

OS AA01

Statement of details of parent law and other information for an overseas company



Companies House

What this form is for
You may use this form to accompany your accounts disclosed under parent law.

What this form is NOT for
You cannot use this form to register an alteration of manner of compliance with accounting requirements

For further information, please refer to our guidance at www.companieshouse.gov.uk

Part 1 Corporate company name

Corporate name of overseas company

Allied World Assurance Company (Europe) Limited

UK establishment number

B R 0 0 7 2 4 9

→ Filling in this form
Please complete in typescript or in bold black capitals

All fields are mandatory unless specified or indicated by *

This is the name of the company in its home state

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited

Legislation

Irish Companies acts 1963 → 2013 (and the European

This means the relevant rules or legislation which regulates the preparation and if applicable, the audit of accounts

A2 Accounting principles

Continental (insurance undertaking accounts)

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box

No Go to Section A3

Yes Please enter the name of the organisation or other body which issued those principles below, and then go to Section A3

Please insert the name of the appropriate accounting organisation or body

Name of organisation or body

Financial Reporting Council

A3 Accounts

Accounts

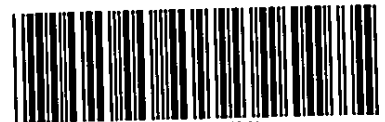
Have the accounts been audited? Please tick the appropriate box

No. Go to Section A5

Yes Go to Section A4

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OS AA01

Statement of details of parent law and other information for an overseas company

A4 Audited accounts

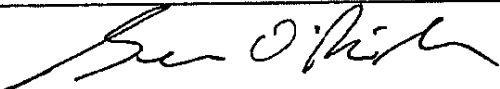
Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box <input type="checkbox"/> No Go to Part 3 'Signature' <input checked="" type="checkbox"/> Yes Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'	Ⓢ Please insert the name of the appropriate accounting organisation or body
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Name of organisation or body **Ⓢ** Irish law and international standards on auditing (UK and Ireland)

A5 Unaudited accounts

Unaudited accounts	Is the company required to have its accounts audited? Please tick the appropriate box <input type="checkbox"/> No <input type="checkbox"/> Yes.
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Part 3 Signature

I am signing this form on behalf of the overseas company	
Signature	X  X
This form may be signed by Director, Secretary, Permanent representative	

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name
Company name
Address
Post town
County/Region
Postcode
Country
DX
Telephone

Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

- The company name and, if appropriate, the registered number, match the information held on the public Register
- You have completed all sections of the form, if appropriate
- You have signed the form

Important information

Please note that all this information will appear on the public record

Where to send

You may return this form to any Companies House address.

England and Wales
The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff

Scotland
The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland
The Registrar of Companies, Companies House,
Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1

Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

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Allied World Assurance Company (Europe) Limited

Reports and Financial Statements

For the Year Ended 31 December 2013

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**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

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**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

DIRECTORS AND OTHER INFORMATION

Directors

Frank D'Orazio
Lee Dwyer (appointed November 16, 2013)
John Clifford (Independent Non-Executive)
Hugh Governey (Independent Non-Executive)
Scott Hunter (Independent Non-Executive)
Conor Heery (resigned November 15, 2013)

Secretary

Sean O'Riordan
22 The Elm,
Park View,
Stepaside,
Co Dublin,
Ireland

Assistant Secretary

Wilton Secretarial Limited
Fitzwilton House,
Wilton Place,
Dublin 2,
Ireland

Custodian Bankers

Mellon Global Securities Services
P O Box 371791,
Pittsburgh,
PA 15251-7791,
U S A.

Investment Managers

Goldman Sachs Asset Management Int'l Ltd
Christchurch Court,
10-15 Newgate Street,
London EC1A 7HD,
U K.

Solicitors

William Fry
Fitzwilton House,
Wilton Place,
Dublin 2,
Ireland

Independent Auditors

Deloitte & Touche
Chartered Accountants and Statutory Audit Firm,
Deloitte & Touche House,
Earlsfort Terrace,
Dublin 2,
Ireland

Registered Office

3rd Floor
Georges Quay Plaza,
Georges Quay,
Dublin 2,
Ireland

Principal Bankers

Citi
Citigroup Centre,
Canada Square, Canary Wharf,
London E14 5LB,
U K

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the accounting year ended December 31, 2013

Principal activities

The principal activity of Allied World Assurance Company (Europe) Limited ("the Company" or "AWE"), and its branches in the U.K. and Switzerland, is to underwrite first and third party insurance and reinsurance risks, primarily within the European Union on a freedom of services (FOS) basis

Review of the business

The Board monitors the progress of the Company by reference to the following Key Performance Indicators (KPIs)

- Net premiums written
- Net claims incurred
- Net income

Net premiums written in the year amounted to \$13.3 million compared to \$13.8 million in 2012. Gross premiums written for the year was \$148.0 million, an increase of \$7.9 million over the prior period's gross premium written of \$140.1 million, primarily due to the acquisition of the renewal rights to a book of aviation business from Markel International (effective October 1, 2013). This was off-set by a reduction of premium written on our property book. The Company experienced significant rate pressure during the year yet continued to maintain its underwriting discipline. Ceded premiums in 2013 were \$134.7 million compared to \$126.3 million in 2012. The Company's ceded premium coverage ratio for 2013 was 91% compared to 90% for 2012.

Net claims incurred in the year amounted to losses of \$2.6 million which compares against a \$0.9 million loss for the prior year. Current year net claims incurred were impacted by favourable net reserve developments of \$4.7 million compared to a favourable development of \$8.5 million for the prior year.

Net loss after taxation for 2013 was \$2.8 million for the Company compared to a profit of \$9.3 million in 2012. Administrative expenses were \$35.0 million for the year which compares against \$25.3 million in 2012. The increase primarily relates to employment costs as a result of higher staff numbers, an increase in stock compensation expense (due to the appreciation of the ultimate parent's share price), an increase in recruitment costs and expenses incurred as staff left the Company.

Net investment income for the year amounted to \$1.0 million, compared to \$2.8 million in 2012. The decrease was due to lower yields on our fixed maturity investments, 0.9% and 1.2% respectively, for the years ended December 31, 2013 and 2012. Loan interest income for 2013 was \$14.0m which was consistent with the prior year.

Profits and reserves

Losses for the year amounted to \$2.8 million (2012 Profit \$9.3 million)
The directors have not declared a dividend for the year (2012 \$ nil)

Merger

Following the removal of the regulatory restriction imposed on Irish authorised insurance undertakings from accepting inwards reinsurance that would exceed 20% of gross premium written (the '80/20 Rule'), the Boards of Allied World Assurance Company (Europe) Limited ("AWE") and Allied World Assurance Company (Reinsurance) Limited ("AWR") approved the merger of AWE and AWR and the filing of a consolidated business plan with the Central Bank of Ireland ("CBI"), which was subsequently approved on July 10, 2013. The Irish High Court confirmed the occurrence of the merger with effect from October 31, 2013. From November 1, 2013 the surviving company is AWE and it has assumed all obligations of AWR. AWR has been dissolved, by order of the Irish High Court.

