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LLOYD'S SYNDICATE 2232

Annual Report
and Accounts
2021

ALLIED WORLD
SYNDICATE 2232

CONTENTS

DIRECTORS AND ADMINISTRATION

Managing Agent

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

Directors
J Redmond (Non-Executive Chairman)
N Macmillan (Non-Executive)
E Moresco
M O'Leary
D Powell
M Walsh

Company secretary
S O'Riordan (Secretary)
N Hussain (Assistant Secretary) (Resigned 28 May 2021)

Managing agent's registered office:
19th Floor
20 Fenchurch Street
London
EC3M 3BY

Managing agent's registered number
07249776

Syndicate

Active underwriter
B Grefe

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

Statutory auditor
PricewaterhouseCoopers LLP

Appointed actuary
KPMG LLP

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of AWMA, the managing agent, a company registered in England and Wales, present their report and annual accounts for Syndicate 2232 ("the Syndicate") for the year ended 31 December 2021. The registered address of AWMA is 19th Floor, 20 Fenchurch Street, London, EC3M 3BY.

Basis of Preparation

This Annual Report and Accounts 2021 are prepared using the annual basis of accounting as required by Statutory Instrument No.1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Principal Activities

The principal activity of the Syndicate is the transaction of general insurance and reinsurance business. The Syndicate underwrites a broad range of classes of business concentrating mainly on property and casualty business written on both a direct and reinsurance basis. The Syndicate's capacity for the 2021 year was £221.7m (2020: £201.1m).

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

Results

The result for the year ended 31 December 2021 was a profit on the Technical Account of £15.7m (2020: £6.7m).

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

	2021	2020
	£000	£000
Gross premiums written	**252,288**	239,147
Gross premiums earned	**239,226**	219,843
Net premiums earned	**138,343**	123,097
Balance on technical account	**15,708**	6,672

Review of the Business

The Syndicate’s business is produced through the Lloyd’s broker network and written in the subscription market, in either a lead or follow capacity. The Syndicate is a member of the Lloyd's Asia platform in Singapore and also operates through service companies in Miami, Allied World Reinsurance Management Company, and Bermuda, Allied World Syndicate Services (Bermuda), Ltd.

The Syndicate has used the opportunities that the Lloyd’s brand provides to pursue measured growth in line with the following strategic goals:

- Capital: maximise our capital employed by having a well-balanced portfolio, with increased diversification which will ultimately increase our return on capital.
- Underwriting focus: underwrite classes of business where ‘underwriting matters’, as opposed to focusing on high volume or cash-flow underwriting opportunities.
- Underwriting cycle: manage growth and profitability across the underwriting cycle.
- Market position: continue to grow as an influential and meaningful Lloyd’s market-participant in our core classes of business, for which our underwriters have a mature business proposition.

- Distribution: continue to develop meaningful, diverse and cost-competitive distribution strategies and channels, with continued emphasis on making it easier and simpler for customers to access our products and services.
- Human resources: continue to attract and retain the best talent in the market, while maintaining our inclusive, diverse and innovative culture.
- Technology: invest in technology that makes doing business easier, servicing claims faster and increasing efficiency while reducing costs in a digitalised platform.
- COVID–19: continued resilience in the post COVID operating environment, monitoring our claims development, reviewing our underwriting strategy in light of any macroeconomic changes and helping our staff navigate the new hybrid working environment successfully.
- ESG: advance key Environmental Social and Governance (“ESG”) sustainability topics such as climate change and imbed these risks in our ERM Framework.

The COVID-19 pandemic has dominated the last two years, causing significant disruption globally to economies and financial markets, resulting in significant market volatility. AWMA continues to monitor the potential impacts on its business, operations, investments and capital and liquidity positions. The overall financial impact of COVID-19 on AWMA has not been significant and we remain appropriately reserved.

From an operations standpoint, COVID-19 has verified our disaster recovery plan ensured the safety of our employees and the continuity of our business. AWMA remained fully operational as our operations moved to a fully remote working environment.

On 30 December 2020, all relevant EEA business written by the Syndicate between 2010 and 2018 was transferred to Lloyd’s Insurance Company S.A. ("Lloyd’s Brussels"), in accordance with Part VII of the Financial Services and Markets Act 2000, and this business is reinsured by the Syndicate pursuant to a 100% quota share reinsurance agreement with Lloyd's Brussels entered into 30 December 2020. Lloyd’s Brussels is an insurance company authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority to write non-life risks across all markets within the European Economic Area ("EEA").

The Syndicate has supported the market initiative towards electronic trading utilizing Placing Platform Limited ("PPL") as its placing platform of choice throughout 2021. The Syndicate has consistently exceeded the targets that were set by Lloyd’s throughout 2021 with underwriters and broking partners working together, we were in the top quartile for PPL usage across the market throughout 2021. The Syndicate saw increased traffic from Whitespace (another approved Lloyd’s e-trading platform) during 2021, mainly for marine lines of business.

Following the invasion of Ukraine by Russia on 24 February 2022 and subsequent events, we are closely monitoring our underwriting exposure within both countries. There is a level of uncertainty in predicting the ultimate impact of the Ukraine-Russia conflict on our business and operations. However, at this point, we do not believe the financial impact of the conflict on the Syndicate will be significant.

Review of the Business (continued)

Underwriting Result

The overall balance on the technical account was a profit of £15.7m (2020: £6.7m), after expenses and investment return but before foreign exchange adjustments.

Gross premium written for the year was £252.3m, compared to £239.1m for the prior year, an increase of £13.2m. The increase in premium written was driven primarily through our top performing classes of business, Commercial Directors and Officers and Healthcare, following continued hardening in rate, strong price adequacy and non-rate growth on our profitable delegated partnerships.

The Syndicate reported a combined ratio of 88.3% (2020: 96.1%). The current year results have been positively impacted by lower levels of frequency and severity in catastrophe and large loss events.

The result for the year included net prior year reserve releases of £2.1m (2020: reserve release of £4.8m) and benefited the combined ratio by 1.5% (2020: benefit of 3.9%). The treaty reinsurance classes of business contributed most of the prior year reserve releases.

Expenses and investment results

The levels of gross brokerage and commissions and other acquisition costs (which typically include overseas taxes and levies) when expressed as a ratio of gross premium written increased to 20.8% (2020: 19.5%). The increase in brokerage and commissions reflects the increase in profit commissions on our delegated business.

