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Aspen Managing Agency Limited

Syndicate 4711

Report and accounts

**For the year ended
31 December 2018**

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Directors and Advisors

Managing Agent

Aspen Managing Agency Limited

Directors

M E Dean

K A Green (Acting Chair)

P D Webster

K Mayr

J W J Roome

M Cain

Company secretary

H Lipscomb

Managing Agent's registered office

30 Fenchurch Street,

London, EC3M 3BD

United Kingdom

Managing Agent's registered number

06459521

Syndicate:

Active underwriter

D Harrell

Bankers

Citibank N.A.

RBC Dexia

Deutsche Bank

Investment managers

Conning Asset Management Limited

Registered Auditor

KPMG LLP

15 Canada Square

London

E14 5GL

Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report in respect of Syndicate 4711 ("the Syndicate") for the year ended 31 December 2018.

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 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103').

Results

The result for the year ended 31 December 2018 is a loss of £25.0m (result for the year ended 31 December 2017 was a loss of £15.5m) and is set out in the Profit and Loss Account on page 14. A breakdown of the 2018 performance is shown on page 5.

Overview of the business

The principal activity of the Syndicate is the transaction of general insurance and reinsurance business at Lloyd's. A description of the Syndicate's business is as follows:

Marine, Energy & Aviation Insurance:

The Marine, Energy & Aviation Insurance sub-segment comprises of Aviation, Marine & Energy Liability, Marine Hull, Onshore Energy and Construction, Specie and Upstream Energy.

- Aviation: Focuses on airline, hull deductible, hull war, and aerospace business (comprising of airport and non-critical products business). We ceased underwriting this line of business on 1 August 2018.
- Cargo: Coverage consists of project cargo, including DSU ("Delay in Start Up"), commodities, plant and machinery, steel and raw materials and finished goods. We ceased underwriting this line of business on 21 November 2018.
- Marine & Energy Liability: Both onshore and offshore coverage is written at a variety of attachment points, including at primary levels where appropriate. The marine account offers protection and indemnity, and maritime employers' coverage, although we consider other marine coverage. The energy account considers clients from upstream through the entire process up to and including downstream risk.
- Marine Hull: Coverage consists primarily of navigating policies for ships, insuring the hull of the vessel and its machinery. Ancillary coverage includes building risks, war risks, increased value cover, loss of hire, port risks, and total loss only cover. We ceased underwriting this line of business on 1 August 2018.
- Onshore Energy and Construction: Onshore energy provides for petrochemical, chemical, power generation, and heavy industrial risks (mining, metal making, pulp and paper, etc.). Onshore construction provides property damage, delay in start-up, and third party liability cover for a broad spectrum of risks under construction.
- Specie: The specie business line focuses on the insurance of high value property items on an all risks basis, including fine art, general and bank related specie, jewellers' block and armoured car.
- Upstream Energy: Coverage is offered to insureds principally for physical damage, control of well, loss of hire, and business interruption; as well as other ancillary perils for both operational and construction risks. Upstream exposures exist both offshore and onshore and cover is provided for exploration and drilling, construction and development of a field and then the production and processing of hydrocarbons up to the point of refining.

Financial and Professional Lines Insurance:

The Financial and Professional Lines sub-segment comprises of Accident & Health, Credit & Political Risks, Crisis Management, Cyber, International Management Liability and Professional Indemnity.

- **Accident & Health:** A global portfolio is written focusing on niche business and relationships focusing on products that afford protection for individuals, groups and companies from the consequences of accidental death, disability and global travel. An extensive range of accident and health covers are offered, including: individual and group personal accident ("PA")/disability, credit card, evacuation/repatriation, war, occupational accident, medical expenses, aviation PA, sports PA/disability and other specialist products. In addition, there is the ability to provide protection for a wide range of reinsurance clients on an excess of loss and proportional basis.
- **Credit and Political Risks:** Business written covers the credit and contract frustration risks on a variety of trade and non-trade related transactions, as well as political risks (including multi-year war on land cover). There is worldwide coverage, but with concentrations in a number of countries, such as Russia, China, Brazil, the Netherlands and the United States.
- **Crisis Management:** The majority of this portfolio is terrorism insurance, but the Syndicate also writes kidnap and ransom insurance designed to protect individuals and corporations operating in high-risk areas around the world, including covering the shipping industry's exposure to acts of piracy.
- **Cyber and Technology Errors & Omissions:** This account includes a worldwide portfolio of policies, covering professional indemnity for technology firms, media liability and traditional Cyber-specific covers. Cyber-specific covers include first party costs and third party liabilities related to the breach of contractual or statutory data protection obligations. Other covers include network-based extortion, network-based business interruption, third party network security liability and first party data recovery expenses.
- **International Management Liability:** The financial institutions business is written on both a primary and excess of loss basis and consists of professional liability, crime insurance and directors' and officers' ("D&O") cover, with the largest exposure comprising risks headquartered in Australia, followed by the UK, US and Canada. This covers financial institutions including commercial and investment banks, asset managers, insurance companies and stockbrokers. The account also includes a book of D&O insurance for commercial insureds located both inside and outside of the US and a worldwide book of representations and warranties and tax indemnity business through facilities.
- **Professional Indemnity:** The professional indemnity business is written on both a primary and excess of loss basis focused on mainly non-US domiciled insureds and insures a wide range of professions including lawyers, accountants, architects and engineers. We ceased underwriting this line of business on 1 August 2018.

Other, including:

- **Environmental:** Cover is provided for damages arising from pollution resulting from an insured's activities including bodily injury, property damage, clean-up costs and biodiversity damage. Heavy industries (metals, mining and paper), energy (upstream/midstream/downstream), hydrocarbon supply (storage and distribution), ports/terminals, construction companies & projects, manufacturing, waste treatment & storage, transportation, hospitality, commercial real estate, airports/fixed base operators and environmental professionals.
- **Global Casualty:** Consists of a broad portfolio of excess casualty business, including railroad, Fortune 1000, manufacturing, and construction.
- **Reinsurance:** This account consists of various businesses requiring our Lloyd's capacity and includes space business written through consortium, Brazilian reinsurance treaty business, China reinsurance treaty business (including property, casualty and specialty business), international property facultative and some casualty business.

2018 Performance

Overall premium for the year has decreased to £387.8m (2017: £396.6m), with the loss for the financial year of £25.0m reflecting the challenging market conditions currently being faced, higher than expected attritional losses in the current accident year and deterioration in prior year losses, predominantly Professional Indemnity. Decreasing production levels have been seen throughout the three segments. In August 2018 Aspen made the decision to cease writing Aviation, Marine Hull, Cargo and Professional Indemnity which accounts for the majority

of the drop in production, with favourable increases seen in Accident & Health, Management Liability and Global Casualty. Additional information on the Syndicate's classes of business is set out below.

Marine, Aviation and Energy Insurance

Gross written premium decreased slightly to £170.3m from £177.1m in 2017. In August 2018 Aspen ceased writing Aviation and Marine Hull and in November 2018 Aspen ceased writing Cargo business. The segment reported a small profit for the year, with current year losses in Marine Hull and Marine Energy being offset by prior year reserve releases due to favourable claims experience.

Financial and Professional Lines Insurance

Gross written premiums have increased in the year to £170.9m from £165.7m in 2017 as a result of increased Management Liability consortia business as well as the continued growth of the Accident and Health team. In August 2018 Aspen ceased writing Professional Indemnity business. The segment showed a sizable loss as a result of further deterioration in the Professional Indemnity business line and a review of our Actuarial assumptions in Financial Institutions.

Other including Global Casualty Insurance and Reinsurance

Gross written premium decreased in the year to £46.6m from £53.8m in 2017 due to the decision to review and restructure our Reinsurance segment business, resulting in the non-renewal of unprofitable business and the decision to write less through the Lloyd's China platform. This segment suffered from deterioration on prior year losses.

Key performance indicators

The key financial performance indicators during the year were:

	(£ in millions)
Capacity	566.0
Gross written premium	387.8
Gross earned premium	409.4
Net earned premium	193.2
Investment return	0.5
Underwriting loss	(21.1)
Expense ratio	44.4%
Claims ratio	66.8%
Combined ratio	111.2%

The above ratios have been calculated using net earned premium.

Outwards reinsurance arrangements

We purchase reinsurance and retrocession to mitigate and diversify our risk exposure to a level consistent with our risk appetite and to increase our insurance and reinsurance underwriting capacity. These agreements provide for recovery of a portion of our losses and loss adjustment expenses from our reinsurers. The amount and type of reinsurance that we purchase varies from year to year and is dependent on a variety of factors, including, but not limited to, the cost of a particular reinsurance contract and the nature of our gross exposures assumed, with the aim of securing cost-effective protection.

We have reinsurance covers in place for the majority of our insurance classes of business, most of which are on an excess-of-loss basis and / or proportional treaty basis. The excess of loss covers provide protection in various layers and excess of varying attachment points according to the scope of cover provided. In 2018 the number of proportional reinsurance contracts by size and number of classes covered was kept at a consistent level compared to our coverage in 2017. During 2019 we anticipate a reduction as we return to non-proportional cover in a number of classes.