Future developments

The objective is to manage our core business, to maximise profitability and increase book value through future market cycles. In addition, the Company seeks to develop a select number of initiatives to expand our geographic distribution and product mix, always with a focus on profitable growth.

Principal risks and uncertainties facing the Company

- (i) Any downward revision or revocation of our financial strength ratings by A.M. Best would affect our standing among brokers and customers and may cause our premiums and earnings to decrease:

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

DIRECTORS' REPORT – Continued

Ratings have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies. A M Best has assigned a financial strength rating of "A (Excellent)" to Allied World Assurance Company (Europe) Limited ("the Company"). This rating is subject to periodic review and may be revised downward or revoked at the sole discretion of A M Best. If the rating of the Company is revised downward or revoked, our competitive position in the insurance and reinsurance industry may suffer, and it may be more difficult for us to market our products. Specifically, any revision or revocation of this kind could result in a significant reduction in the number of insurance and reinsurance contracts we write and in a substantial loss of business as customers and brokers that place this business move to competitors with higher financial strength ratings.

(ii) Actual claims may exceed our reserves for losses and loss expenses

Our success depends on our ability to accurately assess the risks associated with the businesses that we insure and reinsure. We establish loss reserves to cover our estimated liability for the payment of all losses and loss expenses incurred with respect to the policies we write. Loss reserves are estimates of what we expect the ultimate resolution and administration of claims will cost. These estimates are based on actuarial and statistical projections and on our 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 claims are reported and resolved. Establishing an appropriate level of loss reserves is an inherently uncertain process. It is therefore possible that our reserves at any given time will prove to be inadequate.

To the extent we determine that actual losses or loss expenses exceed our expectations and reserves reflected in our financial statements, we will be required to increase our reserves to reflect our changed expectations. This could cause a material increase in our liabilities and a reduction in our profitability, including operating losses and a reduction of capital. Our results for the year ended December 31, 2013 were impacted by favourable net reserve developments for the 2002 to 2012 accident years on the property, liability and treaty books and negative developments on the property and liability books for the 2009, 2011 and current accident years.

(iii) We could face losses from terrorism, political unrest and pandemic diseases

We have exposure to losses resulting from acts of terrorism and political instability. Although we generally exclude acts of terrorism from our property insurance policies and property reinsurance treaties where practicable, we provide coverage in circumstances where we believe we are adequately compensated for assuming those risks. A pandemic disease could also cause us to suffer increased insurance losses on a variety of coverages we offer. Our outward reinsurance protections may only partially offset these losses. Moreover, even in cases where we seek to exclude coverage, we may not be able to completely eliminate our exposure to these events.

It is impossible to predict the timing or severity of these events with statistical certainty or to estimate the amount of loss that any given occurrence will generate. We could also suffer losses from a disruption of our business operations and our investments may suffer a decrease in value due to the occurrence of any of these events. To the extent we suffer losses from these risks, such losses could be significant.

(iv) The failure of any of the loss limitation methods we employ could have a material adverse effect on our financial condition or results of operations

We seek to limit our loss exposure by adhering to maximum limitations on policies written in defined geographical zones, limiting program size for each client, adjusting retention levels and establishing per risk and per occurrence limitations for each event and prudent underwriting guidelines for each insurance program written. Most of our direct liability insurance policies include maximum aggregate limitations. Disputes relating to coverage and choice of legal forum may also arise. As a result, various provisions of our policies that are designed to limit our risks, such as limitations or exclusions from coverage or choice of forum, may not be enforceable in the manner we intend and some or all of our other loss limitation methods may prove to be ineffective.

(v) For our reinsurance business, we depend on the policies, procedures and expertise of ceding companies.

Because we participate in property and casualty and specialty lines reinsurance markets, the success of our underwriting efforts depends in part on the policies, procedures and expertise of the ceding companies making the original underwriting decisions. Underwriting is a matter of judgement, involving important assumptions about matters that are inherently unpredictable and beyond the ceding companies' control and for which historical experience and statistical analysis may not provide sufficient guidance. We face the risk that the ceding companies may fail to accurately assess the risks they underwrite, which, in turn, may lead us to inaccurately assess the risks we assume. If we fail to assess claim exposures in a timely manner and to establish appropriate premium rates, we could face significant losses on these contracts. We could also face significant losses on contracts to the extent our clients fail to promptly remit premiums owed to us.

(vi) We may be impacted by claims relating to the recent credit market downturn and subprime insurance exposures

We write corporate directors and officers, errors and omissions and other insurance coverages for financial institutions and financial services companies. This industry segment has been impacted by the recent credit market downturn. As a result, this industry segment has been the subject of heightened scrutiny and in some cases investigations by regulators with respect to the industry's actions as they relate to subprime mortgages, collateralised debt obligations, structured investment vehicles and swap and derivative transactions. These events may give rise to

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

DIRECTORS' REPORT – Continued

increased claim litigation, including class action suits, which may involve our insureds. To the extent we have claims relating to these events, it could cause substantial volatility in our financial results and could have a material adverse effect on our financial condition and results of operations.

- (vii) **We depend on a small number of brokers for a large portion of our revenues. The loss of business provided by any one of them could adversely affect us.**

We market our insurance products worldwide almost exclusively through insurance brokers. In the year ended December 31, 2013, our top five brokers represented approximately 67% of our gross premiums written. Loss of all or a substantial portion of the business provided by any one of our top five brokers could have an adverse effect on our financial condition and results of operations.

- (viii) **Our reliance on brokers subjects us to their credit risk:**

In accordance with industry practice, we frequently pay amounts owed on claims under our insurance and reinsurance contracts to brokers, and these brokers, in turn, pay these amounts to the customers that have purchased insurance or reinsurance from us. If a broker fails to make such a payment, it is likely that, in most cases, we will be liable to the client for the deficiency because of local laws or contractual obligations. Likewise, when a customer pays premiums for policies written by us to a broker for further payment to us, these premiums are generally considered to have been paid and, in most cases, the client will no longer be liable to us for those amounts, whether or not we actually receive the premiums. Consequently, we assume a degree of credit risk with the brokers we use with respect to our insurance and reinsurance business.

- (ix) **We may be unable to purchase reinsurance for our own account on commercially acceptable terms or to collect under any reinsurance we have purchased:**

We acquire reinsurance for our own account to mitigate the effects of large or multiple losses on our financial condition. From time to time, market conditions have limited, and in some cases prevented, insurers and reinsurers from obtaining the types and amounts of reinsurance they consider adequate for their business needs.

Conditions may occur at any time in the future, where we may not be able to purchase reinsurance in the areas and for the amounts required or desired. Even if reinsurance is generally available, we may not be able to negotiate terms that we deem appropriate or acceptable or to obtain coverage from entities with satisfactory financial resources.

In addition, a reinsurer's insolvency, or inability or refusal to make payments under a reinsurance or retrocessional insurance agreement with us, could have a material adverse effect on our financial condition and results of operations, because we remain liable to the insured or reinsured under the corresponding coverages written by us.

