information provides an estimate of the average length of time it takes for losses to be incurred. As discussed above, short-tail lines will have average historical claim durations that occur over the first several years, whereas long-tail lines will have claim durations that extend over many years. The averages calculated below are simple averages based on the ratio of net paid losses in a given accident year to the most recent incurred losses for that same accident year. As such, the averages noted below may overstate or understate the actual claims duration. For example, smaller lines of business that recently started writing insurance policies could have abnormally high average claim duration percentages compared to more mature lines of business.

| Years | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|------------------------|-----|-----|-----|-----|-----|------|-----|------|----|-----|
| Insurance | | | | | | | | | | |
| Casualty | 3% | 13% | 16% | 17% | 14% | 9 % | 10% | 9 % | 2% | 6% |
| Professional liability | 4% | 15% | 19% | 16% | 14% | 11 % | 8% | 5 % | 3% | 3% |
| Property | 33% | 41% | 16% | 7% | 1% | 1 % | —% | — % | —% | —% |
| Programs | 12% | 23% | 20% | 15% | 11% | 6 % | 5% | 2 % | 1% | 2% |
| Other specialty | 13% | 24% | 16% | 9% | 5% | 7 % | 9% | (1)% | 5% | 11% |
| Reinsurance | | | | | | | | | | |
| Property | 27% | 28% | 18% | 13% | 3% | 2 % | 1% | — % | —% | 1% |
| Casualty | 3% | 10% | 12% | 12% | 13% | 10 % | 6% | 6 % | 3% | 2% |
| Specialty | 13% | 66% | 12% | 3% | 3% | 2 % | 1% | 1 % | 1% | —% |

7. CEDED REINSURANCE

The Company purchases reinsurance from third-party reinsurance companies to reduce its net exposure to losses. Reinsurance provides for recovery of a portion of gross losses and loss expenses from these reinsurers. The Company remains liable to the extent that its reinsurers do not meet their obligations under the related reinsurance contracts. The Company therefore regularly evaluates the financial condition of its reinsurers and monitors concentration of credit risk. The Company believes that as of December 31, 2019, its reinsurers are able to meet, and will meet, all of their obligations under the respective agreements. The provision for unrecoverable reinsurance was \$0.6 million and \$0.6 million as of December 31, 2019 and 2018, respectively. The amount of reinsurance recoverable is as follows:

| | 2019 | 2018 |
|--|------------|------------|
| OSLR recoverable | \$ 751.6 | \$ 463.1 |
| IBNR recoverable | 1,866.0 | 1,889.7 |
| Reinsurance recoverable | \$ 2,617.6 | \$ 2,352.8 |
| Reinsurance recoverable on paid losses | \$ 209.6 | \$ 182.3 |

Direct, assumed and ceded premiums written and earned and losses and loss expenses incurred are as follows:

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

| | Premiums Written | Premiums Earned | Losses and Loss Expenses |
|-------------------------------------|---------------------|--------------------|--------------------------------|
| Year Ended December 31, 2019 | | | |
| Direct | \$ 3,039.4 | \$ 2,792.1 | \$ 1,984.0 |
| Assumed | 820.9 | 750.7 | 482.9 |
| Ceded | (1,341.3) | (1,117.3) | (759.0) |
| | <u>\$ 2,519.0</u> | <u>\$ 2,425.5</u> | <u>\$ 1,707.9</u> |
| Year Ended December 31, 2018 | | | |
| Direct | \$ 2,656.4 | \$ 2,475.6 | \$ 1,914.9 |
| Assumed | 712.5 | 733.6 | 445.0 |
| Ceded | (1,000.1) | (922.4) | (717.3) |
| | <u>\$ 2,368.8</u> | <u>\$ 2,286.8</u> | <u>\$ 1,642.6</u> |

Of the premiums ceded during the years ended December 31, 2019 and 2018, approximately 39.5% and 44.9%, respectively, were ceded to four reinsurers.

The Company actively manages its reinsurance exposures by generally selecting reinsurers having a credit rating of “A-” or higher and monitoring the overall credit quality of its reinsurers to ensure that recoverables will be collected.

| December 31, 2019 | | | | | |
|-------------------------------|-----------------------------|------------------------------------|--------------------------------|--|--------------------------------|
| | A.M. Best Rating | Reinsurance Recoverable | Percentage of Total | Prepaid Reinsurance⁽¹⁾ | Percentage of Total |
| Munich Re | A+ | \$ 513.8 | 19.6% | \$ 120.0 | 14.8% |
| Swiss Re | A+ | 321.0 | 12.3% | 139.1 | 17.2% |
| Axis Capital | A+ | 205.2 | 7.8% | 56.2 | 6.9% |
| Markel | A+ | 147.3 | 5.6% | 23.2 | 2.9% |
| Everest Re | A | 129.1 | 5.0% | 51.9 | 6.3% |
| Top five reinsurers | | 1,316.4 | 50.3% | 390.4 | 48.1% |
| Other reinsurers' balances | | 1,301.2 | 49.7% | 420.6 | 51.9% |
| Total reinsurance recoverable | | <u>\$ 2,617.6</u> | <u>100.0%</u> | <u>\$ 811.0</u> | <u>100.0%</u> |

| December 31, 2018 | | | | | |
|-------------------------------|-----------------------------|------------------------------------|--------------------------------|--|--------------------------------|
| | A.M. Best Rating | Reinsurance Recoverable | Percentage of Total | Prepaid Reinsurance⁽¹⁾ | Percentage of Total |
| Munich Re | A+ | \$ 450.3 | 19.1% | \$ 101.1 | 17.6% |
| Axis Capital | A+ | 251.2 | 10.7% | 95.4 | 16.6% |
| Swiss Re | A+ | 216.8 | 9.2% | 57.3 | 10.0% |
| Markel | A | 182.0 | 7.7% | 29.9 | 5.2% |
| Everest Re | A+ | 115.1 | 4.9% | 32.2 | 5.6% |
| Top five reinsurers | | 1,215.4 | 51.7% | 315.9 | 55.0% |
| Other reinsurers' balances | | 1,137.4 | 48.3% | 257.7 | 44.9% |
| Total reinsurance recoverable | | <u>\$ 2,352.8</u> | <u>100.0%</u> | <u>\$ 573.6</u> | <u>100.0%</u> |

⁽¹⁾ Prepaid reinsurance represents unearned premiums ceded to reinsurance companies.