The Syndicate has an adverse development cover to protect against reserve deterioration over and above the 31 December 2008 net reserve position. Also, the Syndicate has a 20% whole account quota share for the years of account 2009 to 2018 to protect the net retained account. These reinsurances are placed with ABL.

For the 2015 to 2018 underwriting years of account, all MEC business was agreed to be written to the Syndicate and an additional 50% quota share was purchased to reduce volatility. This quota share was purchased with AIUK, a subsidiary of Aspen Insurance Holdings Limited ("AIHL").

Investment performance

The investment policy of the Syndicate is set by the Board of Aspen Managing Agency Limited ("AMAL") and managed with support from the Aspen Group Treasury function. The Board monitors investment performance and approves the appointment of investment managers. Conning Asset Management Limited manage the Syndicate's investments.

As at 31 December 2018, the Syndicate held £176.5m in fixed income investments, which were located in various countries in Europe excluding the UK; being Sweden, France, Luxembourg, Netherlands and Germany. All such investments had a Standard & Poor's rating of at least BBB+. Investment risk is analysed in note 4 to these accounts.

The Syndicate maintains investment funds in Sterling, US dollars, Euro and Canadian dollars.

As at 31 December 2018 the total value of cash and investments was £332.7m (2017: £302.0m). Of the total value, 62.0% was held in US dollars, of which 18.0% was invested in money market funds and 28.0% was invested in Canadian and US government bonds. Overall the investment yield for the year was 0.1% (2017: 1.0%) on an annualised basis.

Further analysis of the Syndicate's investments can be found in the notes 10 and 11 to these accounts.

Financial Position

The balance sheet of the Syndicate shows total assets of £1,252.0m and a members' balances deficit of £71.3m. Of the total assets, £238.9m is represented by financial investments. The Syndicate maintains all its investments in fixed income bonds and liquidity funds all with a rating of at least BBB+.

Insurance reserves include a provision for claims outstanding of £395.0m and a provision for unearned premium of £109.6m net of reinsurance.

Principal Risks and Uncertainties

Risk management has been embedded in the management and culture of the Aspen Group since its formation in 2002. Aspen Managing Agency Limited ("AMAL") and the Syndicate, as operating entities within the Aspen Group, operate within the Group's established risk management practices.

The key risk for the Syndicate is the ongoing soft market conditions and its impact on the achievability of Syndicate profitability which remains a key focus.

During 2011 a Risk Universe was agreed for Syndicate 4711, which defines the different types of risk that Syndicate 4711 faces and how they are monitored and measured. This framework has been applied and refined every year from 2012 - 2018. The risks are defined in the Risk Universe at 3 levels:

- Main risk classification
- Risk category
- Risk sub category

The main risks faced by Syndicate 4711 are defined as follows:

Core risks - those risks inherent in the running of Syndicate 4711's business are listed below:

- 1) Insurance risk: the variation of actual technical results from their expected values other than as a result of execution, operational or counterparty risks.
- 2) Market risk: The risk of variation in the market value of the Syndicate's assets as a result of changes in the market prices of securities or foreign currencies.

Non-core risks are all risks other than core risks. These are quantified as far as possible and, wherever practical, minimised or avoided. These are listed below:

- 3) Credit risk: The risk of diminution in the value of insurance receivables as a result of counter-party default.
- 4) Liquidity Risk: The risk that Syndicate 4711 is unable to make payments or provide collateral when required.
- 5) Operational Risk: The risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.
- 6) Strategic Risk: The risk of adverse impact on shareholder value or income and capital of adverse business decisions, poor execution or failure to respond to market changes.
- 7) Emerging Risk: The risk that events not previously identified emerge and impact the profitability and/or balance sheet of Syndicate 4711.
- 8) Regulatory Risk: The risk of non-compliance with regulatory requirements including ensuring we understand and comply with changes to those requirements are an operational risk. There is a residual risk that changes in regulation impact our ability to operate profitably in some jurisdictions or some lines of business.
- 9) Taxation Risk: The risk that we do not understand, plan for and manage our tax obligations is an operational risk. There is a residual risk that changes in taxation impact our ability to operate profitably in some jurisdictions or some lines of business.

Operational risk is the most complex of the major risk classifications because it includes multiple risk scenarios arising from multiple processes and circumstances. Because of this we record identified operational risks and their related risk assessments, owners and identified controls in a separate Syndicate 4711 'Operational Risk Register'. The Operational Risk Register continues to be maintained and monitored via a quarterly review process.

During 2011 the current approach to Syndicate 4711 key risk limits was introduced. These key limits supplement the Syndicate 4711 risk appetite statement which was first agreed in 2010 and ensure, amongst other things, that specific key accumulation risks faced by Syndicate 4711 are measured and monitored.

Reporting against the Syndicate 4711 Risk Appetite and Key Risk Limits has formed part of the quarterly Chief Risk Officer ("CRO") reports to the AMAL Executive Committee and Board throughout 2018. The Risk Appetite and Key Risk Limits are formally reviewed annually as part of the business planning process. Changes to the Key Risk Limits throughout the year are reported on via the quarterly CRO reports.

The draft 2018 Own Risk and Solvency Assessment report was reviewed by the AMAL Board in March 2018 and a number of changes were requested to be made prior to its submission to Lloyd's at the end of March 2018.

UK's Decision to leave the EU

There is still uncertainty surrounding the implementation and effect of the UK's decision to leave the European Union ("E.U."), otherwise known as Brexit. While the UK continues to be a full member of the E.U. the Syndicate will continue to have access to E.U. business under the current passporting regime. Once the UK has left the E.U. the Syndicate expects to be able to continue to access risks from all 27 E.U. countries and three European Economic Area states through its participation in the Lloyd's Brussels subsidiary. The Lloyd's Brussels subsidiary is a Belgian insurer regulated by the National Bank of Belgium and the Belgian Financial Services and Markets Authority and is being used for E.U. policies from 01/01/19.

Syndicate 4711's exposure to Europe represents circa 10% of premium.

Uncertainty still exists regarding the ability of the Syndicate to service existing E.U. policies written before the exit date. This is dependent on the outcome of Brexit negotiations. Lloyd's is planning to implement a Part VII transfer of policies to Lloyd's Brussels to address this issue.

As a consequence of Brexit there is likely to be increased economic volatility and market uncertainty globally, in particular volatility of currency exchange rates, interest rates and credit spreads. Syndicate 4711's assets and liabilities are primarily in USD rather than GBP or EUR. Syndicate 4711's risk management framework provides the mechanism for managing and mitigating these risks.

The 2019 planned premium to be written through the Lloyd's Brussels subsidiary is £23.4m.

Future developments

The Syndicate's capacity for 2019 has decreased to £463 million (2018: £566 million). This is mainly driven by the Syndicate no longer writing 4 lines of business being Aviation, Marine Hull, Cargo and Professional Indemnity.

The Syndicate will look to develop its remaining business in line with market conditions. It will seek to grow in areas where opportunities make sense and continue to evaluate classes that are more challenging.

The Aspen group launched a comprehensive programme (the "Effectiveness and Efficiency Programme") in 2017, to improve operating effectiveness and efficiency across the organisation and enhance its market position, and this will continue into 2019. The Effectiveness and Efficiency Programme is intended to result in a more nimble organisation with faster and better decision-making ability and a more competitive expense ratio. The programme is group wide and applies to all Aspen entities including the Syndicate. This will be delivered through expense savings and incremental capital expenditure, particularly in information technology, over the next two years.

As part of this initiative, on 20 April 2018, Aspen Insurance UK Services Limited, Aspen Insurance U.S. Services Inc. and Aspen Bermuda Limited entered into an Outsourcing Agreement (the "Agreement") with Genpact International, Inc., a company incorporated in Delaware, United States ("Genpact"). Pursuant to the Agreement, Genpact will provide the Syndicate with a range of operational business processes, primarily from their offshore service center in Gurgaon, India, to enable Aspen to deliver greater operating effectiveness and efficiencies. The Agreement is effective 1 April 2018 and shall have an initial term period of five years. Aspen has the right to extend the Agreement for three additional one year terms.

Additionally, on 31 August 2018, Aspen Insurance UK Services Limited, Aspen Insurance U.S. Services Inc. and Aspen Bermuda Limited entered into an Outsourcing Agreement with Cognizant Worldwide Limited. Pursuant to the Agreement, Cognizant will provide Aspen Insurance Holdings Limited and its subsidiaries with information technology services to enable Aspen to deliver greater operating effectiveness and efficiencies. The Agreement is effective 31 August 2018 and shall have an initial term period of five years from 1 October 2018. Aspen has the right to extend the Agreement for an additional two year term.

Directors

The directors of AMAL who held office during the year ended 31 December 2018 and up until the date of this report being signed are as follows:

		Date of Appointment	Date of Resignation
H E Hutter	Non-executive Chairman	28 th February 2008	15 th February 2019
M Cain	Chief Executive Officer	17 th October 2017	
K A Green	Acting Chair	15 th February 2019	
K A Green	Non-executive Director	17 th October 2017	
K Mayr	Non-executive Director	18 th October 2016	
P D Webster	Non-executive Director	14 th August 2013	
J W J Roome	Non-executive Director	25 th May 2017	
M E Dean	Director	21 st October 2015	
H Rose	Director	3 rd February 2016	22 nd October 2018
J Price	Director	22 nd October 2018	28 th February 2019

Research and development

The Syndicate has not undertaken any research and development activities during the year.