- (x) **Our investment performance may adversely affect our financial performance and ability to conduct business:**

We derive a portion of our income from our invested assets. As a result, our operating results depend in part on the performance of our investment portfolio. Our investment performance is subject to a variety of risks, including risks related to general economic conditions, market volatility, interest rate fluctuations, liquidity risk and credit and default risk. The value of such investments, and returns thereon may also be more volatile.

Because of the unpredictable nature of losses that may arise under insurance policies written by us, our liquidity needs could be substantial and may arise at any time. We strive to structure our investments in a manner that recognises our liquidity needs for our future liabilities. In that regard, we attempt to correlate the maturity and duration of our investment portfolio to our general liability profile. To the extent we are unsuccessful in correlating our investment portfolio with our expected liabilities, we may be forced to liquidate our investments at times and prices that are not optimal. This could have a material adverse effect on the performance of our investment portfolio. If our liquidity needs or general liability profile unexpectedly changes, we may not be successful in continuing to structure our investment portfolio in its current manner.

- (xi) **Any increase in interest rates could result in significant losses in the value of our investment portfolio:**

Our investment portfolio contains interest-rate-sensitive instruments. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we attempt to manage the risks of investing in a changing interest rate environment, we may not be able to effectively mitigate interest rate sensitivity. In particular, increases in interest rates could result in significant losses, realised or unrealised, in the value of our investment portfolio.

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

DIRECTORS' REPORT – Continued

(xii) We may be adversely affected by fluctuations in currency exchange rates:

Our functional and reporting currency is the US dollar. We do enter into insurance contracts, however, where premiums receivable and losses payable are denominated in currencies other than the US dollar. In addition, we maintain a portion of our investments and liabilities in currencies other than the US dollar. For liabilities incurred in currencies other than the US dollar, US dollars are converted to the currency of the loss at the time of claims payment. Although we have adopted a strategy to manage our foreign exchange exposure, we may still have some exposure to foreign currency risk resulting from fluctuations in exchange rates. Any losses related to this risk could have a material adverse effect on our financial condition and results of operations.

(xiii) We may require additional capital in the future that may not be available to us on commercially favourable terms

Our future capital requirements depend on many factors, including our ability to write new business and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that the funds generated by insurance premiums received and sale proceeds and income from our investment portfolio are insufficient to fund future operating requirements and cover losses and loss expenses, we may need to raise additional funds through financings or curtail our growth and reduce our assets. Any future financing, if available at all, may be on terms that are not favourable to us. In the case of equity financings, dilution to our shareholders could result, and the securities issued may have rights, preferences and privileges that are senior or otherwise superior to those of our common shares. If we cannot obtain adequate capital, our business, financial condition and results of operations could be adversely affected.

(xiv) Our business could be adversely affected if we lose members of our management team or are unable to attract and retain our personnel

Our success depends in substantial part on our ability to attract and retain our employees who generate and service our business. We rely substantially on the services of our executive management team. If we lose the services of members of our management team, our business could be adversely affected. Similarly, if we are unable to attract and retain other talented personnel, the further implementation of our business strategy could be impeded. This, in turn, could have a material adverse effect on our business.

(xv) Compliance by the Company with the legal and regulatory requirements to which it is subject is expensive, any failure to comply could have a material adverse effect on our business

The Company and its branches in the UK and Switzerland are subject to various insurance regulations promulgated by the Central Bank of Ireland. It is not possible to predict the future impact of changes in laws and regulations on our operations.

Any failure to comply with applicable law or to obtain appropriate exemptions could result in restrictions on either the ability of the Company in question, as well as potentially its affiliates, to do business in one or more of the jurisdictions in which they operate or on brokers on which we rely to continue to produce business for us.

The Company is obliged to maintain a minimum level of capital to meet solvency requirements set out by the Central Bank of Ireland. All solvency capital requirements have been complied with throughout the year.

(xvi) Compliance with Corporate Governance Code for Credit Institutions and Insurance Undertakings:

From 1 January, 2011, the Company is subject to the Corporate Governance Code for Credit Institutions and Insurance Undertakings, but does not fall in scope of the additional requirements for major institutions.

Events since the year end

There have been no significant events affecting the Company since the year end.

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

DIRECTORS' REPORT – Continued

Directors' interests

The directors set out in the table below have held office for the whole period from January 1, 2013 to the date of this report unless otherwise stated. The directors holding office at December 31, 2013 held no interests in the Company but held the following interests in its ultimate parent company Allied World Assurance Company Holdings, AG ("AWAC Holdings")

	Ordinary shares (number) 31 Dec 2013	Ordinary shares (number) 31 Dec 2012
Frank D'Orazio	67,797	58,617
Lee Dwyer (appointed November 16, 2013)	220	N/a
John Clifford	-	-
Hugh Governey	-	-
Scott Hunter	10,685	10,685

Directors' Responsibilities

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, and
- state whether applicable accounting standards have been followed

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements are prepared in accordance with the accounting standards generally accepted in Ireland and comply with the Irish Companies Acts, 1963 to 2013 and the European Communities (Insurance Undertakings Accounts) Regulations, 1996. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

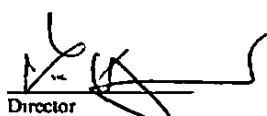
Books of Account

The Directors ensured that they have complied with the requirements of Section 202 of the Companies Act 1990 with regard to maintaining proper books of account. The specific measures taken are the employment of suitably qualified accounting personnel and the maintenance of appropriate accounting systems. The books of account are located at their registered office as stated on page 1, at the U.K. branch office located at 30 St. Mary Axe, 3rd Floor, London EC3A 8BF, U.K. and at the Swiss branch at Lindenstrasse 8, 6340 Baar/Zug, Switzerland.

Auditors

The auditors, Deloitte & Touche, Chartered Accountants and Statutory Audit Firm, have signified their willingness to continue in office in accordance with Section 160(2) of the Companies Act, 1963.


Director


Director

March 25th, 2014
Date

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED

We have audited the financial statements of Allied World Assurance Company (Europe) Limited for the year ended 2013 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Accounting Policies and the related notes 1 - 20. The financial reporting framework that has been applied in their preparation is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

This report is made solely to the company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements giving a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the company as at 31 December 2013 and of the loss for the year then ended, and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2013 and the European Communities (Insurance Undertakings Accounts) Regulations, 1996.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED

Matters on which we are required to report by the Companies Acts, 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit
- In our opinion proper books of account have been kept by the company
- The financial statements are in agreement with the books of account
- In our opinion the information given in the directors' report is consistent with the financial statements.
- The net assets of the company, as stated in the balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2013 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts, 1963 to 2013 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made



Glenn Gillard
For and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Dublin

Date 25 March 2014

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

STATEMENT OF ACCOUNTING POLICIES

The significant accounting policies adopted by the Company are as follows

Basis of presentation

The financial statements have been prepared in accordance with the provisions of the Companies Acts, 1963 to 2013, as amended by the European Communities (Insurance Undertakings Accounts) Regulations 1996

The financial statements have also been prepared in accordance with applicable accounting standards and comply with financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland.