Approximately 94% and 96% of ceded reserves were recoverable from reinsurers who had an A.M. Best rating of “A” or higher as of December 31, 2019 and December 31, 2018, respectively.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

8. FUNDS HELD

The Company has also entered into a collateralized property catastrophe quota share reinsurance contract with Aeolus Re, Ltd., a Bermuda-based property catastrophe reinsurer (“Aeolus Re”), whereby the Company assumes property catastrophe business underwritten by Aeolus Re. The Company provided a multi-year capital commitment to support the business being underwritten by Aeolus Re. To the extent that capital is not utilized to support the business being underwritten by Aeolus Re, as all obligations have been settled, the capital is returned to the Company. To the extent the losses are in excess of the premiums written, the capital is utilized to pay the claims. The capital commitment is recorded in “funds held” on the consolidated balance sheets. The funds held balance related to the Aeolus Re contract as of December 31, 2019 and 2018 was \$491.3 million and \$546.6 million, respectively. For the years ended December 31, 2019 and 2018, the premiums written assumed by the Company through the collateralized property catastrophe quota share reinsurance contract with Aeolus Re were \$56.7 million and \$49.1 million, respectively.

As part of the loss portfolio transfer entered into with Darag the reinsurer provided the Company with \$20.9 million in cash collateral that is also accrued as reinsurance funds held in the consolidation balance sheet.

9. GOODWILL AND INTANGIBLE ASSETS

The following table shows the Company’s goodwill and intangible assets at December 31, 2019 and 2018:

| | Goodwill | Indefinite-Lived Intangible Assets | Finite-Lived Intangible Assets | | |
|---|-----------------------|--|--------------------------------|-----------------------------|-----------------------|
| | Net Carrying Value | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Balance at December 31, 2018 | 937.9 | 203.0 | 586.4 | (79.4) | 507.0 |
| Additions | — | — | — | — | — |
| Impairments | — | — | — | — | — |
| Amortization of intangible assets | — | — | — | (51.3) | (51.3) |
| Foreign currency translation adjustment | 0.9 | — | 0.5 | — | 0.5 |
| Balance at December 31, 2019 | \$ 938.8 | \$ 203.0 | \$ 586.9 | \$ (130.7) | \$ 456.2 |

As of December 31, 2019 and 2018, goodwill and intangible assets were comprised of amounts arising out of the acquisition of Allied World AG. The impairment reviews for goodwill and indefinite-lived intangibles did not result in the recognition of impairment losses for the years ended December 31, 2019 and 2018.

When testing for impairment, the recoverable amount was based on the higher of fair value less costs of disposal or value in use, determined on the basis of a discounted cash flow model. Cash flow projections covering a five-year period were derived from financial budgets approved by management. Cash flows beyond the five-year period were extrapolated using estimated growth rates that do not exceed the long-term average historic growth rate for the business in which AWACH Bermuda operates.

A number of other assumptions and estimates, including premium volumes, investment returns, revenues, expenses and working capital requirements, were required to be incorporated into the discounted cash flow models. The forecasts were based on the best estimates of future premiums or revenues and operating expenses using historical trends, general geographical market conditions, industry trends and forecasts and other available information. The cash flow forecasts are adjusted by applying an appropriate after-tax discount rate of 10.0% (2018: 11.5%). A long term investment return of 5.0% (2018: 5.0%) was applied to the investment portfolios of the Company. The weighted average annual growth rate used to extrapolate cash flows beyond five years for the Company was 3.0% (2018: 3.0%).

As of December 31, 2019 and 2018, the net carrying value of indefinite-lived intangible assets is comprised of Lloyd's participation rights and brand names. As of December 31, 2019, the net carrying value of the finite-lived intangible assets is comprised of intangible assets of customer and broker relationships of \$454.2 million and computer software of \$2.0 million. As of December 31, 2018, the net carrying value of the finite-lived intangible assets was comprised of intangible assets of customer and broker relationships of \$501.0 million, and computer software of \$6.0 million.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

The estimated amortization expense for each of the five succeeding fiscal years and thereafter related to the Company's finite-lived intangible assets is as follows:

| | Amount |
|---------------------|-----------------|
| 2020 | \$ 48.2 |
| 2021 | 46.0 |
| 2022 | 46.0 |
| 2023 | 45.5 |
| 2024 | 43.4 |
| 2025 and thereafter | 227.2 |
| Total | \$ 456.2 |

10. DEBT AND FINANCING ARRANGEMENTS

a) Financing Structure

The following table shows the Company's financing structure:

| | Outstanding⁽¹⁾ | Unamortized discount and debt issuance costs | Fair value adjustment⁽²⁾ | Balance⁽³⁾ |
|--|----------------------------------|---|--|------------------------------|
| December 31, 2019 | | | | |
| 2015 Senior notes due 2025 (with an imputed interest rate of 1.964%) | \$ 500.0 | \$ (2.8) | 8.9 | \$ 506.1 |
| External surplus note due 2037 | 22.5 | — | — | 22.5 |
| Swiss office building mortgage | 16.9 | — | 3.7 | 20.6 |
| \$900 million secured letter of credit facility — uncommitted | 489.6 | — | — | — |
| | <u>\$ 1,029.0</u> | <u>\$ (2.8)</u> | <u>12.6</u> | <u>\$ 549.2</u> |
| December 31, 2018 | | | | |
| 2015 Senior notes due 2025 (with an imputed interest rate of 1.964%) | 500.0 | (3.2) | 10.4 | 507.2 |
| External surplus note due 2037 | 22.5 | — | — | 22.5 |
| Swiss office building mortgage | 17.1 | — | 3.9 | 21.0 |
| \$900 million secured letter of credit facility — uncommitted | 372.7 | — | — | — |
| | <u>\$ 912.3</u> | <u>\$ (3.2)</u> | <u>14.3</u> | <u>\$ 550.7</u> |

⁽¹⁾ Indicates utilization of commitment amount, not drawn borrowings where applicable.