The Syndicate maintained discipline in relation to underlying commission rates, which remained stable during 2021.

The administrative expense ratio has decreased to 17.1% (2020: 18.6%). In value terms, expenses are £0.7m above prior year and reflect higher costs inline with the growth of the business.

The total value of investments, cash and cash equivalents reached £317.7m by the end of the year (2020: £254.0m) and generated an investment loss of £0.4m (2020: £1.8m gain). Income on our investments produced a negative return in 2021, as realised and unrealised losses on our investment portfolio, generated by rising yields, offset the modest income from these investments. A relatively high level of cash and cash equivalents is held. This, along with the general short maturity of the portfolio is in line with our current strategy of maintaining high liquidity in order to act quickly once opportunities are identified

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

Foreign exchange and currency translation differences

The strengthening of Pound Sterling, the Syndicate's presentational currency, relative to all major currencies contributed to a foreign exchange gain of £8.8m. This comprised of a £0.3m foreign exchange gain and a £8.5m net currency translation gain.

Review of the Business (continued)

Technical result by class and distribution

	2021 Gross written premium £000	2021 Underwriting result £000	2020 Gross written premium £000	2020 Underwriting result £000
LONDON *(incl Miami & Bermuda)*:				
Aviation *(incl Liability & Hull)*	**—**	**(387)**	(10)	(489)
Property Direct & Facultative	**5,977**	**(213)**	7,298	1,435
Treaty Property	**13,207**	**11,223**	16,559	11,540
Treaty Casualty	**11,628**	**3,578**	11,198	4,103
Marine	**14,052**	**3,467**	16,009	1,415
Casualty (incl E&O, D&O, General)	**116,704**	**18,313**	91,500	5,430
Construction	**8,509**	**(2,648)**	8,347	691
Bespoke	**8,920**	**3,769**	12,862	4,777
Total London	**178,997**	**37,102**	163,763	28,902
ASIA				
Property Direct & Facultative	**11**	**7**	—	27
Treaty Property	**32,951**	**13,180**	38,209	2,194
Treaty Casualty	**1,286**	**2,011**	1,234	2,296
Marine	**225**	**257**	39	95
Casualty (incl E&O, D&O, General)	**19,822**	**4,047**	18,489	5,508
Construction	**196**	**289**	109	218
Total Asia	**54,491**	**19,791**	58,080	10,338
EUROPE				
Property Direct & Facultative	**636**	**86**	234	11
Marine	**869**	**379**	893	(36)
Casualty (incl E&O, D&O, General)	**17,285**	**3,253**	16,124	3,892
Bespoke	**10**	**5**	53	22
Total Europe	**18,800**	**3,723**	17,304	3,889
TOTAL SYNDICATE	**252,288**	**60,616**	239,147	43,129
Allocated investment return		**(420)**		1,824
Net syndicate operating expenses, including net acquisition costs and foreign exchange movements		**(42,770)**		(36,913)
Member's personal expenses		**(1,718)**		(1,368)
Balance on the technical account		**15,708**		6,672

Review of the Business (continued)

Geographic segmentation

A geographic analysis of gross premium written by territory of original insured, for insurance business and treaty business is shown below:

	2021 **£000**	2020 £000
UK	**28,866**	22,446
EU member states	**18,275**	17,624
Europe excluding EU member states	**5,568**	4,417
United States of America	**52,977**	57,155
Canada	**27,294**	26,616
Asia Pacific	**95,863**	92,274
Central & South America	**9,113**	11,262
Middle East & Africa	**14,332**	7,353
Total	**252,288**	239,147

Principal risks and uncertainties

The principal risks and uncertainties facing the Syndicate as detailed in notes 20 and 21 to the financial statements are as follows:

- COVID-19 risk
- Operational risk
- Strategic risk
- Climate change risk
- Market risk
- Price risk
- Currency risk
- Interest Rate risk
- Credit risk
- Liquidity risk
- Group risk
- Policies and processes
- Underwriting risk
- Reserve risk
- Reinsurance risk

Future developments

The objective is to manage our core business in order to maximise profitability through future market cycles. In addition, AWMA seeks to develop a select number of initiatives to expand our geographic distribution and product mix, with a continued focus on profitable growth.

Review of the Business (continued)

Rating Agencies

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

Directors

The Directors set out in the table below have held office for the whole period from 1 January 2021 to the date of this report unless stated otherwise.

J Redmond
E Moresco
N Macmillan
M O'Leary
D Powell
M Walsh

Company Secretary

S O'Riordan (Secretary)
N Hussain (Assistant Secretary) (Resigned 28 May 2021)

Provision of Capital

The Syndicate is wholly aligned with a single capital provider, Allied World Capital (Europe) Limited. The capital is held at a member level. Accordingly, all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the balance sheet on page 17, are taken into account when determining the members' Lloyd's capital requirements.

Disclosure of Information to the Auditors

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

Review of the Business (continued)

Auditor

PricewaterhouseCoopers LLP ("PwC"), Chartered Accountants and Statutory Audit Firm, were appointed by the Board, as auditor, in accordance with Section 14 (2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. PwC have indicated their willingness to continue in office.

M Walsh
Managing Director
3 March 2022

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

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

In preparing those Syndicate annual accounts, the Managing Agent is required to:

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

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

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

Managing Agent's confirmations

In the case of each director in office at the date the Report of the Directors of the Managing Agent is approved:

a. so far as the director is aware, there is no relevant audit information of which the Syndicate's auditors are unaware; and

b. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2232

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 2232's syndicate annual accounts:

a. give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
b. have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
c. have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Accounts 2021 (the "Annual Report"), which comprise: the Balance Sheet - Assets and the Balance Sheet - Liabilities as at 31 December 2021, the Profit and Loss Account: Technical Account - General Business, the Profit and Loss Account: Non-Technical Account, the Statement of Comprehensive Income, the Statement of Cash Flows, and the Statement of Changes in Member's Balances for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the syndicate annual accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 5, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2232 (continued)

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the syndicate's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Report of the Directors of the Managing Agent

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors of the Managing Agent for the year ended 31 December 2021 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2232 (continued)

Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates, including the valuation of IBNR claims and estimates within gross premiums written, and the posting of inappropriate journals. Audit procedures performed by the engagement team included:

a. Enquiries of management and the syndicate's risk function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;

b. Challenging assumptions made by management in their significant accounting estimates, in particular, in relation to the valuation of IBNR claims and estimates within gross premiums written;

c. Identifying and testing journal entries, in particular, any journal entries posted with unusual account combinations or journals posted by unexpected users; and

d. Reviewing relevant meeting minutes including those of the Risk Committee and Non-Executive Director Committee, and reviewing correspondence with regulatory authorities, including Lloyd's of London and the Prudential Regulation Authority.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2232 (continued)

Other required reporting

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

a. we have not obtained all the information and explanations we require for our audit; or

b. adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or

c. certain disclosures of Managing Agent remuneration specified by law are not made; or

d. the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Mark Bolton (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2022

PROFIT AND LOSS ACCOUNT:
TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	**2021** **£000**	2020 £000
Earned premiums, net of reinsurance			
Premiums written:			
Gross premiums written	3	**252,288**	239,147
Outward reinsurance premiums		**(103,946)**	(103,591)
Net premiums written		**148,342**	135,556
Change in the provision for unearned premiums:			
Gross amount		**(13,062)**	(19,304)
Reinsurers' share		**3,063**	6,845
Change in the net provision for unearned premiums		**(9,999)**	(12,459)
Earned premiums, net of reinsurance		**138,343**	123,097
Allocated investment return transferred from the non-technical account		**(420)**	1,824
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(104,646)**	(138,551)
Reinsurers' share		**35,310**	44,820
Net claims paid		**(69,336)**	(93,731)
Change in the provision for claims:			
Gross amount		**(28,274)**	(6,379)
Reinsurers' share		**19,883**	20,142
Change in the net provision for claims	4	**(8,391)**	13,763
Claims incurred net of reinsurance		**(77,727)**	(79,968)
Net operating expenses	5	**(42,770)**	(36,913)
Member's personal expenses	8	**(1,718)**	(1,368)
Balance on the technical account for general business		**15,708**	6,672

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	**2021 £000**	2020 £000
Balance on the technical account for general business		**15,708**	6,672
Income from investments		**1,144**	1,980
Realised (losses)/gains on investments		**(486)**	457
Investment management expenses and charges		**(492)**	(297)
Unrealised losses on investments		**(586)**	(316)
Net investment return	9	**(420)**	1,824
Allocated investment return transferred to the technical account for general business	9	**420**	(1,824)
Foreign exchange gains/(losses)		**287**	(2,862)
Profit for the financial year		**15,995**	3,810

All operations relate to continuing activities.

The notes on pages 22 to 48 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £000	2020 £000
Profit for the financial year		**15,995**	3,810
Other comprehensive profit/(loss):			
Currency translation differences		**8,539**	(4,572)
Total comprehensive profit/(loss) for the year		**24,534**	(762)

BALANCE SHEET – ASSETS

AS AT 31 DECEMBER 2021

	Notes	2021 £000	2020 £000
Investments			
Total investments	10	**187,985**	185,265
Deposits with ceding undertakings		**3,130**	-
Other financial investments		**191,115**	185,265
Reinsurers' share of technical provisions			
Provision for unearned premium	4	**67,732**	64,292
Claims outstanding	4	**182,581**	164,243
		250,313	228,535
Debtors			
Debtors arising out of direct insurance operations	11	**56,769**	66,126
Debtors arising out of reinsurance operations	11	**50,349**	78,393
Other debtors	11	**6,855**	5,587
		113,973	150,106
Other assets			
Cash at bank and in hand		**108,737**	46,232
Overseas deposits	12	**20,959**	22,492
		129,696	68,724
Prepayments and accrued income			
Accrued interest and rent		**77**	90
Deferred acquisition costs	4	**26,282**	24,650
Other prepayments and accrued income		**49**	47
		26,408	24,787
Total assets		**711,505**	657,417

The notes on pages 22 to 48 form an integral part of these financial statements.

BALANCE SHEET – LIABILITIES
AS AT 31 DECEMBER 2021

	Notes	2021 £000	2020 £000
Liabilities			
Member's balance		**1,559**	(45,038)
Technical provisions			
Provision for unearned premium	4	**144,508**	131,933
Claims outstanding	4	**424,046**	403,686
		568,554	535,619
Creditors			
Creditors arising out of direct insurance operations	13	**21,845**	21,159
Creditors arising out of reinsurance operations	13	**90,332**	119,966
Other creditors including taxation and social security	13	**3,870**	1,815
		116,047	142,940
Accruals and deferred income	4, 14	**25,345**	23,896
Total liabilities		**711,505**	657,417

The notes on pages 22 to 48 form an integral part of these financial statements.

The financial statements on pages 15 to 48 were approved by the board of Directors of AWMA and were signed on its behalf by:

M O'Leary
Finance Director
3 March 2022

STATEMENT OF CHANGES IN MEMBER'S BALANCES

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	£000	£000
Member's balance at 1 January	**(45,038)**	(97,999)
Loss collection	**22,063**	53,723
Result for the financial period	**15,995**	3,810
Other comprehensive income	**8,539**	(4,572)
Member's balances carried forward at 31 December	**1,559**	(45,038)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 £000	2020 £000
Cash flows from operating activities		
Profit for the financial year	**15,995**	3,810
Adjustments for:		
Increase in gross technical provisions	**32,936**	23,233
Increase in reinsurer's share of gross technical provision	**(21,777)**	(19,416)
Decrease/(increase) in debtors	**36,140**	(30,763)
(Decrease)/increase in creditors	**(26,893)**	27,682
Movement in other assets/liabilities	**1,352**	(2,184)
Realised investment return	**420**	(1,824)
Unrealised foreign exchange	**8,862**	(4,662)
Net cash inflows/(outflows) from operating activities	**47,035**	(4,124)
Cash flows from investing activities		
Purchase of equity and debt instruments	**(186,700)**	(139,307)
Sale of equity and debt instruments	**183,474**	105,274
Investment income received	**(3,044)**	1,824
Net cash outflows from investing activities	**(6,270)**	(32,209)
Cash flows from financing activities		
Transfer from members in respect of underwriting participations	**22,063**	53,723
Net cash inflows from financing activities	**22,063**	53,723
Net increase in cash and cash equivalents	**62,828**	17,390
Cash and cash equivalents at 1 January	**46,232**	28,752
Foreign exchange on cash and cash equivalents	**(323)**	90
Cash and cash equivalents at 31 December	**108,737**	46,232

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1. Basis of Preparation

The Directors of AWMA, a company incorporated in England and Wales, present their report and annual accounts for Syndicate 2232 for the year ended 31 December 2021. The registered address of AWMA is 19th Floor, 20 Fenchurch Street, London, EC3M 3BY.