The financial statements have been prepared in accordance with the provisions of the Statement of Recommended Practice on Accounting for Insurance Business currently in effect

Merger accounting

The company has accounted for the combined entity using merger accounting, in line with FRS 6. The results of the combined companies are brought into the financial statements of the combined entity from the beginning of the financial year in which the merger occurred, adjusted, where required, so as to achieve uniformity of accounting policies. The corresponding comparative figures are restated by including the results for the combining companies for the previous period and their balance sheets at the previous balance sheet date, adjusted, where required, to achieve uniformity of accounting policies.

Historical cost convention

The financial statements have been prepared in accordance with the historical cost convention, as modified to include investments at current market value.

Recognition of underwriting income

Premiums are recorded as written on the inception date of the policy. For certain types of business written by the Company, notably reinsurance, premium income may not be known at the policy inception date. In the case 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 recognised 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 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. Acquisition costs that are deferred are expensed as the premiums to which they relate are earned. Acquisition costs relating to the reserve for unearned premiums are deferred and carried on the balance sheets as an asset and are amortised over the period of coverage. 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.

Outstanding claims

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. Thus, there is a significant amount of estimation involved in determining the likely loss payment. IBNR reserves require substantial judgement 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.

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

STATEMENT OF ACCOUNTING POLICIES – Continued

IBNR reserves are estimated for each business segment based on various factors, including underwriters' expectations about loss experience, actuarial analysis, comparisons with industry benchmarks and loss experience to date. Our actuaries employ generally accepted actuarial methodologies to determine estimated ultimate expected losses and loss expenses. The adequacy of our reserves is tested quarterly by our actuaries. A loss reserve study is prepared by an independent actuary annually in order to provide additional insight into the reasonability of our reserves for losses and loss expenses.

Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what we expect the ultimate resolution and administration of claims will cost. These estimates are based on actuarial and statistical projections and on our 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.

We determine what portion of the losses will be recoverable under our insurance and reinsurance policies by reference to the terms of the insurance protection purchased. This determination is necessarily based on the underlying loss estimates and, accordingly, is subject to the same uncertainties as the estimate of case reserves and IBNR reserves.

While management believes that our case reserves and IBNR reserves are sufficient to cover losses assumed by us, ultimate losses and loss expenses may deviate from our reserves, possibly by material amounts. For instance, as of December 31, 2013, a 5% change in net IBNR reserves would cause net losses and loss expenses to change by \$2.0 million, which translates into a 0.5% change in shareholder's equity. To the extent actual reported losses exceed estimated losses, the carried estimate of the ultimate losses will be increased, and to the extent actual reported losses are less than our expectations, the carried estimate of ultimate losses will be reduced. In addition, the methodology of estimating loss reserves is periodically reviewed to ensure that the assumptions made continue to be appropriate. We record any changes in our loss reserve estimates and the related reinsurance recoverables in the periods in which they are determined.

Investments

Investments are carried at their current market value. Investment income comprises income received and receivable on fixed income securities, interest earned and accrued on cash, realised gains and losses on disposal of investments and unrealised gains and losses on investments held. A transfer of investment return is made from the non-technical account to the technical account in order to reflect the actual investment return on the assets supporting the technical provisions and associated shareholders' funds.

Pension costs

Pension benefits are funded over the employee's period of service by way of contributions to a defined contribution scheme. The Company's annual contribution costs are charged to the profit and loss account in the period to which they relate.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date, and revenue, costs and non-monetary assets at the exchange rates ruling at the date of the transactions. Profits and losses arising from foreign currency translation and on settlement of amounts receivable and payable in foreign currencies are dealt with through the profit and loss account. Monetary assets are defined as money or securities held and amounts to be received in money; all other assets are non-monetary assets.

Taxation

The charge for the Company is based on the result for the year. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax is not recognised on permanent differences. Deferred tax assets are recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Share-based payments ("FRS 20")

The Company recognises equity-settled share-based payments at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. Fair value of share options is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Fair value of Restricted Stock Units ("RSU's") is based on the closing market value at the date of grant.

The equity settled share-based payments expense has been included in the "Net operating expenses and acquisition costs" line of the income statement.

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

STATEMENT OF ACCOUNTING POLICIES – Continued

Reporting currency

The financial statements are expressed in United States dollars (US\$)

Fixed assets

Depreciation is provided on fixed assets over their estimated useful lives as follows:

Information technology – 3 years

Furniture and fittings – 5 years

Leasehold improvements – 5 years

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT

	Notes	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Earned premiums, net of reinsurance			
Gross premiums written	3	148,009,138	140,095,142
Outward reinsurance premiums		(134,698,977)	(126,256,051)
Net premiums written		<u>13,310,161</u>	<u>13,839,091</u>
Change in the gross provision for unearned premiums	13	(15,572,683)	(5,431,657)
Change in the gross provision for unearned premiums, reinsurers share	13	14,812,661	5,697,996
Change in the net provision for unearned premiums		(760,022)	266,339
Earned premiums, net of reinsurance		<u><u>12,550,139</u></u>	<u><u>14,105,430</u></u>
Allocated investment return transferred from the non-technical account		988,765	2,803,946
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(70,275,034)	(71,057,553)
Reinsurers' share		60,897,484	62,028,022
Net claims paid		<u>(9,377,550)</u>	<u>(9,029,531)</u>
Change in the provision for claims			
Gross amount	13	23,009,794	57,509,289
Reinsurers' share	13	(16,221,009)	(49,401,333)
Change in the net provision for claims		<u>6,788,785</u>	<u>8,107,956</u>
Claims incurred, net of reinsurance		<u><u>(2,588,765)</u></u>	<u><u>(921,575)</u></u>
Net operating expenses and acquisition costs	4	(27,141,158)	(18,107,668)
Balance on the technical account		<u><u>(16,191,019)</u></u>	<u><u>(2,119,867)</u></u>

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT

	Notes	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Balance on the technical account for non-life insurance business		(16,191,019)	(2,119,867)
Investment income	5	988,765	2,803,946
Loan interest income		13,950,000	13,950,000
Allocated investment return transferred to the insurance technical account		<u>(988,765)</u>	<u>(2,803,946)</u>
(Loss) / profit on ordinary activities before taxation		(2,241,019)	11,830,133
Tax charge on profit on ordinary activities	7	<u>(561,381)</u>	<u>(2,504,980)</u>
(Loss) / profit on ordinary activities after taxation		<u>(2,802,400)</u>	<u>9,325,153</u>

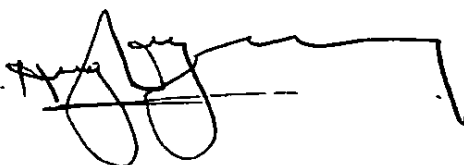
There were no recognised gains or losses other than those included in the profit and loss account.

