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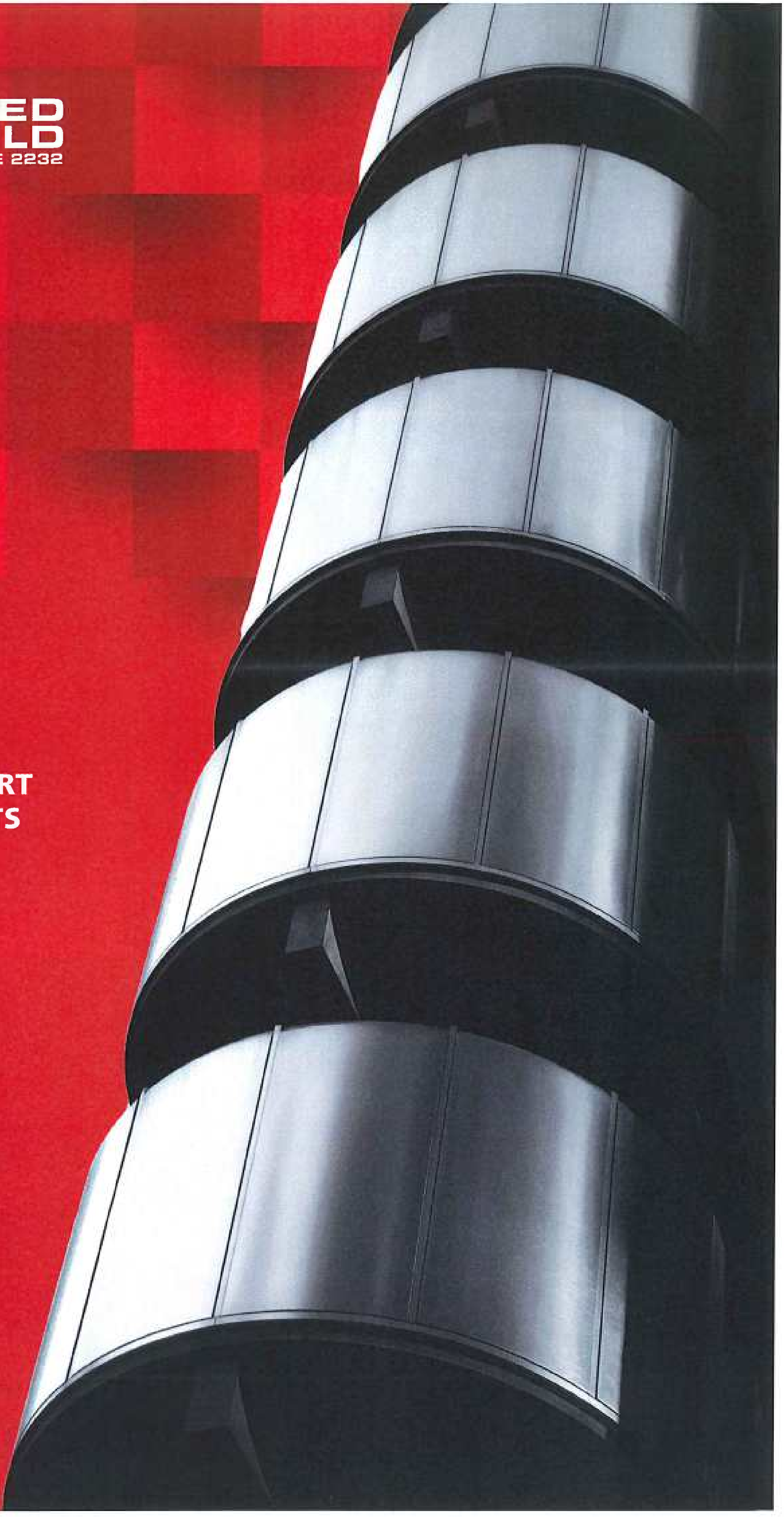
ALLIED WORLD
SYNDICATE 2232

ANNUAL REPORT AND ACCOUNTS 2018



CONTENTS

DIRECTORS AND ADMINISTRATION

Managing Agent

Managing Agent
The immediate holding company of Allied World Managing Agency Limited (AWMA) is Allied World Europe Holdings, Ltd, which is incorporated in Bermuda. The company's ultimate parent and to which the results of the Company are consolidated into is Fairfax Financial Holdings Limited.

Directors
J Evans (Non-Executive Chairman)
N Macmillan (Non-Executive)
E McCusker (Non- Executive) (Resigned 16th March 2018)
E Moresco (Appointed 16th March 2018)
J James (Resigned 1st April 2018)
N Lightbown
M O'Leary
D Powell
D Russell
S Shah

Company secretary
S O'Riordan
C Cowan (Resigned 18th September 2018)

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
PricewaterhouseCoopers 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 2018.

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 syndicate's capacity for the 2018 year is £188.9m (2017:£191.5m).

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 2018 was a profit on the Technical Account of £1.6m (2017: £98.8m loss).