These financial statements have been prepared in accordance with the Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, Financial Reporting Standard 102, The Financial Standard applicable in the UK (FRS 102) as issued in August 2014, and Financial Reporting Standard 103 Insurance Contracts (FRS 103) as issued in February 2017. These financial statements for the year ended 31 December 2021 comply with FRS 102 and the Companies Act 2006.

These financial statements have been prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The annual basis of accounting has been applied to all classes of business written by the Syndicate.

Going concern
In assessing the Syndicate's going concern position as at 31 December 2021, the Directors of AWMA have considered all available information about the future, the possible outcomes of events and changes in conditions. The assessment focused on the capital structure, liquidity stress test scenario's, investment risk, reinsurance structures, operational resilience and COVID-19 related insurance liabilities along with the ongoing business considerations such as future premium flows, actual and planned profitability and catastrophe based risk scenario's.

The Directors of AWMA have a reasonable expectation that the Syndicate has adequate resources to continue its business operations for the foreseeable future and to continue as a going concern. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

2. Accounting Policies

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

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

2(b) Unearned premium
The provision for unearned premium comprises the proportion of gross and outwards reinsurance premium written, which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method or established earning patterns for particular classes such as construction.

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

2. Accounting Policies (continued)

2(d) Claims provisions and related recoveries

The provision for claims and claims expenses includes estimates for unpaid claims and claims expenses on reported losses as well as an estimate of losses incurred but not reported ("IBNR"). The provision is based upon individual claims, case reserves and other reserve estimates reported by insureds and ceding companies as well as management estimates of ultimate losses. Inherent in the estimates of ultimate losses are expected trends in claims severity and frequency and other factors which could significantly vary as claims are settled. The Directors of AWMA consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate losses may vary materially from the amounts provided in the financial statements. Ultimate loss estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in the financial statements of operations in the period in which they become known and are accounted for as changes in estimates.

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

2(e) Unexpired risk

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

2(f) Investments

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

2(g) Investment return

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

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

2(h) Reporting currency

The functional currency of the Syndicate is United States dollars ($), as it is the currency of the primary economic environment. The presentational currency is United Kingdom pound sterling (£) as it is market practice to present the Syndicate report and accounts in the functional currency of the Lloyd's market aggregated accounts.

2(i) Foreign Exchange

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

2. Accounting Policies (continued)

2(j) Taxation

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

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

2(k) Bad debts

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

2(l) Reinsurers' commissions and profit participations

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

2(m) Deposits with ceding undertakings

Deposits with ceding undertakings are measured at cost less allowance for impairment.

2(n) Critical accounting estimates and judgments and key sources of uncertainty

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

The key area of uncertainty which requires the use of accounting estimates and judgments is the calculation of claims provisions. This is covered in detail earlier in note 2(d) and in notes 21 under insurance risk management. The estimates, judgements and underlying assumptions are reviewed on an ongoing basis.

FOR THE YEAR ENDED 31 DECEMBER 2021

3. Segmental Analysis

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

2021	**Gross premium written £000**	**Gross premium earned £000**	**Gross claims incurred £000**	**Operating expenses £000**	**Reinsurance balance £000**	**Total £000**
Direct Insurance:						
Motor	**7,881**	**8,803**	**(6,261)**	**(3,919)**	**205**	**(1,172)**
Marine, Aviation and Transport	**9,527**	**9,588**	**(7,630)**	**(3,660)**	**1,714**	**12**
Fire and other damage to property	**11,049**	**9,895**	**(4,235)**	**(2,328)**	**(1,944)**	**1,388**
Third-party liability	**127,707**	**111,940**	**(63,896)**	**(31,822)**	**(7,013)**	**9,209**
Miscellaneous	**(743)**	**700**	**(534)**	**(233)**	**139**	**72**
Direct Insurance	**155,421**	**140,926**	**(82,556)**	**(41,962)**	**(6,899)**	**9,509**
Reinsurance	**96,867**	**98,300**	**(50,364)**	**(33,175)**	**(8,142)**	**6,619**
Total	**252,288**	**239,226**	**(132,920)**	**(75,137)**	**(15,041)**	**16,128**

Of the £252.3m gross premium written, £179.0m were underwritten in the UK, £54.5m were underwritten in Asia and £18.8m were underwritten in Europe.

2020	Gross premium written £000	Gross premium earned £000	Gross claims incurred £000	Operating expenses £000	Reinsurance balance £000	Total £000
Direct Insurance:						
Motor	11,618	10,027	(6,430)	(5,196)	251	(1,348)
Marine, Aviation and Transport	11,814	11,645	(16,707)	(4,213)	5,353	(3,922)
Fire and other damage to property	10,918	7,140	(1,822)	(2,252)	(2,261)	805
Third-party liability	101,053	87,145	(59,607)	(23,523)	2,145	6,160
Miscellaneous	638	2,219	(4,535)	(597)	2,217	(696)
Direct Insurance	136,041	118,176	(89,101)	(35,781)	7,705	999
Reinsurance	103,106	101,667	(55,829)	(33,285)	(8,704)	3,849
Total	239,147	219,843	(144,930)	(69,066)	(999)	4,848

Of the £239.1m gross premium written, £163.8m were underwritten in the UK, £58.1m were underwritten in Asia and £17.3m were underwritten in Europe.

Commissions on direct insurance gross premium written during 2021 were £38.4m (2020: £33.6m).