Loss on ordinary activities arose solely out of continuing activities

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of Directors on the March 25, 2014 and signed on its behalf by

Director



Director



ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

BALANCE SHEET

<u>ASSETS</u>	Notes	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Investments			
Debt securities and other fixed income securities	8	165,649,630	152,561,978
Deposits with credit institutions		29,462,743	51,434,700
		<u>195,112,373</u>	<u>203,996,678</u>
Reinsurer' share of technical provisions			
Provision for unearned premiums	13	91,699,034	76,886,373
Claims outstanding	13	444,761,660	460,982,669
		<u>536,460,694</u>	<u>537,869,042</u>
Debtors			
Debtors arising from insurance operations	9	57,995,815	38,089,048
Other debtors	9	272,696,439	269,326,098
Deferred acquisition costs		13,084,091	10,408,945
		<u>343,776,345</u>	<u>317,824,091</u>
Other assets			
Tangible fixed assets	17	1,929,628	2,220,123
Cash at bank and in hand		744,083	240,187
		<u>2,673,711</u>	<u>2,460,310</u>
Accrued income			
Accrued interest		1,087,479	1,347,083
Total assets		<u><u>1,079,110,602</u></u>	<u><u>1,063,497,204</u></u>

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

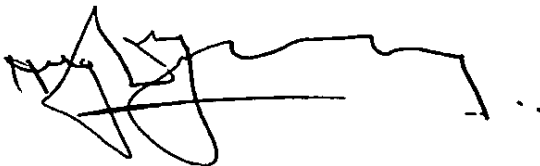
BALANCE SHEET (continued)

<u>LIABILITIES</u>	Notes	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Capital and reserves			
Called up share capital	10	10,000,000	10,000,000
Capital contribution	12	350,000,000	350,000,000
Retained profit	12	49,677,012	52,479,412
Shareholders' funds		<u>409,677,012</u>	<u>412,479,412</u>
Technical provisions			
Provision for unearned premiums	13	100,628,523	85,055,840
Claims outstanding	13	501,466,029	524,475,823
		<u>602,094,552</u>	<u>609,531,663</u>
Creditors			
Creditors arising out of insurance operations	14	29,371,375	18,698,773
Other creditors including tax and social security	14	6,369,675	4,870,408
		<u>35,741,050</u>	<u>23,569,181</u>
Accruals and deferred income	18	31,597,988	17,916,948
Total liabilities		<u>1,079,110,602</u>	<u>1,063,497,204</u>

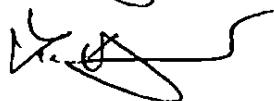
The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of Directors on March 25, 2014 and signed on its behalf by

Director



Director



ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2013

1. Principal activities

The Company is licensed to undertake the business of Non-Life Insurance, Facultative Reinsurance and Treaty Reinsurance in Ireland in the following classes under the European Communities (Non-Life Insurance) Framework Regulations, 1994 – Classes 1, 2 (reinsurance only) 3, 4, 5, 6, 7, 8, 9, 10 (reinsurance only) 11, 12, 13, 14, 15, 16, 17 (reinsurance only) and 18 (reinsurance only)

The Company has outward reinsurance with external reinsurers on its various lines of business. The Company also has a quota share reinsurance agreement with Allied World Assurance Company, Ltd (Bermuda)

2. Restatement of prior year comparatives

The merger of Allied World Assurance Company (Europe) Limited (“AWE”) and Allied World Assurance Company (Reinsurance) Limited (“AWR”) was accounted for as if it had occurred on January 1, 2013. The prior year figures have been restated to include the audited results for both AWE and AWR for the previous period and their combined balance sheets at the previous balance sheet date

**PROFIT AND LOSS ACCOUNT
 TECHNICAL ACCOUNT**

	AWE 31 Dec 2012 US\$	AWR 31 Dec 2012 US\$	Combined 2012 US\$ as restated
Earned premiums, net of reinsurance			
Gross premiums written	99,988,120	40,107,022	140,095,142
Outward reinsurance premiums	(91,588,666)	(34,667,385)	(126,256,051)
Net premiums written	<u>8,399,454</u>	<u>5,439,637</u>	<u>13,839,091</u>
Change in the gross provision for unearned premiums	(11,994,674)	6,563,017	(5,431,657)
Change in the gross provision for unearned premiums, reinsurers share	11,471,939	(5,773,943)	5,697,996
Change in the net provision for unearned premiums	(522,735)	789,074	266,339
Earned premiums, net of reinsurance	<u>7,876,719</u>	<u>6,228,711</u>	<u>14,105,430</u>
Allocated investment return transferred from the non-technical account	<u>2,019,550</u>	<u>784,396</u>	<u>2,803,946</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	(19,777,214)	(51,280,339)	(71,057,553)
Reinsurers' share	16,982,577	45,045,445	62,028,022
Net claims paid	<u>(2,794,637)</u>	<u>(6,234,894)</u>	<u>(9,029,531)</u>
Change in the provision for claims			
Gross amount	19,926,763	37,582,526	57,509,289
Reinsurers' share	(15,772,903)	(33,628,430)	(49,401,333)
Change in the net provision for claims	4,153,860	3,954,096	8,107,956
Claims incurred, net of reinsurance	<u>1,359,223</u>	<u>(2,280,798)</u>	<u>(921,575)</u>
Net operating expenses and acquisition costs	<u>(12,553,282)</u>	<u>(5,554,386)</u>	<u>(18,107,668)</u>
Balance on the technical account	<u>(1,297,790)</u>	<u>(822,077)</u>	<u>(2,119,867)</u>

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2013
(continued)

2. Restatement of prior year comparatives (continued)

PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT

	AWE 31 Dec 2012 US\$	AWR 31 Dec 2012 US\$	Combined 2012 US\$ as restated
Balance on the technical account for non-life insurance business	(1,297,790)	(822,077)	(2,119,867)
Investment income and expenses	2,019,550	784,396	2,803,946
Loan interest income	-	13,950,000	13,950,000
Allocated investment return transferred to the insurance technical account	<u>(2,019,550)</u>	<u>(784,396)</u>	<u>(2,803,946)</u>
(Loss) / profit on ordinary activities before taxation	(1,297,790)	13,127,923	11,830,133
Tax charge on profit on ordinary activities	<u>(978,295)</u>	<u>(1,526,685)</u>	<u>(2,504,980)</u>
(Loss) / profit on ordinary activities after taxation	<u>(2,276,085)</u>	<u>11,601,238</u>	<u>9,325,153</u>

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2013
(continued)

2. Restatement of prior year comparatives (continued)

BALANCE SHEET

<u>ASSETS</u>	AWE 31 Dec 2012	AWR 31 Dec 2012	Combined 2012
	US\$	US\$	US\$
			as restated
Investments			
Debt securities and other fixed income securities	94,600,205	57,961,773	152,561,978
Deposits with credit institutions	32,424,850	19,009,850	51,434,700
	<u>127,025,055</u>	<u>76,971,623</u>	<u>203,996,678</u>
Reinsurer' share of technical provisions			
Provision for unearned premiums	69,478,358	7,408,015	76,886,373
Claims outstanding	357,407,859	103,574,810	460,982,669
	<u>426,886,217</u>	<u>110,982,825</u>	<u>537,869,042</u>
Debtors			
Debtors arising from insurance operations	21,963,188	16,125,860	38,089,048
Other debtors	1,769,284	278,476,044	269,326,098
Deferred acquisition costs	9,389,849	1,019,096	10,408,945
	<u>33,122,321</u>	<u>295,621,000</u>	<u>317,824,091</u>
Other assets			
Tangible fixed assets	456,405	1,763,718	2,220,123
Cash at bank and in hand	149,030	91,157	240,187
	<u>605,435</u>	<u>1,854,875</u>	<u>2,460,310</u>
Accrued income			
Accrued interest	930,818	416,265	1,347,083
Total assets	<u>588,569,846</u>	<u>485,846,588</u>	<u>1,063,497,204</u>