Events since the reporting date

On 15 February 2019, Aspen Insurance Holdings Limited ("AIHL") the ultimate parent of the Company, merged with Highlands Merger Sub, Ltd. ("Merger Sub"), a Bermuda exempted company and wholly owned subsidiary of Highlands Holdings, Ltd., a Bermuda exempted company ("Parent"). Both Merger Sub and Parent are affiliates of certain investment funds managed by affiliates of Apollo Global Management, LLC ("Apollo"). AIHL, Parent and Merger Sub merged with and into AIHL with AIHL continuing as the surviving company and as a wholly-owned subsidiary of the Parent Company.

Disclosure of information to the Auditors

The directors each confirm that:

- So far as they are aware, there is no relevant audit information of which the Syndicate's auditors are unaware, and
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

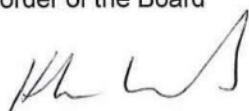
Charitable and Political contributions

The Syndicate made no political or charitable donations during 2018 (2017: Nil).

Auditors

Pursuant to Section 14 (2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



Helen Lipscomb
Secretary

20 March 2019

Statement of Managing Agent's Responsibilities

The directors of the Managing Agent are responsible for preparing the Syndicate financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the Managing Agent to prepare their Syndicates financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the directors of 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 these financial statements, the directors of the Managing Agent are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Assess the Syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern: and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the Managing Agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control and they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors of the Managing Agent are responsible for the maintenance and integrity of the Syndicate and financial information included on the Syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Mark Dean
Director

20 March 2019

Independent Auditor's Report to the Member of Syndicate 4711

Opinion

We have audited the financial statements of Syndicate 4711 for the year ended 31 December 2018 which comprise the Profit and Loss Account: Technical and Non-Technical Account - General business, Statement of Other Comprehensive Income, Balance Sheet - Assets, Balance Sheet - Liabilities, Statement of changes in Members' Balances, Cash Flow Statement, and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors of the Managing Agent have prepared the Annual Return on the going concern basis as they do not intend to liquidate the syndicate or to cease its operations, and as they have concluded that the syndicate's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the syndicate's business model, including the impact of Brexit, and analysed how those risks might affect the syndicate's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the syndicate will continue in operation.

Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.
We have nothing to report in these respects.

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 11, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to cease trading, or have no realistic alternative but to do so.

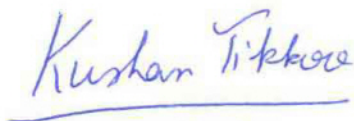
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the syndicate's members, as a body, in accordance with 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 company and the syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Kushan Tikkoo (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada square
London
E14 5GL

20 March 2019

Profit and Loss Account: Technical and Non-Technical Account - General Business
for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Gross premiums written	5	387,768	396,588
Outward reinsurance premiums		(208,698)	(214,308)
Net premiums written		179,070	182,280
Change in the provision for unearned premiums			
Gross amount	5 & 13	21,622	531
Reinsurers' share	13	(7,470)	12,785
Net change in provision for unearned premiums		14,152	13,316
Earned premiums, net of reinsurance		193,222	195,596
Allocated investment return transferred from the non-technical account	10	460	3,090
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	5	(204,036)	(182,794)
Reinsurers' share		78,673	93,963
Net claims paid		(125,363)	(88,831)
Change in the provision for claims			
Gross amount	5 & 13	(118,158)	(84,212)
Reinsurers' share	13	114,384	46,387
Net change in the provision for claims		(3,774)	(37,825)
Claims incurred, net of reinsurance		(129,137)	(126,656)
Net operating expenses	6	(85,691)	(78,844)
Balance on the technical account - for general business		(21,146)	(6,814)
 Non-Technical Account			
Investment income	10	768	4,657
Realised losses on investments	10	(649)	(723)
Investment management charges	10	542	(246)
Unrealised losses on investments	10	(201)	(598)
Allocated investment return transferred to general business technical account	10	(460)	(3,090)
Other charges	7	(3,872)	(8,721)
Loss for the financial year		(25,018)	(15,535)

All operations are continuing.

Statement of Other Comprehensive Income
for the year ended 31 December 2018

	2018	2017
	£000	£000
Loss for the financial year	(25,018)	(15,535)
Foreign currency translation differences	(3,488)	1,898
Total recognised losses in the financial year	<u>(28,506)</u>	<u>(13,637)</u>

Balance sheet - Assets
at 31 December 2018

	Notes	2018 £000	2017 £000
Investments			
Financial investments	11	238,881	212,973
Reinsurers' share of technical provisions			
Provision for unearned premiums	13	114,027	114,715
Claims outstanding	13	402,432	271,089
		<u>516,459</u>	<u>385,804</u>
Debtors - due within one year			
Debtors arising out of direct insurance operations - intermediaries		120,503	186,877
Debtors arising out of reinsurance operations		218,841	108,584
Other Debtors		3,471	9,711
		<u>342,815</u>	<u>305,172</u>
Debtors - due after one year			
Debtors arising out of direct insurance operations - intermediaries		400	7,225
Debtors arising out of reinsurance operations		457	1,899
		<u>857</u>	<u>9,124</u>
Other assets			
Cash at bank and in hand	14	24,554	17,838
Other	14	69,273	71,158
		<u>93,827</u>	<u>88,996</u>
Prepayments and accrued income			
Deferred acquisition costs	12	57,967	58,427
Other prepayments and accrued income		1,154	714
		<u>59,121</u>	<u>59,141</u>
TOTAL ASSETS		<u><u>1,251,960</u></u>	<u><u>1,061,210</u></u>

Balance Sheet - Liabilities
at 31 December 2018

	Notes	2018 £000	2017 £000
Capital and reserves			
Member's balance		(71,294)	(35,878)
Technical provisions			
Provision for unearned premiums	13	223,582	236,468
Claims outstanding	13	797,389	647,346
		<u>1,020,971</u>	<u>883,814</u>
Creditors - due within one year			
Creditors arising out of direct insurance operations - intermediaries		46,798	36,244
Creditors arising out of reinsurance operations		188,565	137,196
Other creditors	11	4,374	—
		<u>239,737</u>	<u>173,440</u>
Accruals and deferred income	15	62,546	39,834
TOTAL LIABILITIES		<u>1,251,960</u>	<u>1,061,210</u>

The financial statements on pages 14 to 50 were approved by the Board of Aspen Managing Agency Limited on 14 March 2019 and were signed on its behalf by:



Mark Dean
Director

20 March 2019

**Statement of changes in Members' Balances
at 31 December 2018**

	2018	2017
	£000	£000
Member's balances at 1 January	(35,878)	(7,907)
(Loss) for the financial year	(25,018)	(15,535)
Other recognised (losses) and gains relating to the financial year	(3,488)	1,898
Distribution of Profit to member	(6,640)	(14,737)
Member's FIT	(270)	403
Member's balance carried forward at 31 December	<u>(71,294)</u>	<u>(35,878)</u>

Members participate in syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year in respect of their membership of a particular year.

Cash Flow Statement
for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
Operating result		(25,018)	(15,535)
Increase in gross technical provisions		137,157	23,561
Increase in reinsurers' share of gross technical provisions		(130,655)	(35,464)
Increase in debtors and accrued income		(29,356)	(51,726)
Increase in creditors		89,009	40,558
Investment return		(460)	(3,091)
Other		(3,759)	2,301
Net cash flows from operating activities		36,918	(39,396)
Cash flows from investing activities			
Purchase of equity and debt instruments		(113,851)	(77,196)
Sale of equity and debt instruments		88,285	150,217
Purchase of derivatives		(446,722)	—
Sale of derivatives		444,137	—
Investment income received		2,704	3,935
Net cash flows from investing activities		(25,447)	76,956
Cash flows from financing activities			
Distribution loss		(31,640)	(14,737)
Open year cash calls		25,000	—
Net cash flows from financing activities		(6,640)	(14,737)
Net increase in cash and cash equivalents		4,831	22,823
Cash and cash equivalents at 1 January		88,996	66,173
Cash and cash equivalents at 31 December		93,827	88,996
Cash at bank and in hand	14	24,554	17,838
Short term deposits with credit institutions	14	69,273	71,158
Cash and cash equivalents at 31 December		93,827	88,996

Notes to the Accounts

At 31 December 2018

1. Basis of preparation

Syndicate 4711 ('The Syndicate') comprises of a member of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the syndicate's managing agent is 30 Fenchurch Street, London, EC3M 3BD.

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The financial statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss that are measured at fair value.

The financial statements are presented in Pound Sterling ("GBP"), which is the syndicate's presentational currency, the Syndicate's functional currency is US dollars. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2. Judgments and key sources of estimation uncertainty

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

Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in note 4.

3. Significant accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's financial statements.

Notes to the Accounts

At 31 December 2018

Gross Premiums

Gross written premiums comprise total premiums receivable for the whole period of cover for contracts entered into in the reporting period plus any adjustments to such premiums receivable in respect of business written in prior reporting periods. All premiums are shown gross of commissions payable to intermediaries and exclusive of taxes and levies. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified. Revisions to estimates are recognised as they arise.