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

	2018	2017
	£000	£000
Gross premiums written	**225,162**	204,012
Gross premiums earned	**211,597**	186,651
Net premiums earned	**128,859**	111,606
Balance on Technical Account	**1,629**	(98,772)

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 has used the opportunities that the Lloyd's brand provides to pursue measured growth in line with the medium term strategy by:

- Steady, controlled expansion in existing classes, including increasingly making use of opportunities generated by collaboration with fellow Fairfax companies.
- Having the flexibility to adapt our approach as circumstances change, for instance exiting from Aviation during 2018 in response to persistently challenging market conditions.
- Adjusting the compositions and strategy of teams in response to changing market conditions and wider social, legal and economic trends.
- Strengthening our operational resources and seeking new partnerships to further this objective, for instance recently choosing to work with Infosys to deliver efficiencies in back office support
- Continuing to enhance and expand our capabilities in delegated underwriting management and operations.

Review of the Business (continued)

While we will continue to be alert to opportunities to grow, our priority is to restore profitability across the board, reducing or exiting lines of business as necessary and to make the most effective use of our expertise in existing lines of business.

The Aviation sector has been widely recognised as being under particular pressure for at least a decade. Within this, the airlines class has suffered a challenging combination of major loss events across the market and declining rates. AWMA airlines performed better than the market average but we still did not believe it offered acceptable returns. AWMA will, therefore, exit the Aviation sector from the 2019 year of account onward.

AWMA acquired the Bespoke class for the 2019 year of account. The business was previously written by Advent syndicate 780, a sister Fairfax company. We anticipate the gross income for 2019 to be in the region of $20m. The portfolio is a mix of traditional coverages including FTC (Trucking) and MTC (Non-target goods on trucks where the FTC has been bought; TRIA) and affinity products including Credit Card enhancements, mortgage impairment, auto-related and personal cyber.

During the year the Syndicate took steps to position itself to mitigate the negative effects of the possible cessation of single market access right through a "no deal Brexit". The key mitigant has been to secure continued access to EEA counterparties through acting as a coverholder and reinsurer of the Lloyd's Brussels subsidiary. This relationship is now fully operational for renewal and new business opportunities effective 1st January 2019.

In the event of the UK leaving the EU the ability to trade with the EU on a frictionless, cross-border basis, disappears. Allied World is well positioned to deal with this. Syndicate 2232 can continue to write European business using the Lloyd's Brussels subsidiary (LBS) operation or European business can be transferred to into Allied World Assurance Company (Europe) dac. Whether this is into the London branch or the Dublin head office depends on the detail of the deal, once it is known. In addition it will be possible to use Allied Worldwide to structure complex cross border coverage, or Allied World syndicate Services (Bermuda), Ltd to write treaty business using Bermuda's regulatory agreement with the EU. These are likely to be used only on an exceptional basis.

For the 2016 and 2017 years of account the Syndicate participated in a whole account quota share arrangement with Allied World Assurance Company, Ltd, which is a related company. For the 2018 year of account the arrangement was amended to exclude all US connected income.

Underwriting Result

The Syndicate produced a positive underwriting result in 2018 of £41.9m (2017: £56.8m Loss).

The overall balance on the technical account was a profit of £1.6m (2017: loss of £98.8m), after expenses and investment return but before foreign exchange adjustments.

Gross premium written for the year was £225.2m, compared to £204.0m for the prior year, an increase of £21.2m. The growth in the year is driven by the Syndicate's planned expansion through coverholder and binder partnerships.

The syndicate reported a combined ratio of 101.0% (2017:189.8%). Major losses incurred by the syndicate included pacific typhoon events (Jebi, Mangkhut and Trami). The syndicate benefited from reserve releases in relation to 2017 hurricane events (Harvey, Irma and Maria).

Review of the Business (continued)

Underwriting Result (continued)

	2018 Gross premiums written £000	2018 Underwriting result £000	2017 Gross premiums written £000	2017 Underwriting result £000
LONDON *(incl Miami & Bermuda)*:				
Aviation *(incl Liability & Hull)*	6,083	769	5,108	(2,400)
Property Direct & Facultative	25,982	8,191	22,030	(13,623)
Treaty Property Latin America	18,107	15,548	21,720	(35,073)
Treaty Casualty Latin America	9,825	1,550	9,473	3,504
Marine	22,604	6,850	18,940	(5,332)
Casualty (incl E&O,D&O,General)	79,571	2,365	49,141	(12,760)
Construction	6,279	2,174	4,215	(702)
Total London	168,451	37,447	130,627	(66,386)
SINGAPORE				
Property Direct & Facultative	427	363	582	356
Treaty Property	36,694	(1,665)	40,084	7,045
Treaty Casualty	4,797	1,280	9,291	774
Marine	461	(144)	1,011	(62)
Casualty (incl E&O,D&O,General)	13,359	4,630	21,584	1,409
Construction	973	(21)	833	26
Total Singapore	56,711	4,443	73,385	9,548
TOTAL SYNDICATE	225,162	41,890	204,012	(56,838)
Allocated investment return		2,936		1,496
Net Syndicate operating expenses, including net acquisition costs and foreign exchange movements		(41,501)		(41,657)
Member's personal expenses		(1,696)		(1,773)
Balance on the technical account		1,629		(98,772)

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 premiums written are slightly lower at 19.5% (2017: 20.5%). This decrease reflects underwriter discipline in challenging commission rates, as well as pricing increases, across both delegated and open market renewal and new business placements.

The administrative expense ratio has decreased to 19.3% (2017: 24.5%). The decrease is being driven by operating and expense efficiencies being embedded during the year. The prior year included an accelerated stock and cash compensation settlement following the acquisition of Allied World Assurance Company Holdings, AG, by Fairfax Financial Holdings Limited.

