

IMPORTANT INFORMATION ABOUT THE SYNDICATE REPORT AND ACCOUNTS

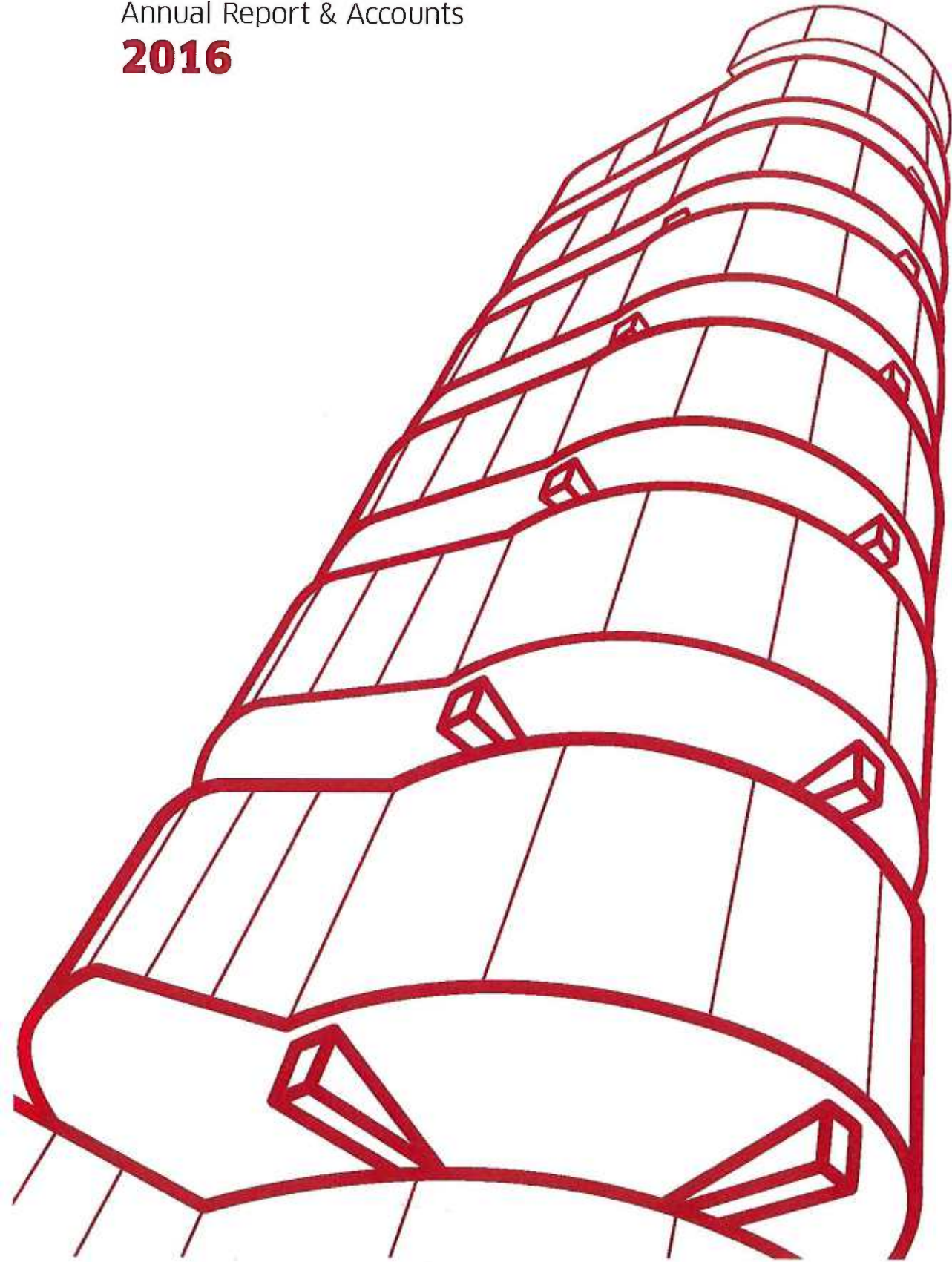
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Annual Report & Accounts
2016



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DIRECTORS AND ADMINISTRATION

Managing Agent

Managing Agent

Allied World Managing Agency Limited (AWMA) is the managing agent of Syndicate 2232. AWMA is a wholly owned subsidiary (indirectly held) of Allied World Assurance Company Holdings, AG.

Directors

J Evans (Non-Executive Chairman)
J James
N Macmillan (Non-Executive)
E McCusker (Non- Executive)
N Lightbown
M O'Leary
D Powell
D Russell
S Shah

Company secretary

C Cowan

Managing agent's registered office:

20 Fenchurch Street
London
EC3M 3BY

Managing agent's registered number

07249776

Syndicate

Active underwriter

D Powell

Bankers

Barclays Bank plc - London
Citibank NA - London, New York and Singapore
RBC Dexia - Toronto
HSBC - Singapore

Statutory auditor

Deloitte LLP

Appointed actuary

KPMG LLP

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of Allied World Managing Agency Limited (AWMA), the managing agent, present their report for Syndicate 2232 ('the Syndicate') for the year ended 31 December 2016.

Basis of Preparation

This Annual Report is prepared using the annual basis of accounting as required by Statutory Instrument No.1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations').

Principal Activities

The principal activity of the Syndicate is the transaction of general insurance and reinsurance business. The Syndicate underwrites a broad range of classes of business concentrating mainly on property and casualty business written on both a direct and reinsurance basis.

The directors have a reasonable expectation that the Syndicate and AWMA have adequate resources to continue in operational existence for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the financial statements.

Results

The result for the year ended 31 December 2016 was a profit on the Technical Account of £2.0m (2015: loss £4.0m).

The Syndicate's key financial performance indicators during the year were as follows:

	2016	2015
	£000	£000
Gross premiums written	163,825	144,172
Gross premiums earned	158,810	136,665
Net premiums earned	113,596	114,190
Balance on Technical Account	1,928	(3,982)

Review of the Business

The business of the Syndicate continues to be that of underwriting business at Lloyd's. The Syndicate is a member of the Lloyd's Asia platform in Singapore and also operates through a Service Company in Miami, Allied World Reinsurance Management Company. The Syndicate is approved by Lloyd's to underwrite premium income through external agents under a binding authority.