Reinsurance premiums

Reinsurance premiums relating to reinsurance placed by the Syndicate are accounted for using the same accounting methodology as we use for inwards premiums.

Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date.

Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance and reinsurance contracts.

Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical Provisions

Technical provisions comprise claims outstanding, provisions for unearned premiums, provisions for unexpired risk and equalisation provisions.

Claims provision

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The Syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability is not discounted for the time value of money.

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported to the Syndicate, at the reporting date. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Syndicate, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims

Notes to the Accounts

At 31 December 2018

the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Syndicate has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Syndicate adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year. The main projection methodologies that are used are:

- Initial expected loss ratio ("IELR") method: This method calculates an estimate of ultimate losses by applying an estimated loss ratio to an estimate of ultimate earned premium for each accident year.
- Bornhuetter-Ferguson ("BF") method: The BF method uses as a starting point an assumed IELR and blends in the loss ratio implied by the claims experience to date by using benchmark loss development patterns on paid claims data ("Paid BF") or reported claims data ("Reported BF").
- Loss development ("Chain Ladder"): This method uses actual loss data and the historical development profiles on older accident years to project more recent, less developed years to their ultimate position.
- Exposure-based method: This method is used for specific large typically catastrophic events such as a major hurricane. All exposure is identified and we work with known market information and information from our cedants to determine a percentage of the exposure to be taken as the ultimate loss.

In addition to these methodologies, our actuaries may use other approaches depending upon the characteristics of the line of business and available data.

Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date computed separately for each insurance contract. Written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Unearned premiums are deemed monetary items and are valued using the closing rate.

Unexpired risks

A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable.

Notes to the Accounts

At 31 December 2018

The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date, after offsetting surpluses and deficits arising on products which are managed together. Investment income is taken into account in calculating the provision.

Deferred acquisition costs

Acquisition costs, arising from the conclusion of insurance contracts are deferred commensurate with the unearned premium provision. Deferred acquisition costs are deemed to be monetary items and are valued using the closing rate.

Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Financial Instruments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments to account for all of its financial instruments.

The Syndicate classifies its financial assets into the following categories: Shares and other variable-yield securities and units in unit trusts - at fair value through profit or loss; Debt securities and other fixed income securities - at fair value through profit or loss; and Deposits with credit institutions - loans and receivables. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Financial assets at fair value through profit or loss

A financial asset is classified into this category at inception if:

- They are acquired principally for the purpose of selling in the short term; or
- If they form part of a portfolio of financial assets in which there is evidence of short term profit-taking; or
- If so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities.

Notes to the Accounts

At 31 December 2018

Financial assets designated as at fair value through profit and loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Syndicate's key management personnel. The Syndicate's investment strategy is to invest in listed and unlisted fixed interest rate debt securities, and derivatives designated upon initial recognition at fair value through profit or loss.

The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair values of financial instruments that are not traded in an active market (for example over-the-counter derivatives), are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take between market participants.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the profit and loss account within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise.

Impairment

For financial assets not at fair value through profit or loss, the Syndicate assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Investment return

Investment return comprises all investment income (which includes the interest income for financial assets carried at amortised cost, using the effective interest method), realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest payable on financial liabilities carried at amortised cost, using the effective interest method.

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. In the case of investments included at amortised cost, realised gains and losses are calculated as the difference between sale proceeds and their latest carrying value. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated equity is made from the non-technical account to the technical account.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Notes to the Accounts

At 31 December 2018

Foreign currencies

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Syndicate's assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Bank overdrafts that are repayable on demand and form an integral part of the syndicate's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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 (currently at 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents 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 have been included in the balance sheet under the heading 'other debtors'. No provision has been made for any other overseas tax payable by members on underwriting results.

The Syndicate will make payments on account of United States Federal Income Tax due on underwriting results and investment income on behalf of its Member. These payments are recorded under the heading 'other debtors' and are recovered by the Syndicate from its Members.

Member's expenses

Member's expenses comprise managing agent's fees, Lloyd's subscriptions and central fund contributions. Managing agent's fees are recognised in full in the calendar year in which they are paid.

Lloyd's subscriptions and central fund contributions are earned in line with the gross premiums written to the same year of account.

4. Risk and capital management

Introduction and overview

The Syndicate is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are insurance risk, market risk (including interest rate risk and currency risk) credit risk, and liquidity risk.

The key risks for the Syndicate are largely unchanged during the last year. The ongoing soft market conditions and its impact on the achievability of both top line and bottom line performance remain a key focus.

Notes to the Accounts

At 31 December 2018

Risk Governance and Risk Management Strategy

The Board of Directors of AMAL ("the Board") considers effective identification, measurement, monitoring, management and reporting of the risks facing our business to be key elements of its responsibilities. The Board ensures that the Syndicate operates an effective risk management and control framework which includes risk management, compliance and internal control systems. The Syndicate, as an operating entity within the Aspen Group, benefits from the Group's established risk management practices. The Group's risk management policies are established to identify and analyse the risks faced by the Group and the Managing Agency, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Syndicate and managing agency's activities. Further details on the Group wide risk management strategy can be found in the consolidated financial statements of Aspen Insurance Holdings Limited ("AIHL") which are available to the public.

Capital framework at Lloyd's

The Society of Lloyd's ("Lloyd's") is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority ("PRA") under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's would comply with the Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 4711 is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement ("SCR") for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities. The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicates on which it is participating but not other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment ("ECA"). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Notes to the Accounts

At 31 December 2018

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member ("funds at Lloyd's"), assets held and managed within a syndicate (funds in syndicate), or as the member's share of the members' balances on each syndicate on which it participates. Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page 17, represent resources available to meet members' and Lloyd's capital requirements. As the Syndicate has a members' balances deficit this increases the amount of assets required to be held in trust as funds at Lloyd's.

Insurance Risk

Insurance risk is defined as the risk that underwriting results vary from their expected amounts, including the risk that reserves established in respect of prior periods are understated.

Insurance risk includes the following:

- a. Underwriting risk: The variation of accident year technical result from its expected value. Underwriting risk can be further split into sub-categories including:
 - Catastrophe accumulation risk: The risk that losses from natural catastrophes exceed expected levels.
 - Pricing calibration risk: The risk that actual technical results differ from expected values as a result of invalid assumptions, methodology or parameters used in the pricing process.
 - Large claims risk: The risk that losses from a single man-made event, or group of related events, exceed the expected levels.
 - Attritional risk: The risk that the total of all losses other than catastrophe and large losses exceeds the expected level.
 - Reinsurance mitigation risk: The risk that gross losses are not reduced by reinsurance recoveries to the extent expected.
- b. Reserving risk: The variation in policyholder reserves for prior accident years.

Processes for addressing risk

We model our exposure to underwriting and reserving risks using the Internal Model to measure the associated capital requirements on both the one year SCR measure stipulated by Solvency II and the ultimate SCR basis used by Lloyd's to set capital requirements. Our Internal Model has been assessed by Lloyd's as meeting the tests and standards for Solvency II approval. Lloyd's internal model of which our model is a part has been approved by the PRA. Modelling of insurance risk exposures is the key process for monitoring and managing insurance risk.

The Reserving policy and Aspen Group Underwriting Risk Policy evidence how Aspen manages the risk of loss or of adverse change in the values of insurance and reinsurance liabilities, resulting from inadequate pricing and provisioning assumptions.

The Underwriting Risk Policy requires and defines the use of Aspen Underwriting Principles ("AUPs") and/or Underwriting Guidelines for each underwriting team, and similarly the Group Pricing Standard establishes the requirements that must be addressed by the Pricing Policy Document ("PPD") for each portfolio. AUPs set out a series of key principles translated into specific guidelines, requirements, processes and management controls, the compliance of which is mandatory for all Underwriters. The PPDs set out a series of standards and principles to apply to all business underwritten.

The Group Claims risk policy sets out the core risk management requirements for the Claims process. The Syndicate Claims Procedures apply to claims handling in respect of Syndicate claims. It covers the full claims cycle and is supported by a range of detailed procedures. It includes specific considerations in respect of the handling of Syndicate claims.

The Reinsurance Mitigation Policy defines Aspen's approach to managing the risk that gross losses are not reduced by reinsurance recoveries to the extent expected. The Insurance Accumulation Risk policy defines Aspen's approach to categorise, set tolerances and limit, measure, monitor, report and escalate Natural Catastrophe and Non Natural Catastrophe accumulations.

Notes to the Accounts

At 31 December 2018

The Key Risk limits are monitored and reported in the Chief Risk Officer's ("CRO's") report to the AMAL Board.