⁽²⁾ Represents the purchase price adjustment to record debt assumed from the acquisition of the AWACH Bermuda at fair value.

⁽³⁾ Represents the principal amount borrowed, net of unamortized discount, debt issuance costs, and the purchase price adjustment.

b) 2015 Senior Notes Due 2025

In October 2015, AWACH Bermuda issued aggregate principal amount of Senior Notes due (the "2025 Senior Notes"), with interest on the notes payable. Proceeds from these senior notes were used to refinance the 2006 Senior Notes which matured in August 2016. The 2025 Senior Notes are Allied World Bermuda's unsecured and unsubordinated obligations and rank equally in right of payment with all existing and future unsecured and unsubordinated indebtedness. Allied World Bermuda may redeem the 2025 Senior Notes at any time or from time to time in whole or in part at a redemption price equal to the greater of the principal amount of the 2025 Senior Notes to be redeemed or a make-whole price, in each case, plus accrued and unpaid interest. Allied World Bermuda has no current expectations of redeeming the notes prior to maturity. The

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

2025 Senior Notes include covenants and events of default that are usual and customary, but do not contain any financial covenants.

c) Senior Surplus Note Due 2037

In 2017, the reciprocal insurance entity that the Company consolidates issued a senior surplus note for \$22.5 million with a floating interest rate equal to the applicable three-month U.S. Dollar LIBOR plus 7.0% effective interest per annum, in order to fund the formation of the reciprocal insurance entity (see note 2). Following the seventh anniversary of the issue date, the effective interest rate shall increase one percentage point each year not to exceed 12.0%. The interest payments are payable semi-annually and shall be made only after prior written approval is obtained from the Florida Office of Insurance Regulation. The outstanding balance of the note is included in “other long-term debt” on the consolidated balance sheets.

d) Swiss Office Building Mortgage

In 2014, the Company entered into a 20-year mortgage commitment with a Swiss bank for the construction of a company-used office building in Zug, Switzerland. The total proceeds received in 2014 under the mortgage were \$14.2 million (CHF 14.0 million) with a fixed annual interest rate of 3.2% payable quarterly. An additional \$4.0 million (CHF 4.0 million) of proceeds from the mortgage was drawn during the first quarter of 2015. The mortgage payments are \$0.3 million (CHF 0.3 million) per year, plus accrued interest, for the first 19 years with the remaining balance payable at the end of the mortgage. The outstanding balance of the mortgage is included in “other long-term debt” on the consolidated balance sheets.

e) Credit Facilities

AWACH Bermuda has a collateralized amended letter of credit facility with Citibank Europe plc that has been and will continue to be used to issue standby letters of credit. The maximum aggregate amount available under this letter of credit facility as of December 31, 2019 and 2018 was \$900.0 million on an uncommitted basis.

f) Debt Maturities

The following table reflects the Company’s debt maturities, which includes its senior notes and other long-term debt:

| | Amount |
|---------------------|-----------------|
| 2020 | \$ 0.3 |
| 2021 | 0.3 |
| 2022 | 0.3 |
| 2023 | 0.3 |
| 2024 | 0.3 |
| 2025 and thereafter | 537.9 |
| Total | <u>\$ 539.4</u> |

11. INCOME TAXES

Under current Bermuda law, AWACH Bermuda and its Bermuda subsidiaries are not required to pay taxes in Bermuda on either income or capital gains. AWACH Bermuda and Allied World Assurance Company, Ltd have received an assurance from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that in the event of any such taxes being imposed, AWACH Bermuda and Allied World Assurance Company, Ltd will be exempted until March 2035.

Certain subsidiaries of AWACH Bermuda file U.S. federal income tax returns and various U.S. state income tax returns, as well as income tax returns in Canada, Hong Kong, Ireland, Singapore, Switzerland and the United Kingdom. The Company has open tax years that are potentially subject to examinations by local tax authorities, in the following major tax jurisdictions: the U.S., 2016 to 2019; the United Kingdom, 2018 and 2019; Ireland, 2015 to 2019; Switzerland, 2017 to 2019; Hong Kong, 2013 to 2019; and Singapore, 2015 to 2019. As of December 31, 2019, the Company had the following on-going tax audits: (1)

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

2016 - 2017 year(s) U.S. consolidated tax returns, and (2) 2016-2018 year(s) state audit of the Company's specialty Florida premium tax returns. The Company is not aware of any significant findings related to these audits.

Management has concluded all material tax positions to have a greater than 50% likelihood of being sustained based on technical merits if challenged. The Company does not expect a significant change in unrecognized tax benefits within 12 months of December 31, 2019.

The components of income tax expense are as follows:

| | Year Ended December 31, | |
|---------------------------------------|-------------------------|------------------|
| | 2019 | 2018 |
| Current income tax expense (benefit) | \$ 20.5 | \$ 12.6 |
| Deferred income tax expense (benefit) | 4.8 | (26.7) |
| Income tax expense (benefit) | <u>\$ 25.3</u> | <u>\$ (14.1)</u> |

Our income or loss is primarily sourced from our Bermuda, U.S., European, including Switzerland, and Asia Pacific operations. The income (loss) before income taxes for these operations are as follows:

| | Year Ended December 31, | |
|-----------------------------------|-------------------------|-------------------|
| | 2019 | 2018 |
| Bermuda | 242.4 | 2.3 |
| United States | 129.6 | (107.4) |
| All other jurisdictions | 16.8 | 0.7 |
| Income (loss) before income taxes | <u>\$ 388.8</u> | <u>\$ (104.4)</u> |