Changes to CIRC capital regulations favoring onshore carriers prompted the syndicate to join the Lloyd's Insurance China platform for the 2016 underwriting year. Previously this business had been written exclusively offshore from our Lloyd's Asia presence in Singapore.

The Syndicate entered into a 30 percent whole account quota share arrangement with a related company, Allied World Assurance Company Limited, for the 2016 year of account.

Underwriting Result

The Syndicate produced a positive underwriting result in 2016 of £44m (2015:£48m). After expenses and the investment result but before foreign exchange adjustments, the overall balance on the technical account was a profit of £2.0m (2015: loss of £4.0m).

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Underwriting Result (continued)

The proportion of gross written premium emanating from London has reduced to 66%, (2015: 71%) of the Syndicate's total and contributed approximately 61% (2015: 78%) of the underwriting result. This was driven by growth in direct and facultative lines of business in Singapore and reduced income on the London Construction account.

	2016 Gross written premium £000	2016 Underwriting result £000	2015 Gross written premium £000	2015 Underwriting result £000
LONDON (incl Miami):				
Aviation (incl Liability & Hull)	8,265	(868)	8,477	1,569
Property Direct & Facultative	15,508	(1,801)	17,687	8,421
Treaty Property Latin America	17,286	8,166	16,569	11,411
Treaty Casualty Latin America	12,383	5,455	8,407	3,362
Marine	11,388	3,620	8,960	2,831
Casualty (incl E&O,D&O,General)	37,879	12,147	35,472	9,310
Construction	4,786	635	7,263	329
Total London	107,495	27,354	102,835	37,233
SINGAPORE				
Aviation (incl Liability & Hull)	3	25	-	-
Property Direct & Facultative	1,101	66	-	-
Treaty Property	27,180	15,155	34,718	8,211
Treaty Casualty	4,170	226	4,376	1,510
Non-treaty Casualty	7,998	1,336	2,243	700
Marine	940	83	-	-
Construction	828	78	-	-
Total Singapore	42,220	16,969	41,337	10,421
CHINA				
Treaty Property	13,367	(5)	-	-
Treaty Casualty	222	219	-	-
Total China	13,589	214	-	-
JAPAN				
Casualty (incl E&O,D&O,General)	521	(108)	-	-
Total Japan	521	(108)	-	-
TOTAL SYNDICATE	163,825	44,429	144,172	47,654
Allocated investment return		1,717		(1,990)
Net syndicate operating expenses, including net acquisition costs and foreign exchange movements		(42,517)		(48,349)
Member's personal expenses		(1,701)		(1,297)
Balance on the technical account		1,928		(3,982)

Expenses and Investment results

The levels of "Gross brokerage and commissions" and "other acquisition costs" (which typically include overseas taxes and levies) when expressed as a ratio of gross written premium are slightly higher in 2016 when compared to 2015 at 19.4% and 18.6% respectively. This increase is in partly due to a continued change in the business mix as the volume of business distributed via coverholders, typically attracting higher acquisition costs, has grown. It also reflects trends in the intermediary market including packaging business into Lineslips and similar arrangements with associated higher levels of fees and charges.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Expenses and investment results (continued)

The administrative expense ratio has decreased to 22.3% (2015: 24.9%). This improvement reflects the growing maturity of the business and management's focus on reducing expense.

The Syndicate continues to build up its overall cash and Investment balances as reserves expand. Given the low interest rates prevailing throughout most of the World's money markets, a relatively modest investment return was achieved during the year of £1.7m (2015: loss of £1.9m).

Member's personal expenses include New Central Fund contributions and Lloyd's subscriptions.

Foreign exchange and currency translation differences

The non - technical foreign exchange profit of £6.4m is driven by an accounting estimate change to the valuation of IBNR reserves. Adjusting for the change in the reserve estimate has not moved the IBNR balance outside the range of reasonable reserves.

The strengthening of all major currencies relative to Sterling contributed to a currency translation loss of £11.0m, primarily a result of the revaluation of unmatched liabilities.

Geographic segmentation table

A geographical analysis of gross written premium by territory of original insured, for Direct and Facultative (D&F) business and territory of original cedant for treaty business is shown below:

	2016 £000	2015 £000
UK	16,573	14,042
Other EU member states	18,851	14,388
Europe excluding EU member states	4,537	2,494
United States of America	13,656	18,008
Canada	7,690	7,468
Asia Pacific	67,865	52,825
Central & South America	30,385	29,685
Middle East & Africa	4,268	5,262
Total	163,825	144,172

The principle risks and uncertainties facing the Syndicate, as detailed in note 19 and 20 to the financial statements are as follows:

- Market Risk
- Currency Risk
- Interest Rate Risk
- Credit Risk
- Liquidity Risk
- Operational Risk
- Strategic Risk
- Group Risk
- Regulatory and Compliance Risk
- Underwriting Risk
- Reserve Risk
- Reinsurance Risk

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Future developments

On December 18, 2016, the Syndicate's ultimate parent, Allied World Assurance Company Holdings, AG ("AWAC Holdings"), entered into a transaction with Fairfax Financial Holdings Limited ("Fairfax"), whereby Fairfax will acquire all of the outstanding registered ordinary shares of AWAC Holdings. The merger agreement has been unanimously approved by both companies' Board of Directors.

The acquisition is anticipated to close in the second quarter of 2017 subject to regulatory approval. There can be no assurances that the transaction will occur.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (CONTINUED)

Rating Agencies

Syndicate 2232 is rated A+ (Strong) by Standard & Poor's and AA- (Very Strong) by Fitch.

All Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its network of global licences and the Central Fund. Therefore syndicate 2232 benefits from the following ratings held by Lloyd's; A by A.M. Best Company, A+ (Strong) by Standard & Poor's, and AA- (Very Strong) by Fitch

Directors

The directors set out in the table below have held office for the whole period from 1 January 2016 to the date of this report unless stated otherwise.

J Evans

P Gates (resigned 15 February 2017)

J James

N Lightbown

N Macmillan

E McCusker

M O'Leary (appointed 1 April 2016)

D Powell

D Russell

S Shah (appointed 15 February 2017)

Company secretary

C Cowan (appointed 26 July 2016)

Working Capital

AWMA liaises closely with the Syndicate's aligned capital provider (Allied World Capital (Europe) Limited) concerning working capital requirements. AWMA will provide advance notice whenever there might be a need to make a cash call in order to improve the Syndicate's working capital position.