Concentration of insurance risk

The Syndicate's exposure to insurance risk is well diversified. The following table provides an analysis of the geographical breakdown of its premiums by class of business:

Year 2018	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Miscellaneous	Reinsurance	Total £000
UK	4,563	7,157	2,116	26,699	12,893	33,395	86,823
Asia	2,972	4,661	1,378	17,389	8,397	21,749	56,546
Europe	2,061	3,232	956	12,059	5,823	15,083	39,214
US	6,697	10,503	3,105	39,181	18,920	49,007	127,413
Other	4,088	6,411	1,896	23,916	11,549	29,912	77,772
Total	20,381	31,964	9,451	119,244	57,582	149,146	387,768

Year 2017	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Miscellaneous	Reinsurance	Total £000
UK	2,053	7,308	1,585	19,979	7,503	29,180	67,608
Asia	2,273	8,090	1,755	22,118	8,306	32,303	74,845
Europe	1,348	4,796	1,041	13,113	4,925	19,154	44,377
US	4,026	14,335	3,110	39,194	14,720	57,243	132,628
Other	2,342	8,337	1,809	22,793	8,560	33,289	77,130
Total	12,042	42,866	9,300	117,197	44,014	171,169	396,588

Sensitivity of insurance risk

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being written and can arise from developments in case reserving for large losses and catastrophes, or from changes in estimates of IBNR.

A five percent increase or decrease in total claims liabilities would have the following effect on profit or loss:

2018		2017	
5 per cent increase	5 per cent decrease	5 per cent increase	5 per cent decrease
£000	£000	£000	£000
(18,980)	18,980	(18,196)	18,196

Claims Development

Reserves are required owing to the time between the occurrences, reporting and eventual settlement of a loss, which, for some lines of business, can be several years. Since reserves are an estimate of the likely outcome of these future events, they are subject to a degree of volatility. That is, the actual emergence of ultimate losses can be expected to differ, perhaps materially, from any estimate of such losses.

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The users should be aware that loss payment and loss reporting patterns are not the only considerations in establishing loss reserves.

In setting claims provisions the Syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. Due to the nature of the type of business written certain classes have a higher level of uncertainty than others and therefore an increased potential for volatility. The MEC Liability class of business in particular has historically shown higher levels of reserve volatility and as such there is significant uncertainty around reserve projections for this business line.

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2018 in all cases.

Gross

	2011	2012	2013	2014	2015	2016	2017	2018	Total
Pure underwriting year	£000	£000	£000	£000	£000	£000	£000	£000	£000
Estimate of gross claims at end of underwriting year	77,504	82,215	95,675	81,471	109,541	102,767	119,091	105,280	
One year later	183,286	171,413	182,805	205,829	259,984	263,057	262,148	—	
Two years later	175,648	185,388	193,134	222,682	249,228	301,250	—	—	
Three years later	172,061	203,812	168,610	215,277	255,476	—	—	—	
Four years later	167,761	202,074	175,594	236,664	—	—	—	—	
Five years later	165,819	204,413	174,407	—	—	—	—	—	
Six years later	162,473	203,489	—	—	—	—	—	—	
Seven years later	181,630	—	—	—	—	—	—	—	
Less gross claims paid	158,723	170,473	134,609	143,624	136,241	124,840	55,390	6,263	
Gross reserve	22,907	33,016	39,798	93,040	119,235	176,410	206,758	99,017	790,181
2010 and prior years									7,208
Gross claims reserves									797,389

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At 31 December 2018

Net

	2011	2012	2013	2014	2015	2016	2017	2018	Total
Pure underwriting year	£000	£000	£000	£000	£000	£000	£000	£000	£000
Estimate of net claims at end of underwriting year	59,267	60,590	71,828	59,443	60,214	58,418	53,862	39,377	
One year later	109,671	125,930	130,352	141,694	155,417	149,805	120,439	—	
Two years later	102,235	135,102	139,204	147,368	138,062	163,395	—	—	
Three years later	95,908	148,839	122,269	142,733	142,102	—	—	—	
Four years later	94,244	144,703	126,967	148,310	—	—	—	—	
Five years later	92,633	144,110	126,064	—	—	—	—	—	
Six years later	90,521	142,693	—	—	—	—	—	—	
Seven years later	98,042	—	—	—	—	—	—	—	
Less net claims paid	89,318	120,684	97,637	93,989	80,182	73,337	30,704	2,586	
Net reserve	8,724	22,009	28,427	54,321	61,920	90,058	89,735	36,791	391,985
2010 and prior years									2,972
Net claims reserves									394,957

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Market Risk

Market risk is the risk of variation in the income generated by, and the fair value of, our investment portfolio, cash and cash equivalents and derivative contracts including the effect of changes in foreign currency exchange rates. Within our Risk Universe we define five categories of market risk:

- (i) Foreign currency risk;
- (ii) Fixed Income Security risk which sub-divides into
 - interest rate risk; and
 - spread risk
- (iii) Equity risk
- (iv) Market risk mitigation risk
- (v) Asset concentration risk

Processes for addressing risk

As with Insurance risk, we model our exposure to market risks using the Internal Model to measure the associated capital requirements on both the one year Solvency Capital Requirement ("SCR") measure stipulated by Solvency II and the ultimate SCR basis used by Lloyd's to set capital requirements.

The Investment Risk Policy describes the measurement of market risks, and specifically describes what is permissible with regards to the use of derivatives in order to manage currency positions, portfolio duration and hedge interest rate risk in the investment portfolio.

Use of derivatives is limited to interest rate swaps, forward rate transactions, bond options, interest rate futures, foreign exchange spot and forward transactions and currency options. The Syndicate started to use derivatives to hedge unmatched currency balance sheet positions during 2018.

The Asset and Liability Management Policy defines Aspen's approach to duration and currency matching. Management monitors the value, currency and duration of cash and investments held by the Syndicate to ensure that the Syndicate is able to meet the insurance and other liabilities as they become due. The following components of both cash matching and duration matching are employed to manage the investment portfolio:

- The average duration of liabilities;
- The outlook for interest rates and the yield curve;
- The need for cash to pay claims;
- Total return.

As with Insurance risks market risk is inherently unpredictable. It is difficult to predict the frequency of events of this nature and to estimate amount of loss that any given occurrence will generate. As with Insurance risks as well as modelling our exposures and the capital required to address potential market risks using our internal model, we define and monitor a number of Key Risk limits to measure and manage our Market risk exposure.

Key Risk limits regarding the shape (in terms of limits on asset type concentrations), overall credit rating and volatility of the Syndicate investment portfolio have been defined by management and approved by the AMAL Board. The Investment Guidelines are reviewed and approved annually by the AMAL Board and define additional investment limits for the Syndicate.

The Key Risk limits are monitored and reported in the CRO's report to the AMAL Board.

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Foreign currency risk

The table below summarises the carrying value of the Syndicate's assets and liabilities, at the reporting date:

Year 2018	Sterling £000	Euro £000	US dollar £000	Other £000	Total £000
Financial investments:					
Shares and other variable yield securities and units in unit trusts	—	—	50,862	9,257	60,119
Debt securities and other fixed income securities	—	—	142,738	33,786	176,524
Derivative asset			2,238	—	2,238
	—	—	195,838	43,043	238,881
Reinsurers' share of technical provisions	32,522	26,458	435,651	21,828	516,459
Debtors	39,684	2,690	278,057	19,770	340,201
Cash and cash equivalents	15,615	8,947	10,087	59,178	93,827
Other assets	(3,694)	7,279	54,676	4,331	62,592
Total Assets	84,127	45,374	974,309	148,150	1,251,960
Technical provisions	(152,446)	(68,639)	(711,842)	(88,044)	(1,020,971)
Creditors	(181)	(328)	(234,849)	(5)	(235,363)
Other Creditors	(10,367)	—	(53,617)	(2,936)	(66,920)
Total liabilities	(162,994)	(68,967)	(1,000,308)	(90,985)	(1,323,254)
Net assets/(liabilities)	(78,867)	(23,593)	(25,999)	57,165	(71,294)

The sterling liability balances above include liabilities in other currencies that will be settled in sterling.

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At 31 December 2018

	Sterling £000	Euro £000	US dollar £000	Other £000	Total £000
Year 2017					
Financial investments:					
Shares and other variable yield securities and units in unit trusts	—	—	17,941	9,725	27,666
Debt securities and other fixed income securities	—	—	157,513	27,794	185,307
Derivative asset	—	—	—	—	—
	—	—	175,454	37,519	212,973
Reinsurers' share of technical provisions	11,025	6,647	355,469	12,663	385,804
Debtors	29,082	3,200	257,703	14,600	304,585
Cash and cash equivalents	16,559	3,688	6,696	62,053	88,996
Other assets	1,088	4,121	60,055	3,588	68,852
Total Assets	57,754	17,656	855,377	130,423	1,061,210
Technical provisions	(127,236)	(43,860)	(624,335)	(88,383)	(883,814)
Creditors	(139)	(36)	(173,260)	(5)	(173,440)
Other Creditors	(3,877)	(158)	(34,923)	(876)	(39,834)
Total liabilities	(131,252)	(44,054)	(832,518)	(89,264)	(1,097,088)
Net assets/(liabilities)	(73,498)	(26,398)	22,859	41,159	(35,878)

The Syndicate manages its foreign exchange risk against its functional currency. Foreign exchange arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

In order that the Syndicate can manage the currency mismatch risks within the regulatory parameters required a limit of unhedged currency mismatches, approved by the AMAL Board, is in force. This limit ensures that the value of assets in each currency is above 85% of the value of insurance liabilities in that currency and less than 115% of the value of insurance liabilities in that currency, subject to these assets exceeding 5% of the value of assets in all currencies. This ensures the Syndicate's compliance with Lloyd's regulatory requirements. The Syndicate made the decision to use derivatives to hedge unmatched currency balance sheet positions during 2018.