A satisfactory investment return in the context of continuing low interest rates was achieved of £2.9m (2017: £1.5m).

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

Review of the Business (continued)

Foreign exchange and currency translation differences

The weakening of Sterling, the Syndicate's presentational currency, relative to all major currencies contributed to a foreign exchange loss of £5.9m. This is made up of £1.7m foreign exchange profit and £7.6m currency translation loss.

Geographic segmentation

A geographic analysis of gross premiums written by territory of original insured, for direct and facultative (D&F) (re)insurance business and territory of original cedent for treaty reinsurance business is shown below:

	2018 £000	2017 £000
UK	**25,194**	24,437
Other EU member states	**28,530**	23,047
Europe excluding EU member states	**3,990**	5,264
United States of America	**43,777**	15,184
Canada	**15,089**	9,886
Asia Pacific	**80,710**	83,556
Central & South America	**15,237**	32,417
Middle East & Africa	**12,635**	10,221
Total	**225,162**	204,012

The principal risks and uncertainties facing the Syndicate as detailed in notes 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

Future developments

The objective is to manage our core business, to maximise profitability 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.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (CONTINUED)

Rating Agencies

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 2018 to the date of this report unless stated otherwise.

J Evans

N Lightbown

E Moresco (Appointed 16th March 2018)

J James (Resigned 1st April 2018)

N Macmillan

E McCusker (Resigned 16th March 2018)

M O'Leary

D Powell

D Russell

S Shah

Company Secretary

S O'Riordan
C Cowan (Resigned 18th September 2018)

Provision of Capital

The Syndicate is wholly aligned with a single capital provider, Allied World Capital (Europe) Limited. The capital is held at a member level. Accordingly, all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 16, are taken into account when determining the members' Lloyd's capital requirements.

Disclosure of Information to the Auditor

The directors of AWMA who held office at the date of approval of this 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

PricewaterhouseCoopers LLP ("PwC"), Chartered Accountants and Statutory Audit Firm, were appointed by the Board, as auditor, on 9 November 2017, for the year ended 31 December 2017, in accordance with section 384 (1) of the Companies Act 2014. PwC have indicated their willingness to continue in office in accordance with section 383(2) of the Companies Act 2014.

D Russell
Managing Director
22 March 2019

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:

- Select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 2232

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 2232's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the 'Annual Report and Accounts' (the "Annual Report"), which comprise: the statement of financial position at 31 December 2018, the income statement: technical account for the year then ended, the income statement: non-technical account for the year then ended, the income statement: statement of comprehensive income for the year then ended, the statement of changes in members' balances, the statement of cash flows, and the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The managing agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Managing Agent's Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2018 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

Responsibilities for the syndicate annual accounts and the audit
Responsibilities of the managing agent for the syndicate annual accounts
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts
Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other personto whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

Other required reporting

Other matters on which we are required to report by exception
Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- certain disclosures of managing agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

James Pearson (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 March 2019

INCOME STATEMENT:
TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Earned premiums, net of reinsurance			
Premiums written			
Gross premiums written	3	**225,162**	204,012
Outward reinsurance premiums		**(92,706)**	(84,565)
Net premiums written		**132,456**	119,447
Change in the provision for unearned premiums:			
Gross amount		**(13,565)**	(17,362)
Reinsurers' share		**9,968**	9,521
Change in the net provision for unearned premiums		**(3,597)**	(7,841)
Earned premiums, net of reinsurance		**128,859**	111,606
Allocated investment return transferred from the non-technical account		**2,936**	1,496
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(170,613)**	(110,226)
Reinsurers' share		**59,665**	32,775
Net claims paid		**(110,948)**	(77,451)
Change in the provision for claims:			
Gross amount		**34,075**	(185,763)
Reinsurers' share		**(10,096)**	94,770
Change in the net provision for claims	4	**23,979**	(90,993)
Claims incurred net of reinsurance		**(86,969)**	(168,444)
Net Syndicate operating expenses	5	**(41,501)**	(41,657)
Member's personal expenses	8	**(1,696)**	(1,773)
Balance on the technical account for general business		**1,629**	(98,772)

INCOME STATEMENT:
NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Balance on the technical account for general business		**1,629**	(98,772)
Income from investments		**2,926**	1,988
Investment management expenses		**(361)**	(120)
Unrealised gain/(loss) on investments		**707**	(381)
Realised (loss)/gain on investments		**(336)**	9
Allocated investment return transferred to technical account		**(2,936)**	(1,496)
Foreign exchange profit		**1,712**	1,830
Profit/(loss) for the financial year		**3,341**	(96,942)

All operations relate to continuing activities.

The notes on pages 19 to 40 form an integral part of these financial statements.