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2013
(continued)

2. Restatement of prior year comparatives (continued)

BALANCE SHEET (continued)

<u>LIABILITIES</u>	AWE 31 Dec 2012 US\$	AWR 31 Dec 2012 US\$	Combined 2012 US\$ as restated
Capital and reserves			
Called up share capital	5,000,000	5,000,000	10,000,000
Capital contribution	45,000,000	305,000,000	350,000,000
Retained profit	10,072,515	42,406,897	52,479,412
Shareholders' funds - (a)	60,072,515	352,406,897	412,479,412
Technical provisions			
Provision for unearned premiums	76,501,598	8,554,242	85,055,840
Claims outstanding	403,689,881	120,785,942	524,475,823
	480,191,479	129,340,184	609,531,663
Creditors			
Creditors arising out of insurance operations	18,177,162	521,611	18,698,773
Other creditors including tax and social security	15,039,078	750,560	4,870,408
	33,216,240	1,272,171	23,569,181
Accruals and deferred income	15,089,612	2,827,336	17,916,948
Total liabilities	588,569,846	485,846,588	1,063,497,204

(a)

Upon completion of the merger, in consideration of the transfer of all assets and liabilities of AWR to AWE, 29,242,000 additional shares in AWE, with a value of value of \$29,242,000, were issued in a share for share exchange for the 5,000,000 shares of AWR which were in issue at the time. The excess of the net asset value acquired over the value of the new shares issued in AWE was accounted for as share premium.

Following approval of the merger by the Irish High Court a further application was made under Section 72 ("s 72") of the Companies Acts, 1963 to reduce the share capital and share premium account to their original levels. The adjustments arising as a result of the merger and subsequent High Court applications are presented below.

	Combined pre-merger 31 Dec 2012 US\$	Combined post-merger 31 Dec 2012 US\$	Combined post s.72 31 Dec 2012 US\$
Capital and reserves			
Called up share capital	10,000,000	34,242,000	10,000,000
Share premium account	-	323,164,897	-
Capital contribution	350,000,000	45,000,000	350,000,000
Retained profit	52,479,412	10,072,515	52,479,412
Shareholders' funds	412,479,412	412,479,412	412,479,412

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2013
(continued)

3. Segmental analysis for the year

	31 Dec 2013 US\$	31 Dec 2012 US\$ <i>as restated</i>
(a) Gross premiums written by territory		
Ireland	6,414,300	4,592,446
Other E U countries	111,207,238	100,365,410
Other non-E U countries	30,387,600	35,137,286
	<u>148,009,138</u>	<u>140,095,142</u>
(b) Gross premiums written by line of business		
Aviation	13,262,859	-
Property	16,739,262	25,225,039
Liability	86,194,553	81,825,760
Credit and surety	13,241,940	11,710,068
Treaty reinsurance	18,570,524	21,334,275
	<u>148,009,138</u>	<u>140,095,142</u>
(c) Change in gross provision for unearned premiums		
Aviation	(11,979,856)	-
Property	1,269,484	1,721,664
Liability	(2,164,689)	(4,218,348)
Credit and surety	(3,019,076)	(6,141,330)
Treaty reinsurance	321,454	3,206,357
	<u>(15,572,683)</u>	<u>(5,431,657)</u>
(d) Gross operating expenses and acquisition costs		
Aviation	2,408,017	-
Property	7,797,653	8,158,703
Liability	30,324,927	19,701,636
Credit and surety	4,972,409	2,532,250
Treaty reinsurance	5,770,298	6,929,245
	<u>51,273,304</u>	<u>37,321,834</u>
(e) Gross movement in incurred claims		
Aviation	1,001,983	-
Property	4,050,297	38,121,820
Liability	30,519,700	(2,494,900)
Credit and surety	4,701,000	2,543,602
Treaty reinsurance	6,992,260	(24,621,919)
	<u>47,265,240</u>	<u>13,548,603</u>
(f) Outward reinsurance balances		
Aviation	(20,784)	-
Property	9,061,704	(17,789,420)
Liability	32,170,584	60,687,340
Credit and surety	3,302,035	1,967,572
Treaty reinsurance	6,564,167	43,851,369
	<u>51,077,706</u>	<u>88,716,861</u>
(g) Allocated investment income		
Aviation	88,603	-
Property	111,827	520,871
Liability	575,823	1,659,007
Credit and surety	88,461	206,821
Treaty reinsurance	124,051	417,247
	<u>988,765</u>	<u>2,803,946</u>
Balance on technical account	<u>(16,191,019)</u>	<u>(2,119,867)</u>

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2013
(continued)

4 Net operating expenses and acquisition costs

	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Administrative expenses	34,980,053	25,291,475
Foreign exchange loss / (gain)	1,645,203	(1,703,648)
Net acquisition costs	(15,486,324)	(4,094,654)
Movement in deferred acquisition costs	6,002,226	(1,385,505)
	<u>27,141,158</u>	<u>18,107,668</u>

Included in the above administration expenses are employment costs comprising

Stock compensation expense	3,131,293	2,656,671
Wages & salaries	12,580,871	10,414,587
Social welfare costs	4,018,469	2,163,980
Pension costs	1,101,338	878,894
Other costs	1,162,994	218,011
	<u>21,994,965</u>	<u>16,332,143</u>

Included in administrative expenses are payments made to a defined contribution pension scheme on behalf of employees during the year amounting to \$1,101,338 (2012 \$878,893)

The average number of persons employed by the company during the year was 68 (2012 54)

5. Investment income

	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Debt securities - interest / amortisation	2,133,510	2,525,442
Debt securities - realised / unrealised (losses) / gains	(806,584)	538,067
Cash and cash equivalents - interest income	21,524	48,340
Investment expenses	(359,685)	(307,903)
	<u>988,765</u>	<u>2,803,946</u>

6 Profit on ordinary activities before tax

	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Profit on ordinary activities before tax is stated after charging		
Auditor's remuneration	321,574	407,698
Directors' fees	146,795	144,970

Directors' fees are for independent non-executive directors only Executive Directors' emoluments for the years ended December 31, 2013 and 2012 were \$nil

In accordance with Irish Company Law, Statutory Instrument 220 ("SI 220"), the following is a description of the categories of audit fee for the company as at December 31, 2013 and 2012

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6. Profit on ordinary activities before tax (continued)

	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Audit of individual accounts	321,574	332,698
Other assurance services	-	75,000
Tax advisory services	-	-
Other non-audit services	-	-
Total audit fees	<u>321,574</u>	<u>407,698</u>

7 Tax on (loss) / profit on ordinary activities

	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
(Loss) on ordinary activities before tax (AWE)	(2,241,019)	(1,297,790)
Profit on ordinary activities before tax (AWR)	<u>-</u>	<u>13,127,923</u>
Corporation tax charge at the standard rate of 12.5% (AWR)	-	1,640,991
Effects of		
Nondeductible expenses	-	(283,326)
Trading loss carried forward	-	313,167
Foreign tax adjustment	(792)	(28,066)
Tax charge on profit of AWR for the 10 months pre-merger	1,291,482	-
Prior year (over) provision	(807,035)	(375,511)
Movement in deferred tax	77,725	1,237,725
Corporation tax charge	<u>561,381</u>	<u>2,504,980</u>
Ireland	565,458	1,557,197
Foreign tax	(4,077)	947,783
Corporation tax charge	<u>561,381</u>	<u>2,504,980</u>

Deferred tax is due to timing differences arising mainly on the share-based payment expenses

The taxable loss for AWE for the year ended 31 December 2013 relates to the results of the merged companies as if the merger took place on January 1, 2013. The tax charge for AWR relates to the 10 months of 2013 before the occurrence of the merger

8 Debt securities

Debt securities and other fixed income securities are all on recognised stock exchanges.