The Syndicate is primarily exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than the U.S. Dollar, the Syndicate's functional currency. Other significant currencies to which the Company is exposed are the Pound Sterling, Australian Dollars, Canadian Dollars and the Euro. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The Syndicate's sensitivity to exchange rate risk in relation to GBP is shown below:

	2018 Profit or loss for the year £000	2017 Profit or loss for the year £000
Currency Risk		
10 percent increase in GBP/USD exchange rate	1,525	1,404
10 percent decrease in GBP/USD exchange rate	(1,864)	(1,716)

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Fixed Income Securities - Interest rate risk

The Syndicate's investment portfolio consists primarily of fixed income securities. Fluctuations in interest rates have a direct impact on the market valuation of these securities. The Syndicate manages interest rate risk by maintaining short to medium duration financial assets to reduce the effect of interest rate changes on fair value, and taking out interest rate swaps where appropriate.

The Syndicate's sensitivity to interest rate risk is shown below:

	2018 Profit or loss for the year £000	2017 Profit or loss for the year £000
Interest rate risk		
=+ 50 basis points shift in yield curves	(1,255)	(1,510)
-- 50 basis points shift in yield curves	1,255	1,510

Fixed Income Securities - Spread Risk

The yield of a non-government fixed income security can be divided into two parts:

- The 'risk free' rate, being the yield of the treasury security issued by the country in which the issuer operates which is closest to it in maturity
- The 'spread' of the yield over the risk free rate (= total yield - risk free rate)

The spread is normally positive because it represents the extra consideration required by the market to compensate for the greater risk (compared to the Government issuer) of default on interest or redemption. The spread may also be influenced by the actual or perceived liquidity or marketability of the security.

The spread of a bond also adjusts over time to reflect the spread required on similar new issues. This movement up or down in spread therefore also contributes to overall market risk and we call this 'spread risk'. We also include within spread risk the risk that a security falls in value as a result of being downgraded by a rating agency as this will also cause the spread to increase. We also include the risk of actual default on interest or redemption as a special case of spread risk. This default risk is actually a type of credit risk but it is convenient to deal with it here under market risk because of the way we model it in the Internal Model as an extreme case of downgrade risk.

We manage spread risk by limiting the overall credit quality of our investment portfolio and the concentrations of investments with specific issuers of investments. This risk is mitigated by limiting exposure to any single counterparty.

Equity Risk

We define Equity risk as the risk of adverse movements in the market price of investments (or their derivatives) other than fixed income securities. Unlike Fixed Income Securities the value of equities is not directly linked to interest rates and spreads, there are many factors that affect the value of investments.

The Syndicate does not invest in equities so this risk is not currently relevant to the Syndicate.

Market risk mitigation risk

We define Market risk mitigation risk as the risk of variation in the value or effectiveness of hedging positions. The Syndicate uses derivatives to hedge against market risk.

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Asset concentration risk

The aggregate value of our investment portfolio may be at greater risk if it is over exposed to the same asset or a group of similar assets with similar risk dynamics.

Concentrations which we seek to manage for this reason include types of asset (e.g. mortgage backed securities), economic sector of issuer and securities of the same issuer.

Credit Risk

Credit risk is the risk of loss to the Syndicate if a counterparty to a financial instrument or reinsurance agreement fails to meet its contractual obligations. The Syndicate is exposed to credit risk through its investment holdings (cash, debt securities and other fixed income securities), its reinsurers' shares of insurance liabilities and amounts due from reinsurers in respect of claims already paid. As already stated within our Internal Model and our management process we treat credit risk relating to our fixed Income security investments as part of Market risk.

The Syndicate is also exposed to credit risk through the diminution in the value of insurance receivables as a result of counterparty default. This principally comprises default and concentration risks relating to amounts receivable from intermediaries, policyholders and reinsurers. Reinsurance and retrocession does not isolate the Syndicate from its obligations to policyholders. In the event that a reinsurer or retrocessionaire fails to meet its obligation, the Syndicate's obligations remain.

Processes for addressing risk

As with Insurance risk, we model our exposure to credit risks using the Internal Model to measure the associated capital requirements on both the one year SCR measure stipulated by Solvency II and the ultimate SCR basis used by Lloyd's to set capital requirements.

The processes for addressing credit risk in relation to financial Instruments has already been dealt with as part of the explanation of our processes to address Market Risk. This Group Insurance Credit Risk policy defines the processes for assessing, monitoring and managing credit exposure to intermediaries, policyholders and reinsurance counterparties. The Syndicate manages the levels of credit risk by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to regular review.

The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the balance sheet, with analysis by credit ratings of the counterparties issued by Standard and Poor's. AAA is the highest possible rating.

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At 31 December 2018

Year 2018	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial Investments:						
Shares and other variable yield securities and unit trusts	—	—	—	—	60,119	60,119
Debt securities	54,237	58,544	61,180	2,563	—	176,524
Overseas deposits as investments	39,857	10,245	5,026	3,848	10,297	69,273
Derivative assets	—	—	2,238	—	—	2,238
	94,094	68,789	68,444	6,411	70,416	308,154
Reinsurer's share of claims outstanding	—	48,473	353,959	—	—	402,432
Reinsurance debtors	—	9,778	71,401	—	—	81,179
Cash at bank and in hand	—	—	—	—	24,554	24,554
Total	94,094	127,040	493,804	6,411	94,970	816,319

Year 2017	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial Investments:						
Shares and other variable yield securities and unit trusts	—	—	—	—	27,666	27,666
Debt securities	43,798	73,307	64,524	3,678	—	185,307
Overseas deposits as investments	42,244	11,531	6,609	3,309	7,465	71,158
Derivative assets	—	—	—	—	—	—
	86,042	84,838	71,133	6,987	35,131	284,131
Reinsurer's share of claims outstanding	—	199,589	71,405	95	—	271,089
Reinsurance debtors	—	43,775	15,661	21	—	59,457
Cash at bank and in hand	—	—	—	—	17,838	17,838
Total	86,042	328,202	158,199	7,103	52,969	632,515

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The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. The Syndicate do not consider these debtors to be impaired on the basis of stage of collection of amount owed to the Syndicate.

An analysis of the carrying amounts of past due debtors is presented in the table below.

	Debtors arising from direct insurance operations £000
2018	
Past Due but not impaired financial assets:	
Past due by:	
1 to 30 days	1,255
31 to 90 days	1,094
91 to 180 days	1,273
More than 180 days	2,109
Past Due but not impaired financial assets:	5,731
Impaired financial assets	—
Gross value of past due and impaired financial assets	5,731
Neither overdue nor impaired financial assets	115,172
Net carrying value	120,903

All reinsurance debtors are classed as not yet due.

	Debtors arising from direct insurance operations £000
2017	
Past Due but not impaired financial assets:	
Past due by:	
1 to 30 days	5,960
31 to 90 days	996
91 to 180 days	1,620
More than 180 days	647
Past Due but not impaired financial assets:	9,223
Impaired financial assets	—
Gross value of past due and impaired financial assets	9,223
Neither overdue nor impaired financial assets	184,879
Net carrying value	194,102

All reinsurance debtors are classed as not yet due.

Liquidity Risk

Liquidity risk is defined as the risk of failing to maintain sufficient liquid financial resources to meet liabilities as they fall due or to provide collateral as required for commercial or regulatory purposes.

Liquidity risk includes the following:

- (a) Payment default risk: The risk that there is insufficient cash to make payments when due and that no additional cash can be made available by borrowing, sale of assets or capital raising.

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At 31 December 2018

- (b) Risk of unplanned asset realisation losses: The risk that securities are required to be sold at a loss to meet liquidity requirements.
- (c) Risk of failure of credit facility: The risk that advances from the credit facility are unavailable.
- (d) Group liquidity risk: The risk that liquidity cannot be secured for a Group company from elsewhere in the Group.
- (e) Collateral risk: The risk that the Syndicate is unable to provide collateral to a third party when contractually required to do so.

Processes for addressing risk

Unlike Insurance, Market and Credit Risk we do not model and manage liquidity risk using our internal model. This is because it is not a risk that is mitigated by holding capital against it.

The Managing Agency's annual Stress & Scenario Testing ("SST") process is used to determine the basis of the Key Liquidity risk limit. The Liquidity Risk policy provides further details of how Liquidity risks are identified, monitored, managed and modelled. This includes details of an escalation process for a breach of the minimum free funds limit.

The Liquidity Risk Policy highlights the measures that Aspen have put in place in order to maintain an agreed amount of assets in cash and cash equivalents. These measures include concentration limits to ensure the liquidity of assets, appropriateness of the marketability or realisability of assets and a liquidity contingency funding plan.

Liquidity stress testing is carried out against the Syndicate & Group's risk profile at least annually by the Risk Management and Analytics function as part of the SST programme. This allows management to identify the potential strains on the Syndicate's liquidity as a result of the scenarios assessed as well as gaining understanding of the Group's ability to support the liquidity needs of entities such as the Syndicate as the need arises.