INCOME STATEMENT:
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** **£000**	2017 £000
Profit/(loss) for the financial year		**3,341**	(96,942)
Other comprehensive loss:			
Currency translation differences		**(7,555)**	3,332
Total comprehensive loss for the year		**(4,214)**	(93,610)

STATEMENT OF FINANCIAL POSITION – ASSETS
AT 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Investments			
Financial investments	9	**152,899**	125,320
Reinsurers' share of technical provisions			
Claims outstanding		**140,676**	143,659
Provision for unearned premium		**54,680**	42,173
		195,356	185,832
Debtors			
Debtors arising out of direct insurance/reinsurance operations	10	**97,434**	86,088
Other debtors	10	**2,879**	3,050
		100,313	89,138
Other assets			
Cash at bank and in hand		**37,743**	18,617
Overseas deposits	11	**16,065**	9,957
		53,808	28,574
Prepayments and accrued income			
Accrued interest and rent		**72**	54
Deferred acquisition costs		**21,808**	19,871
		21,880	19,925
Total assets		**524,256**	448,789

The notes on pages 19 to 40 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION – LIABILITIES
AT 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Capital and reserves			
Member's balance		**(110,841)**	(142,730)
Technical provisions			
Claims outstanding		**373,174**	396,750
Provision for unearned premium		**114,679**	97,791
		487,853	494,541
Creditors			
Creditors arising out of direct insurance/reinsurance operations	12	**117,955**	70,062
Other creditors	12	**8,977**	10,397
		126,932	80,459
Accruals and deferred income	13	**20,312**	16,519
Total liabilities		**524,256**	448,789

The notes on pages 19 to 40 form an integral part of these financial statements.

The financial statements on pages 12 to 40 were approved by the board of directors of AWMA and were signed on its behalf by:

M O'Leary
Finance Director
22 March 2019

STATEMENT OF CHANGES IN MEMBER'S BALANCES

AT 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Member's balance at 1 January		**(142,730)**	(43,441)
Loss collection/(profit distribution)		**36,103**	(5,679)
Loss for the financial period		**(4,214)**	(93,610)
Member's balances carried forward at 31 December		**(110,841)**	(142,730)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £000	2017 £000
Cash flows from operating activities		
Profit/(loss) for the financial year	**3,341**	(96,942)
Adjustments for:		
(Decrease)/increase in gross technical provisions	**(6,687)**	180,104
Increase in reinsurer's share of gross technical provision	**(9,524)**	(92,517)
Increase in debtors	**(11,175)**	(18,881)
Increase in creditors	**50,265**	32,274
Movement in other assets/liabilities	**(8,286)**	(1,685)
Realised investment return	**(2,936)**	(1,496)
Unrealised foreign exchange	**(7,795)**	3,332
Net cash flows from operating activities	**7,203**	4,189
Cash flows from investing activities		
Purchase of equity and debt instruments	**(63,527)**	(90,290)
Sale of equity and debt instruments	**34,854**	78,193
Foreign exchange	—	7,618
Investment income received	**3,970**	2,676
Net cash outflows from investing activities	**(24,703)**	(1,803)
Cash flows from financing activities		
Transfer to members in respect of underwriting participations	**36,103**	(5,679)
Net cash inflows/(outflows) from financing activities	**36,103**	(5,679)
Net increase/(decrease) in cash and cash equivalents	**18,603**	(3,293)
Cash and cash equivalents at 1 January	**18,618**	23,165
Foreign exchange on cash and cash equivalents	**522**	(1,254)
Cash and cash equivalents at 31 December	**37,743**	18,618

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2018

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 2018 comply with FRS 102.

The directors of the managing agent have prepared the annual accounts on the basis that the Syndicate will continue to underwrite business in the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts statements.

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

Gross written 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

With the exception of construction business which for policies incepting after 1st January 2016 is earned 90% during the project period and 10% during the maintenance period (80%/20% prior to 2016) and M&A Sellers Side Warranty and Indemnity and Buyers Side Warranty and indemnity policies. 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 or established earning patterns for particular classes such as construction and mergers and acquisitions

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. Accounting Policies (continued)

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, 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.

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) 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 Pounds Sterling (£).

2(i) Foreign 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(j) 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(k) 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(l) Reinsurers' commissions and profit participations

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

2. Accounting Policies (continued)

2(m) Critical accounting judgments and key sources of uncertainty

In the application of the Syndicate's accounting policies, which are described above, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The key area of uncertainty which requires the use of accounting judgments is the calculation of claims provisions. This is covered in detail earlier in note 2(d) and in notes 20 under insurance risk management. The estimates and underlying assumptions used are reviewed on an ongoing basis.

3. Segmental Analysis

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

2018	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct Insurance						
Aviation	5,520	4,838	(2,892)	(972)	(1,277)	**(303)**
Transport	9,417	8,673	3,319	(2,606)	(6,244)	**3,142**
Fire and other damage to property	22,645	22,874	(21,511)	(5,078)	2,917	**(798)**
Third-party liability	80,190	68,046	(45,315)	(11,334)	(14,079)	**(2,682)**
Pecuniary loss	3,534	2,085	(8,310)	(175)	4,451	**(1,949)**
	121,306	**106,516**	**(74,709)**	**(20,165)**	**(14,232)**	**(2,590)**
Reinsurance	103,856	105,081	(61,829)	(23,032)	(18,936)	**1,284**
Total	**225,162**	**211,597**	**(136,538)**	**(43,197)**	**(33,168)**	**(1,306)**

Of the £225.2m gross premiums written, £168.5m were underwritten in the UK and £56.7m were underwritten in Singapore.