4. Change in Technical Provisions

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

	Gross		Reinsurers' share	
Unearned premium reserve	**2021 £000**	2020 £000	**2021 £000**	2020 £000
At 1 January	**(131,933)**	(115,853)	**64,292**	59,577
Movement in provision	**(13,062)**	(19,304)	**3,063**	6,845
Foreign exchange movements	**487**	3,224	**377**	(2,130)
Total	**(144,508)**	(131,933)	**67,732**	64,292

	Gross		Reinsurers' share	
Deferred acquisition costs	**2021 £000**	2020 £000	**2021 £000**	2020 £000
At 1 January	**24,650**	22,443	**(18,696)**	(16,831)
Movement in provision	**1,827**	2,811	**(880)**	(2,453)
Foreign exchange movements	**(195)**	(604)	**(134)**	588
Total	**26,282**	24,650	**(19,710)**	(18,696)

	Gross		Reinsurers' share	
Claims outstanding	**2021 £000**	2020 £000	**2021 £000**	2020 £000
At 1 January	**(186,512)**	(175,648)	**64,007**	54,976
Movement in provision	**22,564**	(12,516)	**(5,913)**	12,654
Less: portfolio transfer	**1,721**	2,388	**(704)**	(814)
Foreign exchange movements	**4,196**	(736)	**(1,494)**	(2,810)
Total	**(158,031)**	(186,512)	**55,896**	64,007

	Gross		Reinsurers' share	
Claims incurred but not reported	**2021 £000**	2020 £000	**2021 £000**	2020 £000
At 1 January	**(212,036)**	(215,849)	**100,237**	94,566
Movement in provision	**(52,560)**	6,137	**26,499**	8,302
Foreign exchange movements	**4,352**	(2,324)	**(51)**	(2,631)
Total	**(260,244)**	(212,036)	**126,685**	100,237

	Gross		Reinsurers' share	
Unallocated loss adjustment expenses	**2021 £000**	2020 £000	**2021 £000**	2020 £000
At 1 January	**(5,138)**	(3,826)	**—**	—
Movement in provision	**(1,457)**	(1,203)	**—**	—
Foreign exchange movements	**822**	(109)	**—**	—
Total	**(5,772)**	(5,138)	**—**	—

	Gross		Reinsurers' share	
Change in the provision for claims	**2021 £000**	2020 £000	**2021 £000**	2020 £000
At 1 January	**(403,686)**	(395,322)	**164,243**	149,542
Movement in provision	**(26,818)**	(5,194)	**19,883**	20,142
Foreign exchange movements	**6,457**	(3,169)	**(1,545)**	(5,441)
Total	**(424,046)**	(403,686)	**182,581**	164,243

5. Net Operating Expenses

	2021	2020
	£000	£000
Acquisition costs	**52,479**	46,548
Change in deferred acquisition costs	**(947)**	(358)
Gross acquisition costs	**51,532**	46,190
Administrative expenses	**21,888**	21,508
Reinsurers' commissions and profit participations	**(30,650)**	(30,785)
Total	**42,770**	36,913

Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT). An analysis of the auditors' remuneration is as follows:

	2021	2020
	£000	£000
Audit fees:		
Fees payable to the Syndicate's auditor for the audit of these financial statements	**131**	129
Non-audit fees:		
Other services pursuant to legislation	**95**	107

Other services pursuant to legislation include fees for the Syndicate half year review and year-end audit of Solvency II balance sheet. Audit fees in respect of the Singaporean regulatory return annual audit are settled by Allied World Syndicate Services (Singapore) PTE Ltd (“AWSS”).

6. Staff Numbers and Costs

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

	2021	2020
Administration and finance	**39**	39
Underwriting and claims	**47**	50
Total	**86**	89

The table above includes 11 (2020: 11) employees who are employed directly by AWMA.

AWMA does not charge a Managing Agency fee, it has recharged various expenses which have been incurred on the Syndicate's behalf. These amounted to £15.4m (2020: £15.8m) for the financial period.

7. Emoluments of the Directors of AWMA

The Directors of AWMA received the following aggregate remuneration of £1.1m (2020: £1.1m) charged to the Syndicate and included within net operating expenses.

The amount recharged to the Syndicate in respect of the aggregate remuneration of the active underwriter for the year ended 31 December 2021 was £0.3m (2020: £0.3m).

8. Member's Personal Expenses

	2021 £000	2020 £000
Central fund	**802**	639
Lloyd's subscriptions	**916**	729
Total	**1,718**	1,368

9. Investment Return

	2021 £000	2020 £000
Income from investments	**1,144**	1,980
Realised (losses)/gains on investments	**(486)**	457
Investment management expenses and charges	**(492)**	(297)
Unrealised losses on investments	**(586)**	(316)
Net investment return	**(420)**	1,824
Allocated investment return transferred to the technical account for general business	**(420)**	(1,824)
Net investment return included in the non technical account	**—**	—
Total investment return	**(420)**	1,824

10. Other Financial Investments

	Market Value 2021 £000	**Cost 2021 £000**	Market Value 2020 £000	Cost 2020 £000
Shares and other variable-yield securities and units in unit trusts	**47,171**	**47,171**	52,692	52,829
Debt securities and other fixed income securities	**140,814**	**144,001**	132,573	134,425
Total	**187,985**	**191,172**	185,265	187,254

All debt securities and other fixed income securities are listed on a recognised stock exchange and are valued at fair value through profit and loss.

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

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

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

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

10. Other Financial Investments (continued)

2021	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Shares and other variable-yield securities and units in unit trusts	**44,032**	**—**	**3,139**	**47,171**
Debt securities and other fixed income securities	**64,554**	**76,260**	**—**	**140,814**
Overseas deposits	**4,504**	**16,455**	**—**	**20,959**
Total	**113,090**	**92,715**	**3,139**	**208,944**

2020	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Shares and other variable-yield securities and units in unit trusts	49,468	—	3,224	52,692
Debt securities and other fixed income securities	65,682	66,891	—	132,573
Overseas deposits	18,147	4,346	—	22,493
Total	133,297	71,237	3,224	207,758

Lloyd's introduced Syndicate loans to the Central Fund with effect from the 2019 year of account and plan to continue to do so in subsequent years, subject to PRA approval each year. The proceeds from these loans are used to strengthen Lloyd's central resources and facilitate the injection of capital into Lloyd's Insurance Company SA (Lloyd's Brussels). Loans will not be repaid before 5 years have elapsed. Interest thereon will be determined by reference to the risk-free yield plus a credit spread, and will normally be paid annually on an anniversary of the loan. A fair value cannot be determined using direct observable market inputs so the investment has been classified as Level 3 in the fair value hierarchy. The value of the Lloyd's loan is £3.1m (2020: £3.2m).