The table below analyses the Syndicate's monetary assets and liabilities into their relevant maturity groups based on the period remaining at the year end to their contractual maturities or expected settlement dates:

	Carrying amount	Total cash flows	Undiscounted net cash flows			
			Less than 1 year	1-2 years	2-5 years	More than 5 years
Year 2018	£000	£000	£000	£000	£000	£000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	60,119	60,119	60,119	—	—	—
Debt securities	176,524	176,524	54,733	72,239	49,552	—
Reinsurers share of technical provisions	516,459	516,459	23,936	250,211	153,406	88,906
Debtors and accrued interest	344,826	344,826	343,735	1,091	—	—
Cash at bank and in hand	24,554	24,554	24,554	—	—	—
Other	69,273	69,273	69,273	—	—	—
Derivative assets	2,238	2,238	2,238	—	—	—
Total assets	1,193,993	1,193,993	578,588	323,541	202,958	88,906
Technical provisions	1,020,971	1,020,971	107,151	468,089	279,568	166,163
Creditors	239,737	239,737	239,737	—	—	—
Total Liabilities	1,260,708	1,260,708	346,888	468,089	279,568	166,163

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At 31 December 2018

	Carrying amount	Total cash flows	Undiscounted net cash flows			
			Less than 1 year	1-2 years	2-5 years	More than 5 years
Year 2017	£000	£000	£000	£000	£000	£000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	27,666	27,666	27,666	—	—	—
Debt securities	185,307	185,307	39,371	89,513	56,423	—
Reinsurer's share of technical provisions	385,804	385,804	17,271	189,402	113,686	65,445
Debtors and accrued interest	315,010	315,010	314,363	647	—	—
Cash at bank and in hand	17,838	17,838	17,838	—	—	—
Other	71,158	71,158	71,158	—	—	—
Derivative assets	—	—	—	—	—	—
Total assets	1,002,783	1,002,783	487,667	279,562	170,109	65,445
Technical provisions	883,814	883,814	73,211	438,944	233,116	138,543
Creditors	173,440	173,440	173,440	—	—	—
Total Liabilities	1,057,254	1,057,254	246,651	438,944	233,116	138,543

Notes to the Accounts

At 31 December 2018

5. Segmental Information

An analysis of the underwriting result before investment return is presented in the table below:

2018

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£000	£000	£000	£000	£000	£000
Direct insurance:						
Marine aviation and transport	31,964	42,558	(39,489)	(11,423)	5,883	(2,471)
Energy	42,686	43,863	(18,059)	(15,254)	(8,691)	1,859
Fire and other damage to property	9,451	9,355	(5,234)	(3,377)	162	906
Third party liability	119,244	112,117	(135,480)	(42,614)	32,524	(33,453)
Pecuniary loss	14,896	13,725	(1,097)	(5,323)	(5,696)	1,609
Accident & health	20,381	14,824	(5,156)	(7,283)	(952)	1,433
Total direct	238,622	236,442	(204,515)	(85,274)	23,230	(30,117)
Reinsurance	149,146	172,948	(117,679)	(53,298)	6,540	8,511
Total	387,768	409,390	(322,194)	(138,572)	29,770	(21,606)

2017

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£000	£000	£000	£000	£000	£000
Direct insurance:						
Marine aviation and transport	42,866	41,904	(41,064)	(13,711)	10,919	(1,952)
Energy	32,617	33,174	(19,823)	(10,854)	(7,934)	(5,437)
Fire and other damage to property	9,300	8,186	(816)	(2,678)	(2,331)	2,361
Third party liability	117,197	107,170	(76,851)	(35,066)	(10,421)	(15,168)
Pecuniary loss	11,397	15,066	(7,751)	(4,929)	743	3,129
Accident & health	12,042	10,268	(4,395)	(3,360)	583	3,096
Total direct	225,419	215,768	(150,700)	(70,598)	(8,441)	(13,971)
Reinsurance	171,169	181,351	(116,306)	(59,337)	(1,641)	4,067
Total	396,588	397,119	(267,006)	(129,935)	(10,082)	(9,904)

All premiums were underwritten in the UK.

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6. Net operating expenses

	2018	2017
	£000	£000
Brokerage and commissions	(84,252)	(73,085)
Other acquisition costs	(15,914)	(20,329)
Change in deferred acquisition costs	(2,437)	(273)
Administrative expenses	(35,969)	(36,248)
Reinsurer's commissions and profit participations	52,881	51,091
	<u>(85,691)</u>	<u>(78,844)</u>
	2018	2017
	£000	£000
<i>Administrative expenses include:</i>		
Auditors' remuneration:		
Fees payable to the Syndicate's auditors for the audit of these financial statements	181	145
Fees payable to the Syndicate's auditors and its associates in respect of other services pursuant to legislation	172	147
Managing agent's fees	(3,396)	(3,300)

Total commissions for direct insurance business for the year amounted to £53.8m (2017: £37.5m).

Members' standard personal expenses amounting to £6.6m (2017: £7.2m) are included in other acquisition costs and administrative expenses. Members' standard personal expenses include Lloyd's Members subscriptions, Central Fund contributions, and managing agent's fees.

7. Other Charges

Other charges consist of foreign exchange gains and losses on monetary assets and liabilities, arising from translation into US Dollars at the exchange rate prevailing at the balance sheet date.

Notes to the Accounts

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8. Key management personnel compensation

The directors of AMAL received £731k (2017: £1,445k) aggregate remuneration which has been charged to the Syndicate and included within net operating expenses:

No other compensation was payable to key management personnel.

The active underwriter received the following aggregate remuneration charged to the Syndicate and included within the directors' emoluments above.

	2018	2017
	£000	£000
Emoluments	178	599

9. Staff numbers and costs

The Syndicate has no employees of its own. All of the personnel employed in the Syndicate's business are employed by Aspen Insurance UK Services Limited ("AIUKS"). AIUKS is a fellow subsidiary of AIHL.

AIUKS encourages its employees to develop their full potential by providing opportunities for training and professional development. Such opportunities, as well as career development and promotion, are equally available to disabled employees, whether newly recruited or existing employees who become disabled whilst in AIUKS's employment.

AIUKS's equal opportunities policy aims to ensure that no potential or existing employee receives less favourable treatment because of his / her sex, actual or perceived sexual orientation, gender (including gender reassignment), marital or family state, age, ethnic origin, disability, race, colour, nationality, national origin, creed, political affirmation, part-time status, or any other condition, unless it can be shown to be legally justifiable.

10. Investment return

The investment return transferred from the technical account to the non-technical account comprises the following:

	2018	2017
	£000	£000
Investment income	768	4,657
Realised losses on investments	(649)	(723)
Unrealised gain/(loss) on investments	542	(598)
Investment management charges	(201)	(246)
	<u>460</u>	<u>3,090</u>

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The total income, expenses, net gains or losses, including changes in fair value, recognised on all financial assets and financial liabilities comprises the following:

	2018	2017
	£000	£000
Interest income	768	4,657
Interest expense	(107)	(1,321)
Investment management expenses excluding interest	(201)	(246)
Total investment return	460	3,090

The table below presents the average amounts of funds in the year per currency and analysis by major currency the average investment yields in the year.

	2018	2017
	£000	£000
Average amount of syndicate funds available for investment during year:		
Sterling	12,762	16,152
Euro	8,947	3,688
US dollar	205,925	182,203
Canadian dollar	52,714	44,723
Singapore dollar	2,826	407
Australian dollar	49,535	54,849
	332,709	302,022

Gross calendar year investment yield:	%	%
Sterling	(0.64)	0.31
Euro	0.11	—
US dollar	(0.79)	1.35
Canadian dollar	1.02	0.15
Australian dollar	1.21	0.91
Combined in Sterling	0.14	1.02

Notes to the Accounts

At 31 December 2018

11. Financial Investments

The Syndicate classifies its financial instruments held at fair value in its balance sheet using a 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 a valuation technique

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

	Market value		Cost	
	2018	2017	2018	2017
	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	60,119	27,666	60,119	27,666
Debt securities and other fixed income securities	176,524	185,307	177,416	187,211
Derivative assets	2,238	—	2,238	—
	<u>238,881</u>	<u>212,973</u>	<u>239,773</u>	<u>214,877</u>
Derivative liabilities	<u>(4,374)</u>	<u>—</u>	<u>(4,374)</u>	<u>—</u>

All financial investments are listed.

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk in the current or comparative period.

There have been no day 1 profits recognised in respect of financial instruments designated at fair value through profit or loss.

	Level 1	Level 2	Level 3	Total
2018	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	—	60,119	—	60,119
Debt securities and other fixed income securities	33,951	142,573	—	176,524
Loans and deposits with credit institutions	69,273	—	—	69,273
Derivative assets	2,238	—	—	2,238
Total	<u>105,462</u>	<u>202,692</u>	<u>—</u>	<u>308,154</u>
Derivative liabilities	<u>(4,374)</u>	<u>—</u>	<u>—</u>	<u>(4,374)</u>

Notes to the Accounts

At 31 December 2018

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
2017				
Shares and other variable yield securities and units in unit trusts	—	27,666	—	27,666
Debt securities and other fixed income securities	41,683	143,624	—	185,307
Loans and deposits with credit institutions	71,158	—	—	71,158
Derivative assets	—	—	—	—
Total	112,841	171,290	—	284,131
Derivative liabilities	—	—	—	—
Total	—	—	—	—

Information on the methods and assumptions used to determine fair values for each major category of financial instrument measured at fair value is provided below.