	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Opening balance	152,561,978	161,480,031
Additions	142,993,074	32,217,404
Disposals	(128,111,441)	(41,025,318)
Valuation adjustment/ amortisation/ foreign exchange	(1,793,981)	(110,139)
	<u>165,649,630</u>	<u>152,561,978</u>

The amortised cost of debt securities and other fixed income securities held at December 31, 2013 was \$164,466,879 (2012 \$150,763,636)

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(continued)

9 Debtors

	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Debtors arising from insurance and reinsurance operations		
Amounts due from external parties	<u>57,995,815</u>	<u>38,089,048</u>
Other debtors due within twelve months		
Deferred tax asset	176,359	254,085
Corporation tax asset	725,667	145,487
Intercompany loan interest	13,950,000	13,950,000
Prepayments and other debtors	1,206,528	1,426,429
Amounts due from affiliates	<u>6,637,885</u>	<u>3 550,097</u>
	<u>22,696,439</u>	<u>19,326 098</u>
Other debtors due after twelve months		
Intercompany loan	<u>250,000,000</u>	<u>250,000,000</u>
Reconciliation of deferred tax asset on share-based payment expenses		
Opening balance	254,085	1,491,810
Movement in year	<u>(77,726)</u>	<u>(1 237,725)</u>
Closing balance	<u>176,359</u>	<u>254,085</u>

10 Equity share capital

	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Authorised		
100,000,000 ordinary shares of US\$1 each	<u>100,000,000</u>	<u>100 000,000</u>
Issued		
10,000,000 ordinary shares of US\$1 each	<u>10,000,000</u>	<u>10,000,000</u>

Each ordinary share is issued with one voting right attached

11 Employee benefit plan

Allied World Assurance Company Holdings, AG ("AWAC Holdings") has implemented the 2012 Omnibus Incentive Compensation Plan (the "2012 Omnibus Plan") Under the 2012 Omnibus Plan, up to 1,500,000 common shares may be issued, subject to adjustment. The 2012 Omnibus Plan provides for the grant of options, restricted stock units, cash incentive awards, performance-based compensation awards and other equity-based and equity-related awards

The Allied World Assurance Company Holdings, AG Third Amended and Restated 2001 Employee Stock Option Plan (the "Plan"), the Allied World Assurance Company Holdings, AG Third Amended and Restated 2004 Stock Incentive Plan (the "Stock Incentive Plan") and the Allied World Assurance Company Holdings, AG Third Amended and Restated Long-Term Incentive Plan (the "LTIP") were automatically terminated, replaced and superseded by the 2012 Omnibus Plan, except that any outstanding awards granted under such plans remain in effect pursuant to their terms

a) Employee stock option plan

Options under the Plan are exercisable in certain limited conditions, expire after 10 years, and generally vest pro-rata over four years from the date of grant. The exercise price of options issued shall not be less than 100% of the fair market value of the common shares of AWAC Holdings on the date the option award is granted No stock options have been granted since 2011 under the Plan

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(continued)

11 Employee benefit plan (continued)

	31 Dec 2013		31 Dec 2012 (as restated)	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at beginning of year	81,198	\$50.16	111,383	\$48.61
Granted	-	-	-	-
Exercised	(15,917)	(\$47.35)	(11,282)	(\$44.34)
Forfeited	(4,463)	(\$59.34)	(4,667)	(\$54.45)
Transfers out	-	-	(14,236)	(\$48.28)
Outstanding at end of year	<u>60,818</u>	<u>\$50.22</u>	<u>81,198</u>	<u>\$50.16</u>
Exercisable at end of year	<u>44,242</u>	<u>\$47.55</u>	<u>42,544</u>	<u>\$45.95</u>
Fair value at end of year	<u>\$3,806,323</u>		<u>\$2,325,296</u>	

The weighted average share price at the date of exercise for share options exercised during the year was \$93.85. The options outstanding at December 31, 2013 had a weighted average remaining contractual life of 5.94 years. The expense relating to the plan for the year ended December 31, 2013 and 2012 was \$233,163 and \$283,533 respectively.

The Company has assumed an annual forfeiture rate of 2.6% for options granted in determining the compensation expense over the service period.

b) Restricted stock units ("RSUs") and performance-based equity awards ("PUs")

The RSUs vest pro-rata over four years from the date of grant. The compensation expense for the RSUs is based on the fair market value of AWAC Holding's common shares at the time of grant. The Company has assumed an annual forfeiture rate of 2.3% for RSUs granted in determining the compensation expense over the service period.

Beginning in 2010, performance-based RSUs were granted. The performance-based RSUs generally vest pro-rata over a three-year period based on the achievement of certain performance conditions. For the performance-based RSUs granted in 2013, 2012 and 2011, it is anticipated that the performance goals are likely to be achieved. Based on the performance goals, the performance-based RSUs granted in 2013, 2012 and 2011 are expensed at 100%, 100% and 130%, respectively, of the fair market value of AWAC Holding's common shares on the date of grant. The expense is recognised over the performance period.

	31 Dec 2013	31 Dec 2012 as restated
Outstanding RSUs and PUs at beginning of year	22,632	14,846
RSUs and PUs granted	1,382	3,061
RSUs and PUs vested	(15,426)	(11,254)
RSUs and PUs forfeited	-	(5,309)
Transfers in	-	21,288
Outstanding RSUs PUs at end of year	<u>8,588</u>	<u>22,632</u>
Fair value at end of year	<u>\$968,812</u>	<u>\$1,783,402</u>

c) Long-term incentive plan ("LTIP")

LTIP awards represent the right to receive a number of common shares in the future, based upon the achievement of established performance criteria during an applicable performance period. The compensation expenses for these awards are based on the fair market value of the AWAC Holding's common shares at the time of grant. The expense is recognised over the performance period.