Deferred income taxes reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes, and are stated at the various enacted jurisdictional tax rates expected to be in effect when the reported amounts are recovered or settled. The significant components of the net deferred tax assets are as follows:

| | December 31, | |
|---|------------------|------------------|
| | 2019 | 2018 |
| Deferred tax assets: | | |
| Reserve for losses and loss expenses | \$ 22.9 | \$ 17.6 |
| Equity compensation | 6.6 | 4.3 |
| Unearned premium | 36.2 | 31.2 |
| Mark-to-market losses | 10.4 | 20.8 |
| Tax credits | — | 1.1 |
| Net loss carryforward | 75.5 | 81.0 |
| Other | 4.9 | 10.6 |
| Total deferred tax assets | <u>156.5</u> | <u>166.6</u> |
| Deferred tax liabilities: | | |
| Intangible assets | (96.7) | (110.9) |
| Depreciation | (1.4) | (1.7) |
| Deferred acquisition costs | (17.8) | (15.6) |
| Other | (7.7) | (2.7) |
| Total deferred tax liabilities | <u>(123.6)</u> | <u>(130.9)</u> |
| Net deferred taxes before valuation allowance | <u>32.9</u> | <u>35.7</u> |
| Valuation allowance | <u>(79.4)</u> | <u>(76.3)</u> |
| Net deferred tax (liability) asset | <u>\$ (46.5)</u> | <u>\$ (40.6)</u> |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

The valuation allowance reported in the current period relates to net operating loss carryforwards for the European and Asia Pacific operations as it is unlikely those operations will have sufficient income to utilize the net loss carryforwards in the near term. The valuation allowance increased by \$3.1 million during the year ended December 31, 2019 compared to the year ended December 31, 2018. The increase in the valuation allowance was due to the increase in the net loss carryforwards, which was caused by an increase in operating losses from the Company's United Kingdom operations. The net loss carryforwards from the United Kingdom and Asia Pacific operations do not expire. The net loss carryforward in our Swiss operations expire in seven years.

Current tax receivable and payable has been included in "other assets" and "accounts payable and accrued liabilities" on the consolidated balance sheets, respectively. Current taxes receivable or payable was as follows:

| | December 31, | |
|------------------------|--------------|---------|
| | 2019 | 2018 |
| Current tax receivable | \$ 0.1 | \$ 10.7 |
| Current tax payable | \$ 4.1 | \$ 1.9 |

The expected tax provision has been calculated using the pre-tax accounting income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. The statutory tax rates for our Bermuda, U.S., Canada, Hong Kong, Ireland, Singapore, United Kingdom and Switzerland operations are 0%, 21%, 15%, 16.5%, 12.5%, 17%, 20%, and 7.8% respectively. The reconciliation between the Company's effective tax rate on pre-tax accounting income and the expected tax rate is as follows:

| | Year Ended December 31, | |
|--|-------------------------|---------------------|
| | 2019 | 2018 ⁽¹⁾ |
| Expected tax rate | — % | 7.8 % |
| Income not subject to income tax | (0.1)% | 0.5 % |
| Valuation allowance | 0.9 % | (2.2)% |
| Foreign taxes at local expected tax rates | 11.0 % | 12.9 % |
| Prior year refunds and adjustments | 1.3 % | (1.0)% |
| Provision for Base Erosion Anti-Abuse Tax (BEAT) | — % | (1.9)% |
| Other ⁽²⁾ | (6.6)% | (2.6)% |
| Effective tax rate | 6.5 % | 13.5 % |

(1) The December 31, 2018 rates represent the Company when domiciled in Switzerland.

(2) For 2019, includes (3.3%) of taxes related to the purchase price allocation.

12. SHAREHOLDERS' EQUITY

a) Authorized shares

The issued share capital of the Company consists of the following:

| | December 31, | |
|---|--------------|---------|
| | 2019 | 2018 |
| Class A shares (2019: 32,589; 2018: 32,589) shares issued | \$ 3.9 | \$ 3.9 |
| Class B shares (2019: 76,444; 2018: 68,676) shares issued | \$ 9.2 | \$ 8.2 |
| Share capital at end of period | \$ 13.1 | \$ 12.1 |

The Class A shares are owned by the co-investors which gives them a direct ownership in the Company.

b) Dividends

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

On April 25, 2019, the Company declared a dividend of \$126.4 million and the dividend was paid on April 29, 2019 to the Class A shareholders. On April 30, 2018, the Company paid a dividend of \$61.3 million to the Class A shareholders. No dividend was paid to the Class B shareholders during the years ended December 31, 2019 and 2018.

c) Recapitalization

On November 30, 2019, a promissory demand note, with a value of \$320.9 million, due to the Company's parent company, Fairfax, was recapitalized resulting in the issuance of 7,768 Class B shares to Fairfax from the Company. The promissory demand note was included in "Accounts payable and accrued liabilities" on the consolidated balance sheet.

13. EMPLOYEE BENEFIT PLANS

a) Share based awards

The Company participates in the Fairfax Plan, which generally provides officers, key employees and directors who were employed by or provided services to the Company with awards of restricted shares of Fairfax common stock. The restricted share awards generally vest over three or five years. The grant date fair value is measured based on the closing price of Fairfax's common shares on the date of grant, converted to United States dollars.