2017	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct Insurance						
Aviation	2,581	3,196	(5,337)	(584)	394	(2,331)
Transport	8,220	6,748	(13,592)	(1,743)	4,508	(4,079)
Fire and other damage to property	16,131	12,753	(17,543)	(3,055)	548	(7,297)
Third-party liability	66,060	61,821	(77,203)	(12,337)	(424)	(28,143)
Pecuniary loss	3,261	2,039	(5,337)	(669)	2,129	(1,838)
	96,253	86,557	(119,012)	(18,388)	7,155	(43,688)
Reinsurance	107,759	100,093	(176,977)	(25,042)	45,346	(56,580)
Total	204,012	186,650	(295,989)	(43,430)	52,501	(100,268)

Of the £204.0.m gross premiums written, £130.6m were underwritten in the UK and £73.4m were underwritten in Singapore.

4. Change in Net Provision for Claims

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

	2018 £000	2017 £000
Gross reported for outstanding claims	**19,655**	92,971
Gross claims incurred but not reported	**(53,322)**	91,236
Provision for unallocated loss adjustment expenses	**(407)**	1,556
	(34,074)	185,763
Reinsurers' share	**10,095**	(94,770)
Total	**(23,979)**	90,993

Prior year net reserve releases totaled £8.5m the movement was primarily in Treaty Property CAT in relation to the HIM losses.

5. Net Syndicate Operating Expenses

	2018 £000	2017 £000
Brokerage and commissions	**41,696**	39,980
Other acquisition costs	**2,251**	1,948
Change in deferred acquisition costs	**1,233**	(1,212)
Gross acquisition costs	**45,180**	40,716
Reinsurers' commissions and profit participations	**(26,809)**	(24,583)
Net acquisition costs	**18,371**	16,133
Administrative expenses	**23,130**	25,524
Total	**41,501**	41,657

Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT)	2018 £000	2017 £000
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	**93**	82
Non-audit fees:		
Other services pursuant to legislation	**81**	132

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 annual audit.

6. Staff Numbers and Costs

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

	2018	2017
Administration and finance	**36**	41
Underwriting and claims	**48**	41
Total	**84**	82

AWMA does not charge a managing agency fee, it has recharged various expenses which have been incurred on the Syndicate's behalf. These amounted to £16.7m (2017: £15.6m) for the financial period.

7. Emoluments of the Directors of AWMA

The directors of AWMA received the following aggregate remuneration of £1,601k (2017:£1,329k) 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 2017 was £351k (2016: £368k).

8. Member's Personal Expenses

	2018 £000	2017 £000
Central Fund	**833**	828
Lloyd's Subscriptions	**863**	945
Total	**1,696**	1,773

9. Financial Investments

	Market Value 2018 £000	Cost 2018 £000	Market Value 2017 £000	Cost 2017 £000
Shares and other variable yield securities	**94,391**	**94,391**	42,930	42,930
Debt securities and other fixed income securities	**58,508**	**64,596**	82,390	82,894
Total	**152,899**	**158,987**	125,320	125,824

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.

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Shares and other variable yield securities	**94,391**	—	—	**94,391**
Debt securities and other fixed income securities	—	**58,508**	—	**58,508**
Overseas deposits	**12,960**	**3,105**	—	**16,065**
Total	**107,351**	**61,613**	—	**168,964**

2017	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Shares and other variable yield securities	42,930	—	—	42,930
Debt securities and other fixed income securities	10,767	71,623	—	82,390
Overseas deposits	1,503	8,454	—	9,957
Total	55,200	80,077	—	135,277

10. Debtors

	2018 £000	2017 £000
Debtors arising from insurance/reinsurance operations:		
Amounts due within one year	**97,285**	86,088
Amounts due after one year	**149**	—
Total	**97,434**	86,088
Other debtors		
Amounts due within one year	**2,879**	3,050

11. Overseas Deposits

Overseas deposits comprise funds that 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 2018 was AUS$18.6m (31 December 2017: AUS$18.8m).

12. Creditors

	2018 £000	2017 £000
Creditors arising from insurance/reinsurance operations:		
Amounts due within one year	**117,955**	70,062
Other creditors		
Amounts due within one year	**8,977**	10,397

Other creditors comprise mainly expense recharges from affiliated companies.

13. Accruals and Deferred Income

	2018 £000	2017 £000
Amounts due within one year		
Accruals	**4,749**	4,276
Reinsurance deferred acquisition costs	**15,563**	12,243
Total	**20,312**	16,519

The balance above relates to various operating expenses.

14. 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 2018.

15. 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. 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.

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.

16. Foreign Exchange Rates

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

	2018 Average rate	**2018 Year end rate**	2017 Average rate	2017 Year end rate
Australian Dollar	**1.79**	**1.80**	1.68	1.76
US Dollar	**1.34**	**1.26**	1.29	1.34
Canadian Dollar	**1.73**	**1.72**	1.68	1.73
Singapore Dollar	**1.80**	**1.73**	1.78	1.81

17. Capital Management

The solvency capital requirement for the Syndicate is based on the modelled output of the economic capital model (ECM). The capital requirement as at 31 December 2018 will be reported in line with Solvency II Pillar 3 deadlines in 2019.

The ECM is also used for internal reporting and outputs are provided to the board of directors of AWMA and committees. ECM outputs are included in the Syndicate's Own Risk Solvency Assessment (ORSA) report, which will be submitted to Lloyd's on or before 30 March 2019.

