

Allied World Assurance Company,
AG
Zug

Report of the statutory auditor
to the General Meeting

on the financial statements 2021

Report of the statutory auditor

to the General Meeting of Allied World Assurance Company, AG

Zug

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Allied World Assurance Company, AG, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2021.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2021 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Ray Kunz
Audit expert
Auditor in charge

Ireen Ranneberg Sardo
Audit expert

Zürich, 27 April 2022

Enclosure:

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

Allied World Assurance Company, AG
Statutory Balance Sheet
as of December 31, 2021 and December 31, 2020

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

Allied World Assurance Company, AG
Statutory Income Statement
for the years ended December 31, 2021 and December 31, 2020

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

Allied World Assurance Company, AG
Notes to Statutory Financial Statements

1. Corporate information

The Company's principal activity is to underwrite first- and third-party insurance and reinsurance risks. The Company was incorporated in Switzerland in the Canton of Zug on May 6, 2010 and is regulated by FINMA pursuant to the Insurance Supervisory Law. In 2012, the Company established a Bermuda branch in order to offer its insurance products via Bermuda throughout the United States of America. Since April 2012, the Company is registered as a Class 3A insurer under the Bermuda Insurance Law 1978. The Company is an indirect subsidiary of Allied World Assurance Company Holdings, Ltd, a Bermuda company, which prepares consolidated financial statements according to the accounting principles generally accepted in the United States ("US GAAP"). The Company has an annual average of less than 50 full-time employees.

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

2. Significant accounting policies

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

a) Cash and cash equivalents

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

b) Investments

Fixed maturity investments

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

Equity securities

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

Real estate

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

Allied World Assurance Company, AG
Notes to Statutory Financial Statements

Other investments

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

c) Insurance reserves

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

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

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

d) Long term debt

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

e) Foreign currency transactions

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

f) Foreign currency translation

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

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

USD/CHF	2021	2020
Year-end rate	0.9185	0.8911
Annual average rate	0.9135	0.9379

Allied World Assurance Company, AG
Notes to Statutory Financial Statements

g) Direct tax expenses

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

3. Other investments

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

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

4. Insurance balances receivable and payable

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

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

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

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

Allied World Assurance Company, AG
Notes to Statutory Financial Statements

5. Other receivables and payables

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

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

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

6. Insurance reserves

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

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

Allied World Assurance Company, AG
Notes to Statutory Financial Statements

7. Shareholder's equity

On the date of incorporation, the share capital of the Company amounted to CHF 0.1 million. On March 30, 2011, the Company obtained a license to conduct business in both the direct insurance and reinsurance markets (with the exception of life assurance activities) and changed its principal activities accordingly. At that time, the Company also issued 9,900 fully paid-in registered shares at a par value of CHF 1,000 each. Total share capital after this capital increase amounts to 10,000 fully paid-in registered shares at a par value of CHF 1,000 each, totaling CHF 10.0 million as shown in the table below. Additionally, Allied World Assurance Company, Ltd contributed CHF 40.5 million to the Company on March 30, 2011. On March 31, 2011, the Company became directly owned by Allied World Assurance Company Holdings, AG. On March 30, 2012, Allied World Assurance Company Holdings, AG further contributed an amount of CHF 99.3 million to the Company's capital. On July 7, 2017, a capital cash contribution of USD 0.5 million (CHF 0.5 million) was made to the Company in connection with the acceleration of share-based payments as a result of the acquisition of Allied World Assurance Company Holdings, AG by Fairfax Financial Holdings Limited. On June 26, 2019, the Company became directly owned by the Holding Company. On May 12, 2020, the Holding Company contributed an amount of USD 25.0 million (CHF 24.3 million) to the Company's capital. On September 22, 2021, the Holding Company further contributed an amount of USD 50.0 million (CHF 45.6 million) to the Company's capital.

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

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

Allied World Assurance Company, AG
Notes to Statutory Financial Statements

8. Breakdown between direct insurance and reinsurance business

The following table shows the breakdown of the insurance technical positions of the income statement by direct insurance and reinsurance business for the years ended December 31, 2021 and December 31, 2020.

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

Allied World Assurance Company, AG
Notes to Statutory Financial Statements

9. Investment results

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

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

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

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

10. Net acquisition costs and administrative expenses

The following table shows a breakdown of the net acquisition costs and administrative expenses for the years ended December 31, 2021 and December 31, 2020.

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

11. Supplementary information

Allied World Assurance Company, AG
Notes to Statutory Financial Statements

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

* converted to CHF using historical foreign exchange rates

12. Subsequent events

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are approved by the Shareholders' Annual General Meeting ("AGM") to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through April 27, 2022, the date that the financial statements were approved at the AGM.

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

13. Net release of hidden services

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

April 27, 2022



Wesley Dupont
 Chairman of the Board



Christoph Murg
 Vice President, Finance & Treasurer