The activity related to the Company's restricted share awards is as follows:

| | Year Ended December 31, 2019 | |
|--|-------------------------------------|---|
| | Number of Awards | Weighted Average Grant Date Fair Value |
| Outstanding at beginning of year | 100,371 | \$ 472.40 |
| Restricted share awards granted | 51,891 | 485.84 |
| Restricted share awards forfeited | (8,368) | (486.56) |
| Restricted share awards fully vested | (481) | (486.56) |
| Outstanding restricted share awards at end of year | <u>143,413</u> | <u>\$ 476.39</u> |

The Company recorded compensation expense of \$13.9 million and \$9.7 million during the year ended December 31, 2019 and December 31, 2018, respectively, for these awards. The remaining vesting period for these awards is 3.5 years as of December 31, 2019.

b) Pension Plans

The Company provides defined contribution retirement plans for its employees and officers. Contributions are made by the Company, and in some locations, these contributions are supplemented by the local plan participants. Contributions are based on a percentage of the participant's base salary depending upon competitive local market practice and vesting provisions meeting legal compliance standards. The amount that an individual employee or officer can contribute may also be subject to regulatory requirements relating to the country of which the individual is a citizen. The Company incurred expenses for these defined contribution arrangements of \$13.7 million and \$13.3 million for the years ended December 31, 2019 and 2018, respectively.

c) Employee Share Purchase Plan

Under the AWACH Bermuda (Non-Qualified) Employee Share Purchase Plan ("ESPP"), eligible employees are given the election to purchase Fairfax common shares in an amount up to 10% of their annual base salary. The Company matches these contributions by purchasing, on the employee's behalf, a number of Fairfax common shares equal in value to 30% of the employee's contribution. In the event that the Company achieves a net combined ratio in any calendar year that is less than 100%, then the Company allocates an additional contribution in an amount equal to 20% of the aggregate amount of the

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

participant contributions during the calendar year. The Company recognized compensation expense under the ESPP of \$2.9 million and \$2.5 million for the years ended December 31, 2019 and December 31, 2018 respectively.

14. COMMITMENTS AND CONTINGENCIES

a) Concentrations of Credit Risk

Credit risk arises out of the failure of a counterparty to perform according to the terms of the contract.

The Company's investment portfolio is managed pursuant to guidelines that follow prudent standards of diversification. The guidelines limit the allowable holdings of a single issue and issuers. The Company believes that there are no significant concentrations of credit risk associated with its investment portfolio. As of December 31, 2019 and 2018, substantially all of the Company's cash and investments were held with one custodian. The total carrying value of cash and securities deposited by the Company's insurance subsidiaries under requirements of regulatory authorities, was \$161.9 million and \$118.8 million at December 31, 2019 and 2018, respectively.

Insurance balances receivable primarily consist of net premiums due from insureds and reinsureds. The Company believes that the counterparties to these receivables are able to meet, and will meet, all of their obligations. The Company's credit risk is further reduced by the contractual right to offset loss obligations or unearned premiums against premiums receivable. The insurance balances receivable that are outstanding greater than 90 days was \$20.0 million and \$17.9 million as of December 31, 2019 and December 31, 2018, which represented 2.0% and 2.1% of the total receivable balance for their respective years. The Company has recorded an allowance for doubtful accounts against insurance balances receivable of \$3.2 million and \$3.4 million as of December 31, 2019 and December 31, 2018, respectively.

The total carrying value of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, was \$161.9 million and \$117.8 million at December 31, 2019 and 2018, respectively.

b) Operating Leases

The Company leases office space under operating leases expiring in various years through 2032. The following are future minimum rental payments as of December 31, 2019:

| | Amount |
|---------------------|-----------------|
| 2020 | \$ 18.7 |
| 2021 | 15.7 |
| 2022 | 13.6 |
| 2023 | 12.8 |
| 2024 | 12.3 |
| 2025 and thereafter | 52.8 |
| | <u>\$ 125.8</u> |

Total rent expense for the years ended December 31, 2019, and 2018 was \$20.1 million, and \$20.1 million, respectively. The rent expense for the years ended December 31, 2019 and 2018 are net of sublease income of \$1.2 million and \$2.3 million, respectively.

c) Producers

The three largest individual producers as a percentage of gross premiums written are as follows:

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

| | Year Ended December 31, | |
|----------------------------------|-------------------------|------|
| | 2019 | 2018 |
| Marsh & McLennan Companies, Inc. | 19% | 18% |
| Aon Corporation | 15% | 13% |
| Willis Group Holdings | 8% | 9% |

d) Legal Proceedings

The Company, in common with the insurance industry in general, is subject to litigation and arbitration in the normal course of its business. These legal proceedings generally relate to claims asserted by or against the Company in the ordinary course of insurance or reinsurance operations. Estimated amounts payable under these proceedings are included in the reserve for losses and loss expenses in the Company's consolidated balance sheets. As of December 31, 2019, the Company was not a party to any material legal proceedings arising outside the ordinary course of business that management believes will have a material adverse effect on the Company's results of operations, financial position or cash flow.

15. STATUTORY CAPITAL AND SURPLUS

The Company's ability to pay dividends is subject to certain regulatory restrictions on the payment of dividends by its subsidiaries. The payment of such dividends is limited by applicable laws and statutory requirements of the jurisdictions in which the Company and its subsidiaries operate. The total amount of restricted net assets for the Company's consolidated subsidiaries as of December 31, 2019 was \$3,373.5 million.

The minimum required statutory capital and surplus is the amount of statutory capital and surplus necessary to satisfy regulatory requirements based on the Company's current operations. The statutory capital and surplus and minimum required statutory capital and surplus for the Company's most significant regulatory jurisdictions at December 31, 2019 and 2018 were as follows:

| | December 31, 2019 | | December 31, 2018 | |
|----------------|-------------------------------|--|-------------------------------|--|
| | Statutory Capital and Surplus | Minimum Required Statutory Capital and Surplus | Statutory Capital and Surplus | Minimum Required Statutory Capital and Surplus |
| Bermuda | \$ 3,050.2 | \$ 425.4 | \$ 2,673.2 | \$ 525.4 |
| United States | 1,158.3 | 365.7 | 1,000.2 | 306.9 |
| Ireland | 399.1 | 95.2 | 380.6 | 95.2 |
| Switzerland | 224.4 | 143.5 | 206.3 | 136.7 |
| United Kingdom | 248.9 | 189.3 | 249.7 | 164.5 |

There were no state-prescribed or permitted regulatory accounting practices for any of our insurance entities that resulted in reported statutory surplus that differed from that which would have been reported under the prescribed practices of the respective regulatory authorities, including the National Association of Insurance Commissioners. Statutory accounting under the prescribed practices of the respective regulatory authorities differs from U.S. GAAP accounting in the treatment of various items, including reporting of investments, acquisition costs and deferred income taxes.