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11 Employee benefit plan (continued)

	31 Dec 2013	31 Dec 2012 as restated
Outstanding LTIPs at beginning of year	-	14,750
LTIPs granted	-	-
LTIPs vested	-	-
LTIPs forfeited	-	(14,750)
Transfer in	-	-
Outstanding LTIPs at end of year	-	-
Fair value at end of year	-	-

d) Cash-equivalent stock awards

As part of the annual year-end compensation awards, both stock-based awards and cash-equivalent stock awards were granted. The cash-equivalent awards were granted to employees who received RSU and performance-based awards and were granted in lieu of granting the full award as a stock-based award. The cash-equivalent RSU awards vest pro-rata over four years from the date of grant. The cash-equivalent performance-based awards vest after a three-year performance period. As the cash-equivalent awards vest, a liability equal to the product of the fair market value of AWAC Holding's common shares as of the end of the reporting period and the total awards outstanding is established. The liability is included in "Accruals and deferred income" in the balance sheet and the changes in the expense are recorded in "Net operating expenses and acquisition costs" in the profit and loss account.

The stock related compensation expense relating to cash equivalent awards for the year ended December 31, 2013 and 2012 was \$2,858,948 and \$1,748,769 respectively.

(e) Save as you earn plan ("SAYE")

Under the Allied World Europe Approved Savings Related Share Option Plan ("SAYE Plan"), eligible employees of the Company have the option to purchase common shares of Allied World Assurance Company Holdings, AG based on cumulative monthly contributions from salary as elected at the commencement of the SAYE Plan. The option price for the plan is set at a 15% discount from the fair market value of one common share on the date of offering.

12 Movement in equity shareholders' fund

	Share capital US\$	Capital contribution US\$	Profit & loss account US\$	Total US\$
Balance as at January 1, 2012 (AWE)	5,000,000	45,000,000	12,348,600	62,348,600
Balance as at January 1, 2012 (AWR)	5,000,000	305,000,000	30,805,659	340,805,659
Profit on ordinary activities after tax as restated			9,325,153	9,325,153
Balance as at January 1, 2013 as restated	10,000,000	350,000,000	52,479,412	412,479,412
Loss on ordinary activities after tax			(2,802,400)	(2,802,400)
Balance as at December 31, 2013	10,000,000	350,000,000	49,677,012	409,677,012

13. Technical provisions

	Gross amount US\$	Reinsurance amount US\$	Net amount US\$
Claims outstanding			
At January 1, 2013 as restated	524,475,823	(460,982,669)	63,493,154
Movement in provision	(23,009,794)	16,221,009	(6,788,785)
At December 31, 2013	501,466,029	(444,761,660)	56,704,369

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NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2013
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13. Technical provisions (continued)

Unearned premium reserve	Gross amount US\$	Reinsurance amount US\$	Net amount US\$
At January 1, 2013 as restated	85,055,840	(76,886,373)	8,169,467
Movement in provision	15,572,683	(14,812,661)	760,022
At December 31, 2013	<u>100,628,523</u>	<u>(91,699,034)</u>	<u>8,929,489</u>

Our results for the year ended December 31, 2013 were impacted by a favorable gross reserve development of \$33.7 million (net \$4.7 million). This consisted of gross favorable developments of \$42.3 million (net \$5.2 million) for the 2002-2011 accident years for our liability book of business, \$6.9 million (net \$0.7 million) on our property book for the accident years 2005-2012 and \$4.8 million (net \$0.7 million) on our treaty reinsurance book for the accident years 2009-2013. These were off-set by gross adverse developments of \$18.1 million (net \$1.6 million) on our liability book for the 2009 and 2011 accident years and \$2.2 million (net \$0.3 million) on our property book for the current accident year.

Our results for the year ended December 31, 2012 were impacted by a favorable gross reserve development of \$69.7 million (net \$8.6 million). This consisted of gross favorable developments of \$55.0 million (net \$7.1 million) for the 2002 to 2008 accident years for our liability book of business, a \$16.3 million (net \$1.6 million) on the property book for the 2004 to 2012 accident years and \$4.3 million (net \$0.7m) on the treaty reinsurance book for the 2009 to 2011 accident years. These were off-set by adverse gross reserve developments of \$2.2 million (net \$0.3 million) on the property book for the accident year 2011 and \$3.7 million (net \$0.5 million) on the treaty reinsurance book for the 2012 accident year.

14. Creditors

	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Creditors arising out of insurance and reinsurance operations		
Third party creditors	22,791,562	10,628,218
Amounts due to affiliates	6,579,813	8,070,555
	<u>29,371,375</u>	<u>18,698,773</u>
Other creditors including taxation and social security		
Amounts due to affiliates	4,710,875	3,006,476
Other creditors	1,658,800	1,863,932
	<u>6,369,675</u>	<u>4,870,408</u>

15 Parent company

The company's parent company is Allied World Assurance Holdings (Ireland), Ltd, a company incorporated in Bermuda. The largest and smallest group into which the results of the company are consolidated is that headed by Allied World Assurance Company Holdings, AG. Copies of the consolidated group financial statements may be obtained from Lindenstrasse 8, 6340 Baar/Zug, Switzerland.

16 Related party transactions and cashflow statement

Transactions with other companies within the group and cash flow statements are not disclosed as the company has taken advantage of the exemption available under Financial Reporting Standard No. 8 (Related Party Disclosures) and Financial Reporting Standard No. 1 (Cash Flow Statements), on the basis that the consolidated financial statements of Allied World Assurance Company Holdings, AG are publicly available as referred to in note 15.

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17 Tangible fixed assets

	Furniture and fittings US\$	Information technology US\$	Leasehold improvements US\$	Total US\$
Cost				
As at January 1, 2013	334,802	2,091,710	4,925,862	7,352,374
Additions	-	262,212	185,532	447,744
Disposals	-	(142,213)	(293,951)	(436,164)
As at December 31, 2013	<u>334,802</u>	<u>2,211,709</u>	<u>4,817,443</u>	<u>7,363,954</u>
Depreciation				
As at January 1, 2013	330,756	1,875,233	2,926,262	5,132,251
Charge for the year	3,480	194,292	319,764	517,536
Depreciation on disposals	-	(117,703)	(97,758)	(215,461)
As at December 31, 2013	<u>334,236</u>	<u>1,951,822</u>	<u>3,148,268</u>	<u>5,434,326</u>
Net book value at December 31, 2013	<u>566</u>	<u>259,887</u>	<u>1,669,175</u>	<u>1,929,628</u>
Net book value at December 31, 2012	<u>4,046</u>	<u>216,477</u>	<u>1,999,600</u>	<u>2,220,123</u>

18 Accruals and deferred income

	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
Accruals	11,379,748	6,376,079
Unearned ceding commissions	9,592,178	7,454,455
Unearned ceding commissions from affiliates	10,626,062	4,086,414
	<u>31,597,988</u>	<u>17,916,948</u>

19 Lease commitments

The Company leases office space under operating leases in Dublin and London. The following are the future minimum rental payments as of December 31, 2013

	31 Dec 2013 US\$	31 Dec 2012 US\$ as restated
One year or less	733,869	1,215,451
Between one and three years	2,011,314	1,362,727
Between one and five years	2,685,245	1,347,860
After five years	2,450,738	1,853,308
	<u>7,881,166</u>	<u>5,779,346</u>

Total rent expense for the years ended December 31, 2013 and December 31, 2012 was \$1,187,023 and \$1,210,414 respectively

20 Approval of financial statements

The Directors approved the financial statements on March 25, 2014