11. Debtors

	2021 **£000**	2020 £000
Debtors arising out of direct insurance operations:		
Amounts due within one year	**56,769**	66,126
Debtors arising out of reinsurance operations:		
Amounts due within one year	**50,349**	78,393
Other debtors		
Amounts due within one year	**6,855**	**5,587**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

12. Overseas Deposits

Overseas deposits comprise funds that are lodged as a condition of conducting underwriting business in certain countries. Certain overseas deposits relating to Australian situs business previously funded by the Syndicate were replaced in 2013 by a letter of credit (LOC) funded by Allied World Assurance Company, Ltd. The amount of LOC provided as at 31 December 2021 was £23.5m (31 December 2020: £24.4m).

13. Creditors

	2021 £000	2020 £000
Creditors arising out of direct insurance operations:		
Amounts due within one year	**21,845**	21,159
Creditors arising out of reinsurance operations:		
Amounts due within one year	**7,880**	4,949
Amounts due to affiliated companies within one year	**82,452**	115,016
Other creditors including taxation		
Amounts due within one year	**3,870**	1,815

Other creditors comprise mainly expense recharges from affiliated companies.

14. Accruals and Deferred Income

	2021 £000	2020 £000
Amounts due within one year		
Accruals	**5,635**	5,200
Reinsurance deferred acquisition costs	**19,710**	18,696
Total	**25,345**	23,896

15. Part VII transfer to Lloyd's Brussels

On 30 December 2020, all relevant EEA business written by the Syndicate between 2010 and 2018 was transferred to Lloyd’s Insurance Company S.A. ("Lloyd’s Brussels"), in accordance with Part VII of the Financial Services and Markets Act 2000, and this business is reinsured by the Syndicate pursuant to a 100% quota share reinsurance agreement with Lloyd's Brussels entered into 30 December 2020. Lloyd’s Brussels is an insurance company authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority to write non-life risks across all markets within the European Economic Area ("EEA").

15. Part VII transfer to Lloyds Brussels(continued)

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of £39.8m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of £39.8m and non-cash assets relating to the transferred liabilities. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement and no net impact on the balance sheet. No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the income statement presentation. Outstanding debtor and creditor balances in respect of the transferred business that were previously classified as arising out of direct insurance operations have been reclassified as arising out of reinsurance operations.

16. Post Balance Sheet Events

There have been no post balance sheet events which require disclosure or an adjustment to the financial statements for the year ended 31 December 2021.

17. Funds at Lloyd's

The fixed interest securities are provided and managed by a subsidiary of AWAC Holdings via a third party trust deed.

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on UK regulatory requirements. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten.

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

As at 31 December 2021 FAL balance was £241.3m (31 December 2020: £246.9m).

18. Foreign Exchange Rates

The functional currency of Allied World Assurance Company Holdings, Ltd (and, collectively with its subsidiaries, the "Group") is US dollars. These financial statements are presented in Pounds Sterling in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

18. Foreign Exchange Rates (continued)

	2021 Average rate	**2021 Year end rate**	2020 Average rate	2020 Year end rate
Australian Dollar	**1.83**	**1.85**	1.86	1.78
US Dollar	**1.38**	**1.34**	1.27	1.36
Canadian Dollar	**1.73**	**1.72**	1.71	1.74
Singapore Dollar	**1.85**	**1.82**	1.76	1.80

19. Capital Management

In order to meet the Society of Lloyd's requirements, the Syndicate is required to calculate its solvency capital requirements ("SCR") for the prospective underwriting year. The SCR for the Syndicate is based on the modelled output of the economic capital model ("ECM"). This amount must be sufficient to cover a "1 in 200" year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities. Lloyd's applies a 35% capital uplift to the members' 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 ECM is also used for internal reporting and outputs are provided to the Board of Directors of AWMA and committees. ECM outputs are included in the Syndicate's Own Risk Solvency Assessment ("ORSA") report, which will be submitted to Lloyd's on or before 31 March.

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level, the requirement to meet Solvency II and Lloyd's capital requirements apply at member level only. Accordingly the capital requirement in respect of the Syndicate is not disclosed in these financial statements. The level of FAL which supports the Syndicate's underwriting activities and member's deficit is disclosed in note 17.

20. Financial Risk Management

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

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

COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic and the special measures imposed by government to contain the spread of the disease have since caused significant disruption globally to economies and financial markets. The pandemic has resulted in significant market volatility and, due to its ongoing nature, AWMA is closely monitoring the potential impacts on its business, operations, investments and capital and liquidity positions. As of December 31, 2021, the overall financial impact of COVID-19 on AWMA has not been material.

From an operations standpoint, as the pandemic became apparent in early 2020, AWMA followed its business continuity plans and enacted steps to ensure the safety of our employees and continuity of our business. AWMA has remained fully operational even as most of our operations moved to a fully remote working environment. We have also worked very closely with our critical third-party vendors to ensure they continue to maintain their levels of service, even if working remotely. The maturity and resiliency of our team and systems have enabled us to seamlessly address the challenges presented by the COVID-19 pandemic.

AWMA continues to closely monitor the developments and potential impact on AWMA’s business, operations and investments (e.g., asset prices, capital and liquidity positions, and insurance and reinsurance exposures). During 2021 the UK Supreme Court delivered its judgement on Financial Conduct Authority's ("FCA")'s business interruption insurance test case, substantially allowing the FCA's appeal on behalf of policyholders, which provided some clarity as to the legal and regulatory responses to COVID-19. Although there continues to be a level of uncertainty in predicting the ultimate impact on AWMA’s financial position, at this point, we do not believe COVID-19 will have a material adverse impact on AWMA’s solvency position.

Operational risk

Operational risk is the loss resulting from inadequate or failed internal processes, people and systems. It also includes legal risks that arise from failure to comply with relevant laws or regulations.