Syndicate Annual General Meeting

It is not proposed to hold an Annual General Meeting this year and the Syndicate's sole participating underwriting member has been notified to this effect.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (CONTINUED)

Disclosure of Information to the Auditor

The directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, so far as they are each aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditor

The managing agent proposes the re-appointment of Deloitte LLP as the Syndicate auditor.

By order of the Board



D Russell
Managing Director
21 March 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations') require the managing agent to prepare Syndicate annual accounts for each financial year. Under that law the managing agent has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period.

In preparing those Syndicate annual accounts, the managing agent is required to:

1. select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
4. prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume the Syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 2232

We have audited the syndicate annual financial statements for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's 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 syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities, the managing agent is responsible for the preparation of syndicate annual financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual financial statements in accordance with applicable 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 syndicate annual financial statements

An audit involves obtaining evidence about the amounts and disclosures in the annual financial statements sufficient to give reasonable assurance that the annual 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 syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the annual financial statements. In addition, we read all the financial and non-financial information in the annual 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 syndicate annual financial statements

In our opinion the annual financial statements:

- give a true and fair view of the syndicate's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 2232 (CONTINUED)

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year in which the annual financial statements are prepared is consistent with the annual financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.



Mark McQueen ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
21 March 2017

**INCOME STATEMENT:
TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Notes	2016 £000	2015 £000
Earned premiums, net of reinsurance			
Premiums written			
Gross premiums written	3	163,825	144,172
Outward reinsurance premiums		(59,949)	(27,974)
Net premiums written		103,876	116,198
Change in the provision for unearned premiums:			
Gross amount		(5,015)	(7,507)
Reinsurers' share		14,735	5,499
Change in the net provision for unearned premiums		9,720	(2,008)
Earned premiums, net of reinsurance		113,596	114,190
Allocated investment return transferred from the non-technical account		1,717	(1,990)
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(48,284)	(42,890)
Reinsurers' share		6,551	5,752
Net claims paid		(41,733)	(37,138)
Change in the provision for claims:			
Gross amount		(44,774)	(36,726)
Reinsurers' share		17,340	7,328
Change in the net provision for claims	4	(27,434)	(29,398)
Claims incurred net of reinsurance		(69,167)	(66,536)
Net Syndicate operating expenses	5	(42,517)	(48,349)
Member's personal expenses	8	(1,701)	(1,297)
Balance on the technical account for general business		1,928	(3,982)

**INCOME STATEMENT:
NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Notes	2016 £000	2015 £000
Balance on the general business technical account		1,928	(3,982)
Income from investments		1,441	881
Investment management expenses		(143)	(2)
Unrealised loss on investments		(87)	(2,644)
Realised gain/(loss) on investments		506	(225)
Investment return (net of expenses and charges)		1,717	(1,990)
Allocated investment return transferred to technical account		(1,717)	1,990
Foreign exchange profit/(loss)		6,449	(2,303)
Profit/(loss) for the financial year		8,377	(6,285)

All operations relate to continuing activities.

The notes on pages 18 to 39 form an integral part of these financial statements.

**INCOME STATEMENT:
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Notes	2016 £000	2015 £000
Profit/(loss) for the financial year		8,377	(6,285)
Other comprehensive loss:			
Currency translation differences		(10,970)	(3,943)
Total comprehensive loss for the year	12	(2,593)	(10,228)

STATEMENT OF FINANCIAL POSITION – ASSETS
AT 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Investments			
Financial investments	9	124,390	90,646
Reinsurers' share of technical provisions			
Claims outstanding		57,160	29,664
Provision for unearned premium		36,154	16,631
		93,314	46,295
Debtors			
Debtors arising out of direct insurance/reinsurance operations	10	67,351	45,940
Other debtors		2,217	273
		69,568	46,213
Other assets			
Cash at bank and in hand		23,165	15,969
Overseas deposits	11	6,336	3,950
		29,501	19,919
Prepayments and accrued income			
Accrued interest and rent		49	10
Deferred acquisition costs		17,282	12,745
Other prepayments and accrued income		1,714	700
		19,045	13,455
Total assets		335,818	216,528

The notes on pages 18 to 39 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION – LIABILITIES
AT 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Capital and reserves			
Member balance	12	(43,441)	(33,073)
Technical provisions			
Claims outstanding		225,947	155,053
Provision for unearned premium		88,490	66,939
		314,437	221,992
Creditors			
Creditors arising out of direct insurance/reinsurance operations	13	36,889	43
Other creditors	13	13,709	21,100
		50,598	21,143
Accruals and deferred income	14	14,224	6,466
Total liabilities		335,818	216,528

The notes on pages 18 to 39 form an integral part of these financial statements.

The financial statements on pages 12 to 39 were approved by the board of Allied World Managing Agency Limited and were signed on its behalf by:


 M O'Leary
 Finance Director
 21 March 2017

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £000	2015 £000
Cash flows from operating activities		
Profit/(loss) for the financial year	8,377	(6,285)
Adjustments for:		
Unrealised investment return	87	2,644
Unrealised foreign exchange	(10,970)	(3,690)
Operating cash flow before movement in working capital	(2,506)	(7,331)
Increase in gross technical provisions	92,445	51,870
Increase in reinsurer's share of gross technical provision	(47,019)	(14,338)
Increase in debtors	(28,945)	(8,901)
Increase in creditors	37,213	12,421
Realised investment return	(1,804)	(654)
Net cash flows from operating activities	49,384	33,067
Cash flows from investing activities		
Purchase of debt instruments	(100,903)	(82,751)
Sale of debt instruments	78,957	64,202
Investment income received	1,947	657
Increase in overseas deposits	—	(58)
Unrealised movement in investments	3	362
Investment charges	(143)	(2)
Accrued amortisation	1,362	—
Foreign exchange	(18,513)	40
Net cash outflows from investing activities	(37,290)	(17,550)
Cash flows from financing activities		
Transfer to members in respect of underwriting participations	(7,776)	(12,496)
Net cash outflows from financing activities	(7,776)	(12,496)
Net Increase in case and cash equivalents	4,318	3,021
Cash and cash equivalents at 1 January	15,970	12,949
Foreign exchange	2,877	—
Cash and cash equivalents at 31 December	23,165	15,970

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016

1. Basis of Preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, Financial Reporting Standard 102, The Financial Standard applicable in the UK (FRS 102) as issued in August 2014, and Financial Reporting Standard 103 Insurance Contracts (FRS 103) as issued in February 2017. These financial statements for the year ended 2016 comply with FRS 102.