The statutory net income (loss) for the Company's most significant regulatory jurisdictions for the years ended December 31, 2019 and 2018 was as follows:

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

| | Year Ended December 31, | |
|----------------|-------------------------|-----------|
| | 2019 | 2018 |
| Bermuda | \$ 476.7 | \$ (22.0) |
| United States | 97.4 | (76.4) |
| Ireland | 18.5 | 10.3 |
| Switzerland | 5.6 | (0.4) |
| United Kingdom | (135.5) | 3.1 |

At December 31, 2019, the maximum amount of ordinary dividends or distributions that can be paid, without prior regulatory approval, for the Company's most significant regulatory jurisdictions, were as follows:

| | December 31, 2019 |
|----------------|-------------------|
| Bermuda | \$ 762.6 |
| United States | — |
| Ireland | 35.8 |
| Switzerland | — |
| United Kingdom | — |

a) Bermuda

The Company's Bermuda subsidiary, Allied World Assurance Company, Ltd, is registered under the Bermuda Insurance Act 1978 and Related Regulations as amended. As a Class 4 insurer, Allied World Assurance Company, Ltd is required to maintain minimum solvency standards and to hold available statutory capital and surplus equal to or exceeding the enhanced capital requirements as determined by the Bermuda Monetary Authority under the Bermuda Solvency Capital Requirement model ("BSCR model"). The BSCR model is a risk-based capital model that provides a method for determining an insurer's minimum required capital taking into account the risk characteristics of different aspects of the insurer's business. In addition, this subsidiary is required to maintain a minimum liquidity ratio. As of December 31, 2019 and 2018, this subsidiary met the requirements.

b) United States

The Company's U.S. insurance subsidiaries are subject to the insurance laws and regulations of the states in which they are domiciled, and also states in which they are licensed or authorized to transact business. These laws also restrict the amount of ordinary shareholder dividends the subsidiaries can pay. The restrictions are generally based on statutory surplus and/or statutory net income as determined in accordance with the relevant statutory accounting requirements of the individual domiciliary states. The U.S. subsidiaries are required to file annual statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities. The U.S. subsidiaries are also required to maintain minimum levels of solvency and liquidity as determined by law, and comply with capital requirements and licensing rules. As of December 31, 2019 and 2018, the actual levels of solvency, liquidity and capital of each U.S. subsidiary were in excess of the minimum levels required.

c) Ireland

The Company's Irish insurance subsidiary is regulated by the Central Bank of Ireland pursuant to the Insurance Acts 1909 to 2018 (as amended), the Central Bank Acts 1942 to 2018 and all statutory instruments relating to insurance made or adopted under the European Communities Acts 1972 to 2012, including the European Union (Insurance and Reinsurance) Regulations, 2015 (as amended). This subsidiary is required to maintain a minimum level of capital. As of December 31, 2019 and 2018, these requirements were met. The amount of dividends that this subsidiary is permitted to distribute is restricted to accumulated realized profits that have not been capitalized or distributed, less accumulated realized losses that have not been written off. The solvency and capital requirements must still be met following any distribution.

d) Switzerland

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

The Company's Swiss insurance subsidiary, Allied World Assurance Company, AG, is regulated by the Swiss Financial Market Supervisory Authority ("FINMA") pursuant to the Insurance Supervisory Law. This subsidiary's accounts are prepared in accordance with the Swiss Code of Obligations and the Insurance Supervisory Law. This subsidiary is obligated to maintain a minimum level of capital based on the Swiss Code of Obligations, a minimum of tied assets based on the Insurance Supervisory Law and a minimum solvency margin in accordance with the Swiss Solvency Test. As of December 31, 2019 and 2018, this subsidiary met the requirements. The amount of dividends that this subsidiary is permitted to distribute is restricted to freely distributable reserves which consist of retained earnings, the current year profit and legal reserves to a certain extent. Any dividend requires approval of the shareholders and in case of the dividend exceeding the current year profit, approval is also required from FINMA. The solvency and capital requirements must still be met following any distribution.

e) United Kingdom

Allied World Capital (Europe) Limited is the sole corporate member of Syndicate 2232. Syndicate 2232 is managed by Allied World Managing Agency Limited, which is authorized and regulated by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority. As a member of Lloyd's, Allied World Capital (Europe) Limited is obliged to comply with Lloyd's byelaws and regulations (made pursuant to the Lloyd's Acts 1871 to 1982) and applicable provisions of the Financial and Services and Markets Act 2000. The Council of Lloyd's has wide discretionary powers to regulate members' underwriting at Lloyd's and its exercise of these powers might affect the return on an investment of the corporate member in a given underwriting year. The capital required to support a Syndicate's underwriting capacity, referred to as "funds at Lloyd's", is assessed annually and is determined by Lloyd's in accordance with the capital adequacy rules established by the PRA. If a member of Lloyd's is unable to pay its debts to policyholders, such debts may be payable from the Lloyd's Central Fund, which in many respects acts as an equivalent to a state guaranty fund in the United States. The Company has provided capital to support the underwriting of Syndicate 2232 in the form of pledged assets provided by Allied World Assurance Company, Ltd. The amount that the Company provides as funds at Lloyd's is not available for distribution to the Company for the payment of dividends. Lloyd's is supervised by the PRA and required to implement certain rules prescribed by the PRA under the Lloyd's Act of 1982 regarding the operation of the Lloyd's market. With respect to managing agents and corporate members, Lloyd's prescribes certain minimum standards relating to management and control, solvency and other requirements and monitors managing agents' compliance with such standards.

f) Branch Offices

The Company's insurance subsidiaries maintain branch offices in Australia, Bermuda, Canada, Hong Kong, Labuan, Singapore, Switzerland and the United Kingdom. As branch offices are not considered separate legal entities, the required and actual statutory capital and surplus amounts for each jurisdiction in the table above include amounts related to the branch offices. These branch offices are subject to additional minimum capital or asset requirements in their countries of domicile. At December 31, 2019 and 2018, the actual capital and surplus for each of these branches exceeded the relevant local regulatory requirements.