18. 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,inflation risk,interest rate risk and price 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

Currency risk, inflation risk, interest rate risk and price risk are all grouped under market risk which is defined as the risk arising from fluctuations in values of, or income from, invested assets including fluctuations due to movements in interest rates, foreign exchange rates, credit spreads, or credit defaults.

Price risk

The Syndicate is exposed to price risk arising from fluctuations in the value of financial instruments as a result of changes in the market prices and the risks inherent in all investments. The Syndicate has no significant concentration of price risk. The risk is managed by the Syndicate by maintaining an appropriate mix of low-risk debt securities and other fixed income securities.

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 register and risk governance system to ensure effective risk management of operational risk is carried out. Management receives regular operational risk updates and the Board of Directors oversees the risk framework.

AWMA has entered into a number of outsourcing arrangements in accordance with outsourcing policies and procedures, the risks and performance of that are monitored by management.

It is critical for AWMA 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 and AWMA.

Strategic risk

This relates to the risk of not achieving the Syndicate's short and long term objectives due 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.

18. Financial Risk Management (continued)

Currency risk

The Syndicate's exposure to currency risk arises primarily from the currency mismatch in assets and liabilities primarily driven by 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):

2018	GBP £000	USD £000	CAD £000	AUD £000	OTH £000	Total £000
Financial investments	—	**65,803**	**42,579**	**44,517**	—	**152,899**
Overseas deposits	—	**1,066**	**9,297**	**609**	**5,093**	**16,065**
Reinsurer's share of technical provisions	**6,933**	**175,175**	**3,220**	**10,027**	—	**195,355**
Insurance and reinsurance receivables	**12,811**	**64,348**	**1,433**	**18,842**	—	**97,434**
Cash and cash equivalents	**3,561**	**17,326**	**246**	**11,985**	**4,624**	**37,742**
Other assets	**11,201**	**6,069**	**1,200**	**6,291**	—	**24,761**
Total assets	**34,506**	**329,787**	**57,975**	**92,271**	**9,717**	**524,256**
Technical provisions	**(105,447)**	**(286,146)**	**(16,704)**	**(79,556)**	—	**(487,853)**
Insurance and reinsurance payables	**(2,596)**	**(112,199)**	**(287)**	**(2,874)**	—	**(117,956)**
Other creditors	**(327)**	**(26,571)**	**(684)**	**(1,707)**	—	**(29,289)**
Total liabilities	**(108,370)**	**(424,916)**	**(17,675)**	**(84,137)**	—	**(635,098)**

2017	GBP £000	USD £000	CAD £000	AUD £000	OTH £000	Total £000
Financial investments	—	33,146	34,410	57,764	—	125,320
Overseas deposits	—	372	6,575	722	2,288	9,957
Reinsurer's share of technical provisions	11,310	168,235	1,982	4,304	—	185,831
Insurance and reinsurance receivables	15,331	61,078	1,293	8,386	—	86,088
Cash and cash equivalents	3,887	5,902	128	4,051	4,667	18,635
Other assets	7,540	10,600	540	4,295	—	22,975
Total assets	38,068	279,333	44,928	79,522	6,955	448,806
Technical provisions	(119,374)	(306,199)	(9,989)	(58,979)	—	(494,541)
Insurance and reinsurance payables	(1,573)	(67,856)	(73)	(561)	—	(70,063)
Other creditors	(1,020)	(25,047)	(348)	(502)	—	(26,917)
Total liabilities	(121,967)	(399,102)	(10,410)	(60,042)	—	(591,521)

18. 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 over the next year.

	2018 **£000**	2017 £000
Impact of 50 basis point increase on result	**(1,010)**	(733)
Impact of 50 basis point decrease on result	**1,010**	733
Impact of 50 basis point Increase on net assets	**(1,010)**	(733)
Impact of 50 basis point decrease on net assets	**1,010**	733

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

Credit risk

Credit risk arises out of the failure of a counter party 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 the prudent person principles. The guidelines limit the allowable holdings of a single issue and issuer. The Syndicate believes that there are no significant concentrations of credit risk associated with its investment portfolio.

The Syndicate purchases reinsurance 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 evaluates the financial condition of its reinsurers and monitors concentration of credit risk. No material provision has been made for unrecoverable reinsurance as of 31 December 2018 and 2017 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 or to cancel policies as per the cancellation clause in all policies for non-payment. Consequently, the Syndicate has not included any material provision for unrecoverable accounts receivable.

18. Financial Risk Management (continued)

Credit risk (continued)

The following table show aggregated credit risk exposure for assets by credit rating:

2018	AAA	AA	A	BBB or Less	Not rated	Total
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities	22,996	3,846	50,504	—	17,045	94,391
Debt securities and other fixed income securities	190	58,318	—	—	—	58,508
Overseas deposits as investments	7,274	1,235	1,286	3,366	2,904	16,065
Reinsurer' share of claims outstanding	—	39,151	69,460	—	32,065	140,676
Reinsurance debtors	—	171	673	20	—	864
Cash at bank and in hand	—	—	37,743	—	—	37,743
Total credit risk	30,460	102,721	159,666	3,386	52,014	348,247

2017	AAA	AA	A	BBB or Less	Not rated	Total
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities	5,724	410	34,897	—	1,900	42,931
Debt securities and other fixed income securities	82,027	363	—	—	—	82,390
Overseas deposits as investments	4,807	659	1,384	1,736	1,371	9,957
Reinsurer' share of claims outstanding	—	10,584	132,708	365	—	143,657
Reinsurance debtors	—	177	1,056	1	—	1,234
Cash at bank and in hand	—	—	18,617	—	—	18,617
Total credit risk	97,560	30,385	77,402	3,668	3,101	298,786

18. 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.