2. Accounting Policies

The principal accounting policies are described below. These accounting policies have been applied consistently throughout the current and preceding reporting period.

2(a) Premiums written and reinsurance premiums ceded

Written gross and outwards reinsurance premiums comprise premiums on contracts incepting during the financial year. Written premiums are disclosed gross of commission payable to intermediaries and exclude taxes and duties levied on premiums. Outwards reinsurance premiums are disclosed gross of commissions and profit participations recoverable from reinsurers. Premiums written include estimates for 'pipeline' premiums. Reinstatement premiums related to property catastrophe reinsurance are estimated and accrued based upon contractual terms applied to the amount of losses expected to be paid.

2(b) Unearned premiums

The provision for unearned premium comprises the proportion of gross and outwards reinsurance premiums written, which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method.

2(c) Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the acquisition of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which is unearned at the balance sheet date.

2(d) Claims provisions and related recoveries

The provision for claims and claims expenses includes estimates for unpaid claims and claims expenses on reported losses as well as an estimate of losses incurred but not reported (IBNR). The provision is based upon individual claims, case reserves and other reserve estimates reported by insured's and ceding companies as well as management estimates of ultimate losses. Inherent in the estimates of ultimate losses are expected trends in claims severity and frequency and other factors which could significantly vary as claims are settled.

The directors of the managing agency consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate losses may vary materially from the amounts provided in the financial statements. Ultimate loss estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in the financial statements of operations in the period in which they become known and are accounted for as changes in estimates.

Amounts recoverable from reinsurers are calculated in a manner consistent with the claim liability associated with the reinsured policies. The amounts recoverable from reinsurers are recorded net of bad debt provision for estimated uncollectable recoveries.

2(e) Unexpired risk

Provision is made for unexpired risks arising from general business where the expected value of the claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated separately by classes of business which are managed together, after taking into account the relevant investment return.

2(f) Investments

Investments are carried at their current fair market value as shown in note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

2(g) Investment return

Investment return comprises income received and receivable on fixed income securities, interest earned and accrued on cash, realised gains on disposal of investments and unrealised gains on investments held.

All investment return is initially recognised in the non-technical account. It is then transferred to the technical account as it all relates to funds supporting underwriting business.

2(h) Rates of exchange

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Revenues, costs and non-monetary assets and liabilities are translated at the exchange rates ruling at the dates 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. Profits and losses arising from the translation from functional to presentational currency are dealt with through the statement of other comprehensive income.

2(i) Taxation

Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to the member is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by members on underwriting results.

2(j) Bad debts

Bad debts are provided for only where specific information is available to suggest a debtor may be unable or unwilling to settle its debt to the Syndicate.

2(k) Reinsurers' commissions and profit participations

Reinsurers' commissions and profit participations, which include reinsurance profit commission and overrides, have been treated as a contribution to expenses, rather than as a premium adjustment.

2(l) Reporting currency

The functional currency of the syndicate is United States Dollars (\$), as it is the currency of the primary economic environment. The presentational currency is United Kingdom Pound Sterling (£).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

3. Segmental Analysis

An analysis of the underwriting result before investment return is set out below:

2016	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct Insurance						
Aviation	2,785	3,247	(3,390)	(821)	(340)	(1,304)
Transport	5,044	5,250	(2,054)	(1,449)	(928)	819
Fire and other damage to property	5,476	7,408	(4,201)	(1,995)	(557)	655
Third-party liability	50,851	46,739	(30,954)	(12,169)	(5,580)	(1,964)
Pecuniary loss	3,433	1,673	(1,049)	(831)	(369)	(576)
	67,589	64,317	(41,648)	(17,265)	(7,774)	(2,370)
Reinsurance	96,236	94,493	(51,410)	(26,953)	(13,551)	2,579
Total	163,825	158,810	(93,058)	(44,218)	(21,325)	209

Of the £163.8m gross premiums written, £107.5m were underwritten in the UK, £42.2m were underwritten in Singapore, £13.6m were underwritten in China and £0.5m were underwritten in Japan.

2015	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct Insurance						
Aviation	2,981	2,562	(2,285)	(993)	(145)	(861)
Transport	5,210	5,231	(2,261)	(1,779)	(544)	647
Fire and other damage to property	10,760	5,699	(5,049)	(3,143)	(655)	(3,148)
Third-party liability	38,222	34,355	(21,105)	(11,878)	(4,251)	(2,879)
Pecuniary loss	999	1,049	(839)	(272)	(95)	(157)
	58,172	48,896	(31,539)	(18,065)	(5,690)	(6,398)
Reinsurance	86,000	87,769	(48,078)	(31,581)	(3,705)	4,405
Total	144,172	136,665	(79,617)	(49,646)	(9,395)	(1,993)

Of the £144.2m gross premiums written, £102.8m were underwritten in the UK and £41.4m in Singapore.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

4. Change in Net Provision for Claims

The change in net provision for claims is made up of the following:

	2016 £000	2015 £000
Gross reported for outstanding claims	17,699	14,687
Gross claims incurred but not reported	26,631	21,636
Provision for unallocated loss adjustment expenses	444	403
	44,774	36,726
Reinsurers' share	(17,340)	(7,328)
Total	27,434	29,398

5. Net Syndicate Operating Expenses

	2016 £000	2015 £000
Brokerage and commissions	29,530	24,621
Other acquisition costs	2,367	2,233
Change in deferred acquisition costs	4,995	(501)
<i>Gross acquisition costs</i>	36,892	26,353
Reinsurers' commissions and profit participations	(18,079)	(5,212)
<i>Net acquisition costs</i>	18,813	21,141
Administrative expenses-other	23,704	27,208
Total	42,517	48,349

Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT)

2016 £000	2015 £000
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An analysis of the auditor's remuneration is as follows:

Audit fees:

Fees payable to the Syndicate's auditor for the audit of these financial statements

101	107
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Non-audit fees:

Other services pursuant to legislation

143	112
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Other services pursuant to legislation include fees for the Syndicate half year review, half year review and year-end audit of Solvency II balance sheet and fees payable to an affiliate of the Syndicate auditor in respect of the Singapore branch regulatory return.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

6. Staff Numbers and Costs

The average number of full time equivalent employees employed by the Allied World Group of Companies but working on the Syndicate matters during the year was as follows:

	2016	2015
Administration and Finance	43	41
Underwriting and Claims	45	39
Total	88	80

AWMA does not charge a managing agency fee, it has recharged various expenses which have been properly incurred on the Syndicate's behalf. These amounted to £12.9m (2015: £12.7m) for the financial period.