16. RELATED PARTY TRANSACTIONS

The Company has entered into various assumed and ceded reinsurance contracts with several entities that are controlled by Fairfax. The following summarizes the balances and activity from the date of acquisition by Fairfax to December 31, 2019:

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

| | <u>As of December 31, 2019 and for the year ended December 31, 2019</u> | <u>As of December 31, 2018 and for the year ended December 31, 2018</u> |
|---|---|---|
| Balance Sheet: | | |
| ASSETS: | | |
| Reinsurance recoverables | \$ 135.4 | \$ 116.5 |
| Insurance balances receivable | 2.8 | 4.3 |
| Prepaid reinsurance | 37.5 | 20.1 |
| Reinsurance recoverables on paid losses | 4.9 | 13.8 |
| Loan ¹ | 88.4 | — |
| Investments in affiliates and associates ¹ | 792.1 | 687.3 |
| LIABILITIES: | | |
| Reserve for losses and loss expenses | 33.5 | 14.0 |
| Unearned premiums | 7.6 | 4.5 |
| Deferred ceding commission income | 9.3 | 5.2 |
| Reinsurance balances payable | 7.0 | 18.3 |
| Promissory demand note ² | — | 307.7 |
| Income Statement: | | |
| Assumed written premiums | 50.9 | 13.7 |
| Assumed earned premiums | (3.3) | 9.3 |
| Ceded written premiums | (75.7) | (48.5) |
| Ceded earned premiums | 17.6 | (40.7) |
| Assumed losses and loss expenses | 1.3 | (6.7) |
| Ceded losses and loss expenses | (30.3) | 61.7 |
| Ceding commission income earned | (7.1) | 8.2 |
| Investment management fees | (21.5) | (22.5) |
| Interest income on loan | 4.0 | — |
| Interest expense due to Fairfax affiliate | (7.2) | (5.1) |
| Realized and unrealized gains on investments | 124.0 | (0.2) |

(1) Included within Other invested assets on the Consolidated Balance Sheets

(2) Included within Accounts payable and accrued liabilities on the Consolidated Balance Sheets

The Company's subsidiaries have entered into investment management agreements with Fairfax and its wholly-owned subsidiary, Hamblin Watsa Investment Counsel Ltd. These agreements generally provide for an annual base fee, calculated and paid quarterly based upon each subsidiary's average invested assets for the preceding three months, and an incentive fee, which is payable if realized gains on equity investments exceed certain benchmarks. These agreements may be terminated by either party on 30 days, notice. During the year ended December 31, 2019 and December 31, 2018, the Company incurred \$21.5 million and \$22.5 million, respectively, in investment management fees, and were included as a reduction to net investment income in the consolidated financial statements.

Effective in 2018, the Company entered into an agreement to act as the fronting company for non-U.S. Fairfax affiliate companies that participate in the Fairfax Internal Reinsurance Vehicle (the "FIRV"). The agreement provides that certain Fairfax affiliate companies cede activity to the fronting company who then cedes that activity to another Fairfax designated entity. The Company receives a fronting fee for the administration of the cessions. The assumed and ceded activity related to the FIRV is recorded in insurance balances receivable, reinsurance payable, and ceding commission income earned. The fronting fee for the year ended December 31, 2019 and December 31, 2018 is \$1.5 million and \$0.3 million, respectively, and is recorded in "acquisition costs" in the consolidated income statements.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

On May 2, 2018, the Company was issued a \$307.7 million (C\$418.9 million) promissory demand note due to its parent company, Fairfax, in order to fund a capital contribution to the Company for the redemption of its \$300.0 million principal amount of 5.50% senior notes. The demand note requires semi-annual interest payments calculated at a rate of 2.50% per annum. The demand note was recapitalized on November 30, 2019.

On April 17, 2019, Fairfax acquired 100% of AGT Food and Ingredients Inc. ("AGT"). The Company provided AGT with an \$88.5 million loan to partly fund the acquisition.

17. SEGMENT INFORMATION

The determination of reportable segments is based on how the Company's chief operating decision maker, the Chief Executive Officer, monitors the Company's underwriting operations. Management monitors the performance of its direct underwriting operations based on the geographic location of the Company's offices, the markets and customers served and the type of accounts written. The Company is currently organized into two operating segments: Insurance and Reinsurance. All product lines fall within these classifications.

The Insurance segment includes the Company's specialty insurance operations in Australia, Bermuda, Canada, Europe, Hong Kong, Labuan, Singapore and the United States. This segment provides both property and specialty casualty insurance world-wide. The Insurance segment also has a claims administration services operation, reciprocal management operation and an insurance agency operation. The Reinsurance segment includes the Company's reinsurance operations in Bermuda, Labuan, London, New York, Singapore, and Zug. This segment provides reinsurance of property, general casualty, professional liability, specialty lines and property catastrophe coverages written by insurance companies. The Company presently writes reinsurance on both a treaty and a facultative basis, targeting several niche reinsurance markets.

Responsibility and accountability for the results of underwriting operations are assigned by major line of business within each segment. Because the Company does not manage its assets by segment, investment income, interest expense and total assets are not allocated to individual reportable segments. General and administrative expenses are allocated to segments based on various factors, including staff count and each segment's proportional share of gross premiums written.

The Company measures its segment income or loss as underwriting income or loss plus other insurance-related income and expenses, which may include the net earnings from the claims administration services operation, insurance agency operation, derivative insurance and reinsurance contracts and other income or expense that is not directly related to our underwriting operations. Management measures results of each segment's underwriting income or loss on the basis of the "loss and loss expense ratio," "acquisition cost ratio," "general and administrative expense ratio," "expense ratio" and the "combined ratio." The "loss and loss expense ratio" is derived by dividing net losses and loss expenses by net premiums earned. The "acquisition cost ratio" is derived by dividing acquisition costs by net premiums earned. The "general and administrative expense ratio" is derived by dividing general and administrative expenses by net premiums earned. The expense ratio is the sum of the "acquisition cost ratio" and the "general and administrative expense ratio". The "combined ratio" is the sum of the "loss and loss expense ratio," the "acquisition cost ratio" and the "general and administrative expense ratio."