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

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

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

20. Financial Risk Management (continued)

Operational risk (continued)

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

Strategic risk

This relates to the risk of not achieving the Syndicate's short and long term objectives due to any inability to implement appropriate business plans and strategies, make decisions (especially in the context of risk mitigation), allocate capital or resources, or adapt to changes in the business environment. AWMA manages this risk through the regular measuring, monitoring and reporting of established risk appetite metrics to AWMA's Board Risk Committee.

Climate change risk

Climate-related risks and opportunities have increased in recent years and understanding and managing climate change risk is of fundamental importance to the business. Climate change exposes AWMA to a range of risks that can be grouped into three main categories:

Physical damage

The physical damage climate change risks may arise from increased frequency and/or severity of climate related events beyond anticipated. Physical risks may challenge our ability to effectively underwrite, model and price catastrophe risk particularly if the frequency and severity of catastrophic events such as hurricanes, tornadoes, floods, wildfires and windstorms and other natural disasters may be exacerbated globally.

Allied World review and assess their view of catastrophe risk based on the latest catastrophe models and aggregate exposures and use the output of the analysis within their pricing models to minimise the risk of losses being greater than anticipated. Allied World review their portfolio composition and where a liability or reputational risk is expected to emerge underwriting actions are taken to reduce or mitigate this risk.

Transitional risk

Transitional risks may arise from the effort to transition towards a lower-carbon economy, such as changes in government policy, technology changes, reputational risks, changes in consumer demand and updating of global infrastructure which may lead to a reduction in the value of certain assets.

Asset volatility may increase if assets are invested with a short-term view not having taken into consideration the potential longer-term climate change related impacts. AWMA have minimised this risk by taking a longer-term view when investing in assets and thus currently have no assets invested in fossil fuel mining or producers or major users of fossil fuels such as air or shipping transportation, chemical manufacturers etc. and thus this risk is considered to be low. AWMA will continue to monitor this risk as it develops however it is currently a low risk to the portfolio.

20. Financial Risk Management (continued)

Liability risk

Liability risks are risks that arise from third parties seeking compensation from the effects of climate change, such as companies being litigated against due to the impact of their greenhouse emissions.

Climate change presents risk of financial loss to AWMA. For example, losses resulting from actual policy experience may be adverse as compared to the assumptions made in product pricing and our ability to mitigate our exposure may be reduced. Climate change-related risks may also adversely impact the value of the securities that we hold or lead to increased credit risk of other counterparties we transact business with, including reinsurers. AWMA continues to develop its climate change risk modelling capabilities and has governance structures in place to support the monitoring of climate change developments and potential impact of climate change on the its business, however, it cannot predict the long-term impacts of climate change on the business and results of operations

Market risk

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

Price risk

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

20. Financial Risk Management (continued)

Currency risk

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

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

2021	**GBP £000**	**USD £000**	**CAD £000**	**AUD £000**	**OTH £000**	**Total £000**
Financial investments	**3,139**	**141,260**	**11,791**	**31,795**	**—**	**187,985**
Overseas deposits	**—**	**949**	**11,259**	**1,429**	**7,322**	**20,959**
Reinsurer's share of technical provisions	**21,482**	**197,631**	**9,722**	**21,477**	**—**	**250,312**
Insurance and reinsurance receivables	**11,201**	**76,388**	**814**	**18,715**	**—**	**107,118**
Cash and cash equivalents	**11,020**	**46,288**	**30,882**	**12,865**	**7,682**	**108,737**
Other assets	**11,785**	**15,311**	**2,107**	**7,191**	**—**	**36,394**
Total assets	**58,627**	**477,827**	**66,575**	**93,472**	**15,004**	**711,505**
Technical provisions	**(126,445)**	**(298,213)**	**(43,081)**	**(100,815)**	**—**	**(568,554)**
Insurance and reinsurance payables	**(9,948)**	**(93,068)**	**(2,292)**	**(6,869)**	**—**	**(112,177)**
Other creditors	**(814)**	**(26,415)**	**(156)**	**(1,830)**	**—**	**(29,215)**
Total liabilities	**(137,207)**	**(417,696)**	**(45,529)**	**(109,514)**	**—**	**(709,946)**

2020	GBP £000	USD £000	CAD £000	AUD £000	OTH £000	Total £000
Financial investments	3,224	88,185	46,546	47,310	—	185,265
Overseas deposits	—	406	14,227	945	6,914	22,492
Reinsurer's share of technical provisions	20,921	179,507	7,036	21,071	—	228,535
Insurance and reinsurance receivables	11,317	113,904	2,324	16,976	—	144,521
Cash and cash equivalents	5,464	19,168	111	12,312	9,177	46,232
Other assets	8,114	13,484	2,232	6,542	—	30,372
Total assets	49,040	414,654	72,476	105,156	16,091	657,417
Technical provisions	(119,611)	(291,579)	(33,663)	(90,766)	—	(535,619)
Insurance and reinsurance payables	(5,360)	(128,486)	(1,091)	(6,188)	—	(141,125)
Other creditors	4,748	(27,526)	(387)	(2,546)	—	(25,711)
Total liabilities	(120,223)	(447,591)	(35,141)	(99,500)	—	(702,455)

20. Financial Risk Management (continued)

Currency risk (continued)

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on result of a percentage movement in the relative strength of US dollars, the functional currency of the Syndicate, against the value of Sterling, Canadian dollar and Australian dollar simultaneously. The analysis is based on the information at 31 December of each year end:

	Impact on result for the financial year and net assets	
	2021	2020
US dollar weakens	**£000**	£000
10% against other currencies	**5,857**	1,210
20% against other currencies	**11,715**	2,420
US dollar strengthens		
10% against other currencies	**(5,857)**	(1,210)
20% against other currencies	**(11,715)**	(2,420)

Interest rate risk

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

In the table below, 50 basis point increase or decrease is used when reporting interest rate risk and represents management's assessment of the reasonably possible change in interest rates over the next year.

	Impact on result for the financial year and net assets	
	2021	2020
	£000	£000
Impact of 50 basis point increase on result	**(1,569)**	(1,237)
Impact of 50 basis point decrease on result	**1,569**	1,237
Impact of 50 basis point increase on net assets	**(1,569)**	(1,237)
Impact of 50 basis point decrease on net assets	**1,569**	1,237

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

Credit risk

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

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

20. Financial Risk Management (continued)

Credit risk (continued)

The Syndicate purchases reinsurance in order to limit its maximum loss, to protect against concentration of risk within the portfolio and to manage exposure to catastrophic events. Because the ceding of insurance does not discharge the Syndicate from its primary obligation to the insureds, the Syndicate remains liable to the extent that its reinsurers do not meet their obligations under the reinsurance agreements. Therefore, the Syndicate evaluates the financial condition of its reinsurers and monitors concentration of credit risk. No material provision has been made for unrecoverable reinsurance as of 31 December 2021 as the Syndicate believes that reinsurance balances will be recovered.