7. Emoluments of the Directors of AWMA

The directors of AWMA received the following aggregate remuneration of £1,386k (2015:£1,234k) charged to the Syndicate and included within net operating expenses.

The amount recharged to the Syndicate in respect of the aggregate remuneration of the active underwriter for the year ended 31 December 2016 was £444k (2015: £363k).

8. Member's Personal Expenses

	2016 £000	2015 £000
Managing agent's profit commission	—	350
New Central Fund (NCF)	748	461
Lloyd's Subscriptions	953	486
Total	1,701	1,297

The managing agency profit commission is payable to the former Managing Agent, Capita Managing Agency (CMA).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

9. Financial investments

	Market Value 2016 £000	Cost 2016 £000	Market Value 2015 £000	Cost 2015 £000
Shares and other variable yield securities	12,820	12,820	13,402	13,402
Debt securities and other fixed income securities	111,570	116,602	77,244	79,847
Total	124,390	129,422	90,646	93,249

All debt securities and other fixed income securities are listed on a recognised stock exchange.

The Syndicate classifies its financial instruments held at fair value in its balance sheet using fair value hierarchy, as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Prices based on recent transactions in identical assets (either unadjusted or adjusted)
- Level 3 - Prices determined using the valuation technique

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Syndicate applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

The table below analyses financial instruments held at fair market value in the Syndicate's balance sheet at the reporting date by its level in the fair value hierarchy.

2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities	12,820	—	—	12,820
Debt securities and other fixed income securities	28,289	83,281	—	111,570
Overseas deposits	2,779	3,557	—	6,336
Total	43,888	86,838	—	130,726

2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities	13,402	—	—	13,402
Debt securities and other fixed income securities	24,015	53,228	—	77,243
Overseas deposits	2,058	1,892	—	3,950
Total	39,475	55,120	—	94,595

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

10. Debtors

	2016 £000	2015 £000
Debtors arising from insurance/reinsurance operations:		
Due from intermediaries	67,351	45,940

11. Overseas Deposits

Overseas deposits comprise funds which are lodged as a condition of conducting underwriting business in certain countries. Certain overseas deposits relating to Australian Situs business previously funded by the Syndicate were replaced in 2013 by a letter of credit (LOC) funded by Allied World Assurance Company, Ltd. The amount of LOC provided as at 31 December 2016 was AUS\$20.8m (31 December 2015: AUS\$20.1m).

12. Reconciliation of Member's Balances

	2016 £000	2015 £000
Member's balance at 1 January	(33,072)	(10,602)
Cash calls released in year	(4,624)	—
Profit distribution	(3,152)	(12,496)
Loss for the financial period	(2,593)	(9,975)
Member's balances carried forward at 31 December	(43,441)	(33,072)

13. Creditors

	2016 £000	2015 £000
Creditors arising from insurance/reinsurance operations:		
Amounts due to Intermediaries within one year	36,889	8,298
Other creditors		
Other creditors due within one year	13,709	12,845

Other creditors balance above comprises mainly of expense recharges from affiliated companies.

14. Accruals and Deferred Income

	2016 £000	2015 £000
Amounts due within one year	14,224	6,466

The balance above relates to various operating expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

15. Post Balance Sheet Events

There have been no post balance sheet events which require disclosure or an adjustment to the financial statements for the year ended 31 December 2016.

16. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating underwriting members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on UK regulatory requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. For its first three years of trading, the Syndicate's capital requirement was determined by Lloyd's.

Since FAL is not under the management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

17. Foreign Exchange Rates

The following currency exchange rates illustrate the main foreign currency rates of exchange which were used for currency translation.

	2016	2016	2015	2015
	Average	Year end	Average	Year end
	rate	rate	rate	rate
Australian Dollar	1.77	1.70	2.03	2.03
US Dollar	1.36	1.23	1.53	1.48
Canadian Dollar	1.74	1.66	1.94	2.06

18. Capital Management

The Solvency Capital Requirement for the Syndicate is based on the Economic Capital Model (ECM) approach. The capital requirement as at 31 December 2016 will be reported in line with Solvency II Pillar 3 deadlines in 2017.

The ECM is used for internal reporting and outputs are provided to the AWMA Board and relevant committees. Significant use is made of ECM outputs in the Syndicate's Own Risk Solvency Assessment (ORSA) report, the annual version of which was submitted to Lloyd's in March 2016, followed by quarterly ORSA submissions during 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

19. Financial Risk Management

The Syndicate's financial instruments include investments in securities at fair value through the profit and loss, other receivables, cash and cash equivalents, other payables, accruals and liabilities. The risks associated with these financial instruments include market risk (currency risk, and interest rate risk), credit risk and liquidity risk. The Syndicate also has insurance-related assets and liabilities which have similar financial risks.

The policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

Market risk is the risk relating to fluctuations in the market the Syndicate operates in and the repercussions of those fluctuations to the Syndicate (and all entities within that market). These fluctuations may include new competition within the market, price change due to lack of insurance events, interest rate increase or decrease and currency movements. The Syndicate manages its market risk by conducting sensitivity testing and by monitoring and reporting on risk internally.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

19. Financial Risk Management (continued)

Currency risk

The Syndicate's exposure to currency risk arises primarily from insurance debtors and insurance creditors denominated in currencies other than the functional currency. Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Carrying amounts of the Syndicate's material foreign currency denominated assets and liabilities are shown below, this excludes members balances (see note 12):