2018	**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	**94,391**	—	—	—	—	**94,391**
Debt securities and other fixed income securities	**58,508**	—	—	—	—	**58,508**
Overseas deposits as investments	**16,065**	—	—	—	—	**16,065**
Reinsurer' share of claims outstanding	**140,676**	—	—	—	—	**140,676**
Reinsurance debtors	**864**	—	—	—	—	**864**
Cash at bank and in hand	**37,743**	—	—	—	—	**37,743**
Insurance debtors	**43,108**	**7,076**	**9,553**	**3,779**	**4,103**	**67,619**
Other debtors	**105,214**	**1,559**	**964**	**452**	**200**	**108,389**
Total credit risk	**496,569**	**8,635**	**10,517**	**4,231**	**4,303**	**524,255**

2017	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	42,931	—	—	—	—	42,931
Debt securities and other fixed income securities	82,390	—	—	—	—	82,390
Overseas deposits as investments	9,957	—	—	—	—	9,957
Reinsurer' share of claims outstanding	143,657	—	—	—	—	143,657
Reinsurance debtors	1,234	—	—	—	—	1,234
Cash at bank and in hand	18,617	—	—	—	—	18,617
Insurance debtors	47,154	7,230	2,178	385	610	57,557
Other debtors	87,512	3,429	1,033	183	289	92,446
Total credit risk	433,452	10,659	3,211	568	899	448,789

18. Financial Risk Management (continued)

Liquidity risk

The Syndicate considers that it follows a prudent person principle 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 liability profile. In setting investment guidelines, 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 US 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.

2018	**No stated maturity**	**0-1 year**	**1-3 years**	**3-5 years**	**>5 years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Claims outstanding	—	**117,774**	**130,017**	**70,454**	**54,929**	**373,174**
Creditors	—	**126,931**	—	—	—	**126,931**
Total	—	**244,705**	**130,017**	**70,454**	**54,929**	**500,105**

2017	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
	£000	£000	£000	£000	£000	£000
Claims outstanding	—	132,758	140,710	74,136	49,146	396,750
Creditors	—	80,459	—	—	—	80,459
Total	—	213,217	140,710	74,136	49,146	477,209

18. Financial Risk Management (continued)

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 Allied World Europe Holdings, Ltd, and its subsidiaries (collectively, 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.

The Syndicate is required to comply with the requirements of a number of regulators including the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA), Monetary Authority Singapore (MAS), The Office Of the Superintendent of Financial Institutions (OFSI), Australian Prudential Regulation Authority (APRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business.

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 risk management, particularly management reporting, decision making and capital assessment;
- All directors, management and staff are accountable for managing 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 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. Dependencies between insurance risks as well as between risk categories will be taken into account, in particular as regards capital requirements.

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 directors 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 against risk appetite, based on tolerance criteria which are set beforehand by the Board of the managing agent.

19. 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 is 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 reserves 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 reserves 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 AWMA'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.

19. Insurance Risk Management (continued)

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

c) Reverse Stress Tests - Assessing the impact and management actions for scenarios where the syndicate has become insolvent.

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.

19. Insurance Risk Management (continued)

The results of sensitivity testing are set out below:

	Profit for the financial year		Members balance at financial year end	
	2018 £000	2017 £000	**2018 £000**	2017 £000
5% increase in loss ratios				
Gross	**(10,580)**	(9,333)	**(10,580)**	(9,333)
Net	**(6,443)**	(5,580)	**(6,443)**	(5,580)
5% decrease in loss ratios				
Gross	**10,580**	9,333	**10,580**	9,333
Net	**6,443**	5,580	**6,443**	5,580
5% increase in expenses				
Gross	**(3,416)**	(3,312)	**(3,416)**	(3,312)
Net	**(2,075)**	(2,083)	**(2,075)**	(2,083)
5% decrease in expenses				
Gross	**3,416**	3,312	**3,416**	3,312
Net	**2,075**	2,083	**2,075**	2,083

Concentrations of Insurance Risk

Concentrations of risk can occur through a number of sources, including but not limited to:

- Natural catastrophe.
- Man-made catastrophe.
- Territorial exposures.
- Outwards reinsurance counterparties.
- Broker balances or over-reliance on one brokerage firm/source of business.
- Asset holdings by currency, class or counter-party.
- High dependence across risk categories.

The economic capital model as employed by AWMA captures all elements of concentration risk, most notably the potential for a clash between categories of risk. Diversification effects are also allowed for. Capital model outputs are reported on a quarterly basis to the Board and management committees.

Catastrophe exposure is the key area of concentration risk within the broader insurance risk definition. This exposure is captured via the exposure management process, which enables the calculation of problematic maximum Loss ('PMLs') and realistic disaster scenarios ('RDSs'). As regards natural catastrophes, key region perils for AWMA are identified and underlying risk data utilised to determine loss potential at associated return periods. External catastrophe models are used for pricing and exposure rating calculations. These latter calculations are performed gross and net of outwards reinsurance, by country and by peril within territory. Deterministic stress testing is also used to measure natural catastrophe risk and is the main tool for measuring man-made catastrophe risk. Results are presented on a quarterly basis to the Board and management committees.