Debt securities are generally valued using prices provided by external pricing vendors. Pricing vendors will often determine prices by consolidating prices of recent trades for identical or similar securities obtained from a panel of market makers into a composite price. The pricing service may make adjustments for the elapsed time from a trade date to the valuation date to take into account available market information. Lacking recently reported trades, pricing vendors will use modeling techniques to determine a security price.

Some government and supranational securities are listed on recognised exchanges and are generally classified as level 1 in the fair value hierarchy. Those that are not listed on a recognised exchange are generally based on composite prices of recent trades in the same instrument and are generally classified as level 2 in the fair value hierarchy.

Corporate bonds, including asset backed securities, that are not listed on a recognised exchange or are traded in an established over-the-counter market are also mainly valued using composite prices. Where prices are based on multiple quotes and those quotes are based on actual recent transactions in the same instrument the securities are classified as level 2, otherwise they are classified as level 3 in the fair value hierarchy.

12. Deferred acquisition costs

The table below shows changes in deferred acquisition costs assets from the beginning of the period to the end of the period.

	2018	2017
	£000	£000
Balance at 1 January	58,427	61,784
Amortisation	(2,437)	(273)
Effect of movements in exchange rates	1,977	(3,084)
Balance at 31 December	57,967	58,427

Notes to the Accounts

At 31 December 2018

13. Technical provisions

The table below shows changes in the insurance contract liabilities and assets from the beginning of the period to the end of the period.

	2018			2017		
	Gross provision £000	Reinsurance assets £000	Net £000	Gross provision £000	Reinsurance assets £000	Net £000
Claims outstanding						
Balance at 1 January	647,346	(271,089)	376,257	607,821	(238,244)	369,577
Change in claims outstanding	118,158	(114,384)	3,774	84,212	(46,387)	37,825
Effect of movements in exchange rates	31,885	(16,959)	14,926	(44,687)	13,542	(31,145)
Balance at 31 December	<u>797,389</u>	<u>(402,432)</u>	<u>394,957</u>	<u>647,346</u>	<u>(271,089)</u>	<u>376,257</u>
Claims notified	355,677	(94,058)	261,619	278,512	(53,792)	224,720
Claims incurred but not reported	441,712	(308,374)	133,338	368,834	(217,297)	151,537
Balance at 31 December	<u>797,389</u>	<u>(402,432)</u>	<u>394,957</u>	<u>647,346</u>	<u>(271,089)</u>	<u>376,257</u>
Unearned premiums						
Balance at 1 January	236,468	(114,715)	121,753	252,432	(112,096)	140,336
Change in unearned premiums	(21,622)	7,470	(14,152)	(531)	(12,785)	(13,316)
Effect of movements in exchange rate	8,736	(6,782)	1,954	(15,433)	10,166	(5,267)
Balance at 31 December	<u>223,582</u>	<u>(114,027)</u>	<u>109,555</u>	<u>236,468</u>	<u>(114,715)</u>	<u>121,753</u>

14. Cash

	2018 £000	2017 £000
Cash at bank and in hand	24,554	17,838
Deposits with credit institutions	69,273	71,158
Total cash and cash equivalents	<u>93,827</u>	<u>88,996</u>

Only deposits with credit institutions with maturities of three months or less that are used by the Syndicate in the management of its short-term commitments are included in cash and cash equivalents.

Notes to the Accounts

At 31 December 2018

15. Accruals and deferred income

	2018	2017
	£000	£000
Claims Payable	10,007	(7,152)
Profit Commission Accrual	5,724	6,186
Other Accruals	16,205	14,116
Reinsurers' share of deferred acquisition costs	30,610	26,684
Total accruals and deferred income	62,546	39,834

16. Related parties

AMAL is the managing agency of the Syndicate. The Syndicate has paid the following amounts to AMAL in the year:

	2018	2017
	£000	£000
Managing agency fees	3,396	3,300

The Syndicate is supported by Aspen Underwriting Limited ("AUL"), which provides 100% of its underwriting capacity.

The ultimate holding company and controlling party of AMAL and AUL is AIHL as at 31 December 2018.

AIUKS provides services to the Syndicate. The amounts charged to and balances due from the Syndicate at the end of the year are:

	2018	2017
	£000	£000
Expenses recharged	32,522	30,041
Year end balance	—	982

ABL provides services to the Syndicate. The amounts charged to and balances due from the Syndicate at the end of the year are:

	2018	2017
	£000	£000
Expenses recharged	147	93
Year end balance	—	54

Aspen Reinsurance America ("ARA") provides services to the Syndicate. The amounts charged to and balances due from the Syndicate at the end of the year are:

	2018	2017
	£000	£000
Expenses recharged	2,948	3,845
Year end balance	—	191

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The Syndicate also participates in a 50% Quota Share with AIUK. This Quota Share arrangement commenced in January 2015.

The Syndicate has incurred the following amounts in the year and the balances due from the syndicate at the end of the year relating to these are:

	2018	2017
	£000	£000
Quota share ceded from/(to) AIUK	3,136	(4,429)
Year end balance	3,030	6,668

The Syndicate cedes a 20% Quota Share Treaty for year of accounts 2009 to 2018 to ABL. It also has an Adverse Development Cover protection contract providing a 20% quota share against reserve deterioration above the 31 December 2008 net reserves.

The Syndicate has recognised the following amounts in the year and the balances due from/(to) the Syndicate at the end of the year relating to these are:

	2018	2017
	£000	£000
Quota share ceded from ABL	2,315	5,434
Year end balance	(4,043)	3,920

The Syndicate also cedes premium to ABL as part of its excess of loss ceded reinsurance arrangements, with the following reinsurance amounts in the year and the balances due to the Syndicate at the end of the year are:

	2018	2017
	£000	£000
Ceded (to)/from ABL	(18,180)	7,813
Year end balance	16,829	23,043

The Syndicate also participates in a reciprocal (\$10m xs \$10m) excess of loss reinsurance with Aspen Insurance (UK) Limited ("AIUK").

The Syndicate has been charged the following amounts in the year and the balances due from the Syndicate at the end of the year are:

	2018	2017
	£000	£000
Incurred Claims Movement	(1,618)	(1,866)
Year end balance	—	—

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At 31 December 2018

Aspen UK Syndicate Services Limited ("AUKSSL") is an intermediary which is 100% owned by Aspen and serves as a Lloyd's broker.

The Syndicate has written the following premium amounts in the year and the balances due to the Syndicate at the end of the year are:

	2018	2017
	£000	£000
Gross premium written in year	115	943
Year end balance	1,112	1,268

Asset Protection Jersey ("APJ"), an insurance company, which is 100% owned by Aspen, reinsures all of its business through a quota share agreement with the Syndicate.

The Syndicate has written the following premium amounts in the year and the balances due to the Syndicate at the end of the year are:

	2018	2017
	£000	£000
Gross premium written in year	2,646	3,080
Year end balance	1,938	1,998

Aspen Singapore PTE Limited ("ASPL") acts as an agent for Lloyd's Asia Scheme and provides services to the Syndicate.

The amounts charged to and balances due to the Syndicate at the end of the year are:

	2018	2017
	£000	£000
Expenses	3,018	3,070
Year end balance	—	(59)

Cash Calls

Cash calls from member's personal reserve funds of £25.0m (2017: nil) and distributions of profit to the member's personal reserve funds of £-31.6m (2017: -£14.7m) were made during the year. Directors have been provided with assurances that sufficient capital will be made available when required.

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17. 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 member's underwriting liabilities.

FAL is set with regards 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 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 on behalf of the Syndicate.

100% of the FAL is provided by ABL, which is a 100% owned subsidiary of AIHL.

The FAL lodged significantly exceeds the £71.3m member balance deficit as at 31 December 2018.

18. Foreign exchange rates

The following currency exchange rates have been used for principal foreign currency translations:

	2018	2018	2017	2017
	Year-end rate	Average rate	Year-end rate	Average rate
Euro	1.11	1.13	1.13	1.14
US dollar	1.27	1.33	1.35	1.30
Canadian dollar	1.74	1.73	1.69	1.69

19. Subsequent Events

On 15 February 2019, Aspen Insurance Holdings Limited ("AIHL") the ultimate parent of the Company, merged with Highlands Merger Sub, Ltd. ("Merger Sub"), a Bermuda exempted company and wholly owned subsidiary of Highlands Holdings, Ltd., a Bermuda exempted company ("Parent"). Both Merger Sub and Parent are affiliates of certain investment funds managed by affiliates of Apollo Global Management, LLC ("Apollo"). AIHL, Parent and Merger Sub merged with and into AIHL with AIHL continuing as the surviving company and as a wholly-owned subsidiary of the Parent Company.