2016	GBP £000	USD £000	CAD £000	AUD £000	Total £000
Financial investments	19,790	38,242	17,509	48,849	124,390
Overseas deposits	2,698	287	2,644	707	6,336
Reinsurer's share of technical provisions	7,279	82,897	1,286	1,852	93,314
Insurance and reinsurance receivables	9,430	48,758	482	8,681	67,351
Cash and cash equivalents	5,209	11,126	110	6,720	23,165
Other assets	4,572	15,063	367	1,260	21,262
Total assets	48,978	196,373	22,398	68,069	335,818
Technical provisions	(124,463)	(147,050)	(7,156)	(35,768)	(314,437)
Insurance and reinsurance payables	(2,354)	(33,717)	153	(971)	(36,889)
Other creditors	(926)	(26,307)	(342)	(358)	(27,933)
Total liabilities	(127,743)	(207,074)	(7,345)	(37,097)	(379,259)
2015	GBP £000	USD £000	CAD £000	AUD £000	Total £000
Financial investments	13,067	36,477	10,229	30,872	90,645
Overseas deposits	1,437	427	1,450	636	3,950
Reinsurer's share of technical provisions	—	46,295	—	—	46,295
Insurance and reinsurance receivables	7,410	31,594	1,490	5,447	45,941
Cash and cash equivalents	5,748	7,552	49	2,620	15,969
Other assets	3,824	9,381	374	149	13,728
Total assets	31,486	131,726	13,592	39,724	216,528
Technical provisions	(42,234)	(167,228)	(6,456)	(6,074)	(221,992)
Insurance and reinsurance payables	(13)	(8,284)	—	(1)	(8,298)
Other creditors	(2,875)	(16,436)	—	—	(19,311)
Total liabilities	(45,122)	(191,948)	(6,456)	(6,075)	(249,601)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

19. Financial Risk Management (continued)

Interest rate risk

The fixed income securities in the Syndicate's investment portfolio are subject to interest rate risk. Any changes in interest rates have a direct effect on the market values of fixed income securities. As interest rates rise, the market values fall and vice versa.

In the table below, 50 basis point increase or decrease is used when reporting interest rate risk and represents management's assessment of the reasonably possible change in interest rates. The sensitivity analysis is based on estimates.

	2016 £000	2015 £000
Impact of 50 basis point increase on result	736	532
Impact of 50 basis point decrease on result	(736)	(532)
Impact of 50 basis point Increase on net assets	736	532
Impact of 50 basis point decrease on net assets	(736)	(532)

The Syndicate's method for interest rate fluctuations has not changed significantly over the financial year.

In an effort to minimise interest rate risk, our investment guidelines have been defined to ensure that assets held are well diversified and are primarily high-quality securities.

Credit risk

Credit risk arises out of the failure of a counterparty to perform according to the terms of the contract. The Syndicate's major areas of credit risk are in relation to its investment portfolio, its reinsurance program and the amounts due from policyholders and intermediaries.

The Syndicate's investment portfolio is managed pursuant to guidelines that follow prudent standards of diversification. The guidelines limit the allowable holdings of a single issue and issuers. The Syndicate believes that there are no significant concentrations of credit risk associated with its investment portfolio.

The Syndicate cedes insurance to external reinsurers in order to limit its maximum loss, to protect against concentration of risk within the portfolio and to manage exposure to catastrophic events. Because the ceding of insurance does not discharge the Syndicate from its primary obligation to the insureds, the Syndicate remains liable to the extent that its reinsurers do not meet their obligations under the reinsurance agreements. Therefore, the Syndicate regularly evaluates the financial condition of its reinsurers and monitors concentration of credit risk. No material provision has been made for unrecoverable reinsurance as of December 31, 2016 and 2015 as the Syndicate believes that reinsurance balances will be recovered.

Insurance balances receivable primarily consist of net premiums due from insureds and reinsureds. The Syndicate believes that the counterparties to these receivables are able to meet, and will meet, all of their obligations. The Syndicate's credit risk is further reduced by the contractual right to offset loss obligations or unearned premiums against premiums receivable. Consequently, the Syndicate has not included any material allowance for doubtful accounts against the receivable balance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

19. Financial Risk Management (continued)

Credit risk (continued)

The following table show aggregated credit risk exposure for assets with external credit ratings:

2016	AAA	AA	A	BBB or Less	Not rated	Total
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities	3,856	92	6,750	—	2,122	12,820
Debt securities and other fixed income securities	91,379	20,191	—	—	—	111,570
Overseas deposits as Investments	2,326	637	414	1,980	979	6,336
Reinsurer' share of claims outstanding	—	9,031	46,444	1,685	—	57,160
Reinsurance debtors	—	258	805	2	—	1,065
Cash at bank and in hand	—	176	22,989	—	—	23,165
Total credit risk	97,560	30,385	77,402	3,668	3,101	212,116

2015	AAA	AA	A	BBB or Less	Not rated	Total
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities	4,782	1,561	6,517	—	542	13,402
Debt securities and other fixed income securities	53,892	23,023	329	—	—	77,244
Overseas deposits as Investments	1,745	754	296	951	204	3,950
Reinsurer' share of claims outstanding	—	416	29,248	—	—	29,664
Reinsurance debtors	—	33	351	—	—	384
Cash at bank and in hand	—	—	15,969	—	—	15,969
Total credit risk	60,419	25,787	52,710	951	746	140,613

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

19. Financial Risk Management (continued)

Credit risk (continued)

The following table shows the carrying value of assets that are neither past due nor impaired, the ageing of assets that are past due but not impaired and assets that have been impaired. The factors considered in determining the value of the impaired assets were: analysis of impairment, ageing of balances, past loss experience, current economic conditions and other relevant circumstances.

2016	Neither due nor impaired	Past due less than 90 days	Past due 91 to 180 days	Past due 181 to 365 days	Past due more than 365 days	Total
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities	12,820	—	—	—	—	12,820
Debt securities and other fixed income securities	111,570	—	—	—	—	111,570
Overseas deposits as Investments	6,336	—	—	—	—	6,336
Reinsurer' share of claims outstanding	57,160	—	—	—	—	57,160
Reinsurance debtors	1,065	—	—	—	—	1,065
Cash at bank and in hand	23,165	—	—	—	—	23,165
Insurance debtors	1,841	—	—	—	—	1,841
Other debtors	99,249	16,969	2,598	2,430	615	121,861
Total credit risk	313,206	16,969	2,598	2,430	615	335,818

2015	Neither due nor impaired	Past due less than 90 days	Past due 91 to 180 days	Past due 181 to 365 days	Past due more than 365 days	Total
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities	13,402	—	—	—	—	13,402
Debt securities and other fixed income securities	77,244	—	—	—	—	77,244
Overseas deposits as Investments	3,950	—	—	—	—	3,950
Reinsurer' share of claims outstanding	29,664	—	—	—	—	29,664
Reinsurance debtors	384	—	—	—	—	384
Cash at bank and in hand	15,969	—	—	—	—	15,969
Insurance debtors	38,232	4,523	1,798	747	256	45,556
Other debtors	273	—	—	—	—	273
Total credit risk	179,118	4,523	1,798	747	256	186,442

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

19. Financial Risk Management (continued)

Liquidity risk

The Syndicate considers that it follows a diversified investment strategy in line with Allied World Group's strategy. The Group strategy is designed to emphasise the preservation of invested assets, and provide adequate liquidity for the prompt payment of claims as well as attractive returns for the member.