19. Insurance Risk Management (continued)

The above criteria has resulted in 11 classes of business (for the 2018 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
COB150	Onshore Construction
COB160	Trade Credit

Risk mitigation

Transfer:

- Outwards reinsurance: There is cover in place to protect the Company from concentrations of risk (e.g. catastrophe loss), single large events and volatility in results. Strict controls are applied in terms of security ratings of all approved reinsurers.

Acceptance:

- The AWMA strategy is to employ a prudent approach to underwriting and risk selection.
- A business plan is set and adherence to this is monitored.
- Capital modeling processes (economic capital model) are used to ensure that AWMA has sufficient capital resources to support its insurance risks.

Limitation:

- Catastrophe probable maximum losses ('PMLs') are limited by defined capital tolerance levels at the 1 in 250 year event.
- There are geographical/regional limits in place by line of business to limit concentration risk.
- Underwriters have set line size limitations.
- Maximum concentration limits for third parties are in place

Avoidance:

- AWMA writes business only within its risk appetites.

19. 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	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Estimates of gross claims							
End of underwriting year	61,934	59,240	77,449	67,634	191,393	82,229	
One year later	76,606	87,209	115,530	139,393	221,336		
Two years later	69,768	88,941	142,289	149,897			
Three years later	63,147	90,111	145,440				
Four years later	65,694	85,699					
Five years later	58,400						
Less gross claims paid	42,221	62,284	87,164	73,197	106,987	6,890	378,743
Gross claims reserve	16,179	23,415	58,276	76,700	114,349	75,339	364,258
Gross claims reserve for 2012 and prior years							8,916

Analysis of claims development - Net	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Estimates of net claims							
End of underwriting year	53,850	50,424	65,473	43,547	102,387	53,655	
One year later	64,528	73,312	97,872	87,181	122,804		
Two years later	57,868	75,609	117,057	92,958			
Three years later	53,416	75,867	122,749				
Four years later	53,130	73,406					
Five years later	47,263						
Less net claims paid	38,999	52,769	73,217	47,904	68,606	5,231	286,726
Net claims reserve	8,264	20,637	49,531	45,054	54,197	48,424	226,107
Net claims reserve for 2012 and prior years							6,389

20. Related Parties

Ultimate parent company
The immediate holding company of AWMA is Allied World Europe Holdings, Ltd, which is incorporated in Bermuda. The company's ultimate parent and to which the results of the Company are consolidated into is Fairfax Financial Holdings Limited.

The Syndicate has entered into various reinsurance arrangements with affiliates of Fairfax Financial Holdings Limited. In respect of insurance and ceded outwards reinsurance activity, these amounts are included as part of the technical account within the income statement.

Group financial statements may be obtained from 95 Wellington Street West, Suite 800, Toronto, Canada.

AWMA
AWMA is the managing agent of the Syndicate. It does not charge a set managing agent fee but receives a mark-up on expenses recharged to the Syndicate of 5%. In respect of expense recharge activity, these amounts are included as part of operating expenses. Expenses recharged, including mark up, in 2018 were £16.7k (2017: £15.6k). The creditor balance as at 31 December was 6,331k

Allied World Syndicate Services (Singapore) PTE Ltd ("AWSS")
The Syndicate underwrites business via the Lloyd's Asia Singapore platform. From 1 April 2014, AWSS has acted as the Lloyd's Asia service company to facilitate the Syndicate's underwriting in Singapore. In respect of expense recharge activity, these amounts are included as part of operating expenses. The fees charged by AWSS to the syndicate were 2,734k (2017: 3,515k). The creditor balance as at 31 December was 592k.

Allied World Reinsurance Management Company ("ARM")
ARM acts as a cover-holder for the Syndicate underwriting business in Central and South America including the Caribbean. In respect of insurance and ceded outwards reinsurance activity, these amounts are included as part of the technical account within the income statement. In respect of expense recharge activity, these amounts are included as part of operating expenses. The fees charged by ARM were 1,292k (2017: 1,671k). The creditor balance as at 31 December was 296k.

Allied World Syndicate Services (Bermuda), Ltd ("AWSB")
AWSB acts as a cover-holder for the Syndicate underwriting business in Bermuda. In respect of insurance and ceded outwards reinsurance activity, these amounts are included as part of the technical account within the income statement. In respect of expense recharge activity, these amounts are included as part of operating expenses. The fees charged by AWSB were 451k (2017: 128k). The creditor balance as at 31 December was 1,531k.

Allied World Assurance Company (Europe) dac ("AWE")
The Syndicate is serviced in terms of accommodation, staff and other overhead costs by AWE. The Syndicate is charged its share of these central costs. In respect of the cost sharing activity, these amounts are included as part of operating expenses.

Allied World Assurance Company, Ltd ("AWA")
The Syndicate participates in an intra-group reinsurance contract with AWA. In respect of insurance and ceded outwards reinsurance activity, these amounts are included as part of the technical account within the income statement. The effect of this contract on the profit and loss account in 2018 was a charge of £3,874k (2017: 30,160k).