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

The following tables provide a summary of the segment results:

| Year Ended December 31, 2019 | Insurance | Reinsurance | Total |
|---|------------------|--------------------|--------------|
| Gross premiums written | \$ 3,039.4 | \$ 820.9 | \$ 3,860.3 |
| Net premiums written | 1,782.9 | 736.1 | 2,519.0 |
| Net premiums earned | 1,760.7 | 664.8 | 2,425.5 |
| Net losses and loss expenses | (1,271.7) | (436.2) | (1,707.9) |
| Acquisition costs | (176.4) | (123.5) | (299.9) |
| General and administrative expenses | (309.1) | (53.9) | (363.0) |
| Underwriting income (loss) | 3.5 | 51.2 | 54.7 |
| Other insurance-related revenue | 24.9 | 11.1 | 36.0 |
| Other insurance-related expenses | (23.0) | (6.3) | (29.3) |
| Segment income (loss) | 5.4 | 56.0 | 61.4 |
| Net investment income (loss) | | | 218.0 |
| Net realized and unrealized investment gains (losses) | | | 213.2 |
| Other expenses | | | (5.9) |
| Amortization of intangible assets | | | (51.3) |
| Interest expense | | | (31.8) |
| Foreign exchange (loss) gain | | | (14.8) |
| Income (loss) before income taxes | | | \$ 388.8 |
| Loss and loss expense ratio | 72.2% | 65.6% | 70.4% |
| Acquisition cost ratio | 10.0% | 18.6% | 12.4% |
| General and administrative expense ratio | 17.6% | 8.1% | 15.0% |
| Expense ratio | 27.6% | 26.7% | 27.4% |
| Combined ratio | 99.8% | 92.3% | 97.8% |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

| Year Ended December 31, 2018 | Insurance | Reinsurance | Total |
|---|------------------|--------------------|--------------|
| Gross premiums written | \$ 2,656.4 | \$ 712.6 | \$ 3,369.0 |
| Net premiums written | 1,719.5 | 649.3 | 2,368.8 |
| Net premiums earned | 1,620.9 | 665.9 | 2,286.8 |
| Net losses and loss expenses | (1,191.6) | (451.0) | (1,642.6) |
| Acquisition costs | (126.6) | (122.2) | (248.8) |
| General and administrative expenses | (300.2) | (52.7) | (352.9) |
| Underwriting income (loss) | 2.5 | 40.0 | 42.5 |
| Other insurance-related revenue | 8.2 | 4.1 | 12.3 |
| Other insurance-related expenses | (19.3) | (6.3) | (25.6) |
| Segment income (loss) | (8.6) | 37.8 | 29.2 |
| Net investment income (loss) | | | 160.8 |
| Net realized and unrealized investment gains (losses) | | | (204.2) |
| Other expenses | | | (5.6) |
| Amortization of intangible assets | | | (52.9) |
| Interest expense | | | (28.2) |
| Foreign exchange (loss) gain | | | (3.5) |
| Income (loss) before income taxes | | | \$ (104.4) |
| Loss and loss expense ratio | 73.5% | 67.7% | 71.8% |
| Acquisition cost ratio | 7.8% | 18.4% | 10.9% |
| General and administrative expense ratio | 18.5% | 7.9% | 15.4% |
| Expense ratio | 26.3% | 26.3% | 26.3% |
| Combined ratio | 99.8% | 94.0% | 98.1% |

The following table shows an analysis of the Company's gross premiums written by geographic location of the Company's subsidiaries. All intercompany premiums have been eliminated.

| | Year Ended December 31, | |
|------------------------------|--------------------------------|-------------|
| | 2019 | 2018 |
| United States | \$ 2,340.8 | \$ 2,026.3 |
| Bermuda | 645.4 | 560.5 |
| Asia Pacific | 400.4 | 379.4 |
| Europe | 418.6 | 371.9 |
| Canada | 55.0 | 30.8 |
| Total gross premiums written | \$ 3,860.2 | \$ 3,368.9 |

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

The following table shows the Company's net premiums earned by line of business for each segment for the years ended December 31, 2019 and 2018

| | Year Ended December 31, | |
|---------------------------|-------------------------|------------|
| | 2019 | 2018 |
| Insurance: | | |
| Casualty | \$ 620.0 | \$ 444.7 |
| Professional liability | 419.1 | 426.7 |
| Property | 184.9 | 206.3 |
| Programs | 338.7 | 238.4 |
| Specialty and other | 198.0 | 304.7 |
| Total | 1,760.7 | 1,620.9 |
| Reinsurance: | | |
| Property | 350.4 | 346.2 |
| Casualty | 168.0 | 165.5 |
| Specialty | 146.4 | 154.2 |
| Total | 664.8 | 665.9 |
| Total net premiums earned | \$ 2,425.5 | \$ 2,286.8 |

18. RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the statement of cash flows.

| | December 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------|
| Cash and cash equivalents | 534.6 | 571.3 |
| Restricted cash | 416.7 | 283.7 |
| Total cash, cash equivalents, and restricted cash shown in the statement of cash flows | 951.3 | 855.0 |

Restricted cash primarily relates to cash held in trust accounts in favor of cedents, other counterparties or government authorities, as well as accounts that are pledged as collateral for the Company's letter of credit facilities.

19. SUBSEQUENT EVENTS

The Company considers events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are available to be issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. In early 2020, the Coronavirus outbreak was declared a global pandemic and has caused significant disruption to the US and global economies. Due to the continued ongoing nature of this global pandemic, the Company is unable to estimate the financial statement impact to the Company at this time. The Company is closely monitoring the developments and the potential impact on the Company's business, operations and investments (e.g., asset prices, capital and liquidity positions, insurance exposures). Subsequent events have been evaluated through April 7, 2020, the date that the consolidated financial statements were available to be issued.