To help ensure adequate liquidity for the payment of claims, the Syndicate takes into account the maturity and duration of its investment portfolio and its general liability profile. In making investment decisions, the Syndicate considers the impact of various catastrophic events to which the Syndicate may be exposed. The majority of its assets are invested in the fixed income markets. There are restrictions on the maximum amount of its investment portfolio that may be invested in alternative investments (such as hedge funds and private equity vehicles) as well as a minimum amount that must be maintained in investment grade fixed income securities and cash. There are also restrictions on the portfolio's composition, including limits on the type of issuer, sector limits, credit quality limits, portfolio duration, limits on the amount of investments in approved countries and permissible security types.

For several asset classes the Syndicate has engaged outside investment managers to provide us with certain discretionary investment management services. The Managing Agent has agreed to pay investment management fees based on the market values of the investments in the portfolio. The fees, which vary depending on the amount of assets under management, are included as a deduction to net investment income. These investment management agreements may generally be terminated by either party upon 30 days prior written notice.

The Syndicate has also developed investment guidelines that include restrictions on the permissible security types the investment managers may include in the portfolios that they manage. The Syndicate may direct its investment managers to invest some of the investment portfolio in currencies other than U.S. dollar based on the business the Syndicate has written, the currency in which our loss reserves are denominated on our books or regulatory requirements.

The following table details the Syndicate's expected maturity for its non-derivative assets. The tables below have been drawn up based on the undiscounted contractual maturities of the assets including interest that will be earned on those assets except where the Syndicate anticipates that the cash flow will occur in a different period.

2016	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
	£000	£000	£000	£000	£000	£000
Claims outstanding	—	67,785	79,081	33,892	45,189	225,947
Creditors	—	50,598	—	—	—	50,598
Total credit risk	—	118,383	79,081	33,892	45,189	276,545

2015	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
	£000	£000	£000	£000	£000	£000
Claims outstanding	—	46,516	54,269	23,258	31,010	155,053
Creditors	—	21,143	—	—	—	21,143
Total credit risk	—	67,659	54,269	23,258	31,010	176,196

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

19. Financial Risk Management (continued)

Operational risk

Operational risk is the loss resulting from inadequate or failed internal processes, people and systems. It also includes legal risks that arise from failure to comply with relevant laws or regulations. "External events" as countenanced by business continuity plans are also covered under operational risk.

AWMA has developed and implemented a risk reporting and risk governance system to ensure that effective risk management of operational risk is carried out. Management receives regular operational risk updates and the Board oversees the risk system.

AWMA has entered into a number of outsourcing arrangements, the performance of which are monitored by the Board.

It is critical for the Syndicate that the key resources required to support its underwriting and other essential business activities continue to be available. A number of contingency plans are in place to mitigate any loss of key resources from disrupting the ongoing operations of the Syndicate.

Strategic risk

This relates to any inability to implement appropriate business plans and strategies, make decisions (especially in the context of risk mitigation), allocate capital or resources, or adapt to changes in the business environment.

Group risk

Group risk refers to the potential impact of risk events, of any nature, arising in or from membership of a corporate group. Potential negative impacts on the activities of the Syndicate by the rest of the Group are included, such as undue influence on management decisions or exhaustion of shared reinsurance cessions. It also includes reputational risks (outside the Syndicate) where this has the potential to affect all entities in the Group.

Regulatory and compliance risk

This is the risk of there being a financial loss owing to a breach of regulatory requirements and/or a failure to respond to a regulatory change. Management receives regular regulatory and compliance risk updates and the Non Executive Directors Committee reviews and monitors these risks on a quarterly basis.

The Syndicate is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

19. Financial Risk Management (continued)

Policies and processes

Policies specific to the Syndicate are in place for all of the above risk categories, under the auspices of an overarching Risk Management Strategy and Framework document. These documents are approved by the Board on an annual basis, with the responsibility delegated on an operational basis to the Risk Management Function under the leadership of the Chief Risk Officer.

In addressing Insurance Risk, and all other risk types, the Syndicate aims to ensure that :

- All significant insurance risks are identified, measured, assessed, managed and monitored in a consistent and effective manner;
- Appropriate and reliable risk management tools are deployed to support insurance risk management, particularly management reporting, decision making and capital assessment;
- All directors, management and staff are accountable for managing insurance risk in line with the roles and responsibilities which are set out in detail in the policy; and,
- An effective governance framework is in place to ensure that risk management is embedded in business activity. The governance structure is based on a three lines of defence model.

The Insurance Risk management methodology employed by the Syndicate reflects the relevant elements identified in the risk register. Risks relating to underwriting (including business planning and pricing risk), reserving and outwards reinsurance are identified, along with relevant emerging risks are identified, measured, monitored and reported. Correlations between insurance risks as well as between this risk category and others will be taken into account, in particular as regards capital requirements.

Insurance Risks are monitored on a regular and timely basis based on suitable management information. Risks at all relevant levels and over appropriate geographical areas are measured regularly. This information can then be reported to appropriate parties, such as committees and Board of the Managing Agent at a suitable level of aggregation and on a regular basis, typically quarterly. Key risk indicators are used to measure exposure to Insurance Risk against risk appetite, based on tolerance criteria which are set beforehand by the Board of the Managing Agent, Risk Management function and business units.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

20. Insurance Risk Management

Insurance risk is defined as the risk of fluctuations in benefits payable to policyholders including underwriting risk (which covers catastrophe and non-cat risk), reserve risk and reinsurance risk. Thus it includes the risk of loss arising from prospective underwriting and the development of prior years and also encompasses risks associated with potential for increased operating expenses.

The elements of insurance risk (underwriting, reserving and outwards reinsurance) are mutually dependent. They are described as follows:

a) Underwriting Risk (Premium Risk)

This is split into two parts - (i) The risk that actual losses and expenses on a future underwriting year are greater than the premium income and (ii) The risk that actual losses and expenses on unearned incepted business, which is associated with future premiums for policies previously written, will differ from the expected losses and expenses.

This is further divided into both catastrophe risk and non-catastrophe elements. Catastrophe risk (as per Solvency II) is defined as the risk that a single event (or series of events) of major magnitude, usually over a short period of time, leads to a significant deviation in actual claims from the total expected claims.

b) Reserve Risk

This is the risk that actual reserves and expenses, associated with policies previously written and earned, will differ from the best estimate expected reserves or prove to be inadequate as per the technical provisions

c) Reinsurance Risk

Reinsurance risk is defined as the inability of the ceding company to obtain reinsurance coverage at the appropriate time for a reasonable cost. The assessment of reinsurance risk relates to risks arising from mismatch, dispute and exhaustion.

Use of judgments and estimates

In preparing these financial statements, the directors of the Managing Agent have made judgments, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgments and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgment is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgment is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

20. Insurance Risk Management (continued)

The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged.

Stress Testing and Sensitivity Analysis

Stress testing is an important risk management tool utilised by AWMA as part of its internal risk management and is also a key part of the Own Risk and Solvency Assessment (ORSA) process. Stress testing provides management with information on adverse unexpected outcomes related to a variety of risks and provides an idea of relative importance and impetus for management action as necessary. Moreover, stress testing is a tool that supplements other risk management approaches and measures such as risk profile monitoring and exposure management.

Stress testing covers the following categories:

- a) Scenario Tests - assessing the financial impact on the business of possible future scenarios e.g. a large catastrophic event or multiple events
- b) Sensitivity Tests - assessing the implication of possible alternative assumptions e.g. variations in premium income and in particular their impact on capital requirements

Insurance Risk - Scenario tests

- The potential cost of non-modelled natural catastrophe losses
- The cost impact given the Syndicate experiences the same level of catastrophic activity as under bad historic years.
- Errors in Catastrophe PML calculations
- The impact of man-made catastrophe losses. Disaster scenarios are run for event-exposed classes of business such as Property, Aviation and Marine
- The possible exhaustion of reinsurance arrangements
- Reserve understatement. These tests may cover certain correlating classes e.g. all Casualty classes
- Latent claims / mass tort scenarios
- The effect of unexpected inflation

Insurance Risk - Sensitivity Analysis

- Mis-pricing of risks / incorrect loss ratio assumptions. A 5% deviation in loss ratios from plan may be postulated, either upwards or downwards.
- The effects of the weather event industry loss.
- The tolerance for variations in expenses, including indirect costs, such as overheads.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

20. Insurance Risk Management (continued)

The results of sensitivity testing are set out below:

	Profit for the financial year		Members balance at financial year end	
	2016 £000	2015 £000	2016 £000	2015 £000
5% increase in loss ratios				
Gross	436	(13,118)	(51,382)	(39,905)
Net	2,697	(11,996)	(49,121)	(38,783)
5% decrease in loss ratios				
Gross	16,317	548	(35,501)	(26,239)
Net	14,056	(574)	(37,762)	(27,361)
Weather event- industry loss				
Gross	(7,591)	(19,553)	(59,408)	(46,340)
Net	(2,250)	(13,854)	(54,067)	(40,641)
5% increase in expenses				
Gross	5,347	(8,963)	(46,471)	(35,750)
Net	6,251	(8,702)	(45,567)	(35,489)
5% decrease in expenses				
Gross	11,406	(3,607)	(40,412)	(30,394)
Net	10,502	(3,868)	(41,316)	(30,655)

Concentrations of Insurance Risk

The insurance classification system, classes of business, have been defined based on the following three requirements:

- The risks underlying the class are homogeneous i.e. have a similar risk profile
- The classifications are well defined and understood
- The classifications are practical

The above criteria has resulted in 12 classes of business (for the 2016 Year of Account) which have concentrations or pools of risks that have common characteristics and are similar in nature.

COB Code	Class of Business
COB10	Property D&F
COB30	Treaty Casualty
COB40	E&O
COB50	D&O
COB60	General Casualty
COB70	Aviation
COB80	Treaty Property - CAT
COB90	Treaty Property - Non CAT
COB100	Marine- Cargo
COB120	Marine-Liability
COB150	Onshore Construction
COB160	Trade Credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AT 31 DECEMBER 2016

20. Insurance Risk Management (continued)

Claims development tables

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. The top half of the table shows how the estimates of total claims for each underwriting year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

The cumulative claims estimates and payments for each underwriting year are translated into GBP£ at the rates that applied at the end of each underwriting year.

Analysis of claims development - Gross	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
Estimates of ultimate gross claims							
End of underwriting year	47,481	29,242	64,008	61,151	79,599	69,352	
One year later	68,972	36,077	79,169	89,502	118,237		
Two years later	57,533	34,288	71,889	91,202			
Three years later	50,648	33,589	65,024				
Four years later	49,897	31,666					
Five years later	48,979						
Less Gross claims paid	46,819	22,799	47,658	44,199	31,144	6,944	199,563
Gross ultimate claims reserve	2,160	8,867	17,366	47,003	87,093	62,408	224,897
Gross ultimate claims reserve for 2010 and prior years							1,049
Analysis of claims development - Net	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
Estimates of ultimate net claims							
End of underwriting year	27,969	21,818	55,671	52,059	67,249	44,512	
One year later	37,813	25,371	66,714	75,171	100,028		
Two years later	32,027	25,027	59,617	77,453			
Three years later	28,914	25,113	54,989				
Four years later	29,351	22,907					
Five years later	28,148						
Less Net claims paid	26,013	16,038	44,416	39,191	28,973	4,717	159,348
Net ultimate claims reserve	2,135	6,869	10,573	38,262	71,055	39,795	168,689
Net ultimate claims reserve for 2010 and prior years							100

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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21. Related Parties

Ultimate parent company

The immediate holding company of AWMA is Allied World Europe Holdings, Ltd, which is incorporated in Bermuda. The ultimate holding company, controlling party and the largest group for which consolidated accounts are prepared is Allied World Assurance Company Holdings, AG, a company registered in Switzerland. This company is listed on the New York Stock Exchange.

Transactions with other companies within the group and cash flow statements are not disclosed as the Company has taken advantage of the exemptions available under FRS 102 section 33.1(a) on the basis that the consolidated group financial statements are available from Allied World Assurance Company Holdings, AG, Park Tower 15th Floor, Gubelstrasse 24, 6300, Zug, Switzerland.