Insurance balances receivable primarily consist of net premium due from insureds and reinsureds. The Syndicate believes that the counterparties to these receivables are able to meet, and will meet, all of their obligations. The Syndicate's credit risk is further reduced by the contractual right to offset loss obligations or unearned premium against premium receivable or to cancel policies as per the cancellation clause in all policies for non-payment. Consequently, the Syndicate has not included any material provision for unrecoverable accounts receivable.

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

2021	**AAA**	**AA**	**A**	**BBB or less**	**Not rated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Shares and other variable yield securities	**6,183**	**1,547**	**25,870**	**—**	**13,571**	**47,171**
Debt securities and other fixed income securities	**91,562**	**49,251**	**—**	**—**	**—**	**140,813**
Overseas deposits	**6,426**	**861**	**2,476**	**3,626**	**7,571**	**20,960**
Reinsurer' share of claims outstanding	**—**	**70,467**	**102,561**	**—**	**9,553**	**182,581**
Deposits with ceding undertakings	**—**	**—**	**—**	**—**	**3,130**	**3,130**
Cash at bank and in hand	**—**	**93,977**	**14,760**	**—**	**—**	**108,737**
Total credit risk	**104,171**	**216,103**	**145,667**	**3,626**	**33,825**	**503,392**

2020	AAA	AA	A	BBB or less	Not rated	Total
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities	9,326	1,972	33,277	—	8,117	52,692
Debt securities and other fixed income securities	66,387	34,636	—	—	31,550	132,573
Overseas deposits	5,867	1,876	1,836	4,808	8,105	22,492
Reinsurer' share of claims outstanding	—	52,831	91,132	—	20,280	164,243
Deposits with ceding undertakings	—	—	—	—	—	—
Cash at bank and in hand	—	35,571	10,660	—	—	46,231
Total credit risk	81,580	126,886	136,905	4,808	68,052	418,231

20. Financial Risk Management (continued)

Credit risk (continued)

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

2021	**Neither due nor impaired**	**Past due less than 90 days**	**Past due 91 to 180 days**	**Past due 181 to 365 days**	**Past due more than 365 days**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Shares and other variable yield securities	**47,171**	**—**	**—**	**—**	**—**	**47,171**
Debt securities and other fixed income securities	**140,813**	**—**	**—**	**—**	**—**	**140,813**
Overseas deposits as investments	**20,959**	**—**	**—**	**—**	**—**	**20,959**
Deposits with ceding undertakings	**3,130**	**—**	**—**	**—**	**—**	**3,130**
Reinsurer' share of claims outstanding	**182,581**	**—**	**—**	**—**	**—**	**182,581**
Reinsurance debtors	**46,998**	**648**	**1,185**	**1,519**	**—**	**50,350**
Cash at bank and in hand	**108,737**	**—**	**—**	**—**	**—**	**108,737**
Insurance debtors	**25,957**	**17,676**	**6,321**	**6,816**	**—**	**56,770**
Other debtors	**6,982**	**—**	**—**	**—**	**—**	**6,982**
Total credit risk	**583,328**	**18,324**	**7,506**	**8,335**	**—**	**617,493**

2020	Neither due nor impaired	Past due less than 90 days	Past due 91 to 180 days	Past due 181 to 365 days	Past due more than 365 days	Total
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities	52,692	—	—	—	—	52,692
Debt securities and other fixed income securities	132,573	—	—	—	—	132,573
Overseas deposits as investments	22,492	—	—	—	—	22,492
Deposits with ceding undertakings	—	—	—	—	—	—
Reinsurer' share of claims outstanding	164,243	—	—	—	—	164,243
Reinsurance debtors	57,410	5,862	8,619	2,771	3,730	78,392
Cash at bank and in hand	46,231	—	—	—	—	46,231
Insurance debtors	43,150	9,153	2,901	4,896	6,028	66,128
Other debtors	5,723	—	—	—	—	5,723
Total credit risk	524,514	15,015	11,520	7,667	9,758	568,474

20. Financial Risk Management (continued)

Liquidity risk

The Syndicate follows a prudent person principle investment strategy. The strategy is designed to emphasise the preservation of invested assets, and provide adequate liquidity for the prompt payment of claims as well as attractive returns for the member.

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

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

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

The following table summarises the maturity profile of the Syndicate’s financial liabilities based on remaining undiscounted contractual obligations, including outstanding claim liabilities and other creditors. The outstanding claim liabilities are based on the estimated timing of claim payments resulting from recognised claim liabilities.

20. Financial Risk Management (continued)

2021	**No stated maturity**	**0-1 year**	**1-3 years**	**3-5 years**	**>5 years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Claims outstanding	**—**	**122,495**	**143,314**	**84,158**	**74,080**	**424,047**
Creditors	**—**	**116,046**	**—**	**—**	**—**	**116,046**
Total	**—**	**238,541**	**143,314**	**84,158**	**74,080**	**540,093**

2020	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
	£000	£000	£000	£000	£000	£000
Claims outstanding	—	121,534	134,446	76,494	71,212	403,686
Creditors	—	142,940	—	—	—	142,940
Total	—	264,474	134,446	76,494	71,212	546,626

Group risk

Group risk refers to the potential impact of risk events, of any nature, arising in or from membership of a corporate group. Potential negative impacts on the activities of the Syndicate by Allied World Assurance Company Holdings, Ltd, and its subsidiaries (collectively, the "Group").

Policies and processes

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

In addressing all risk types the Syndicate aims to ensure that:

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

20. Financial Risk Management (continued)

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

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

21. Insurance Risk Management

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

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

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

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

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

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

Use of judgments and estimates

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

21. Insurance Risk Management (continued)

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

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

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

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

Stress Testing and Sensitivity Analysis

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

Stress testing covers the following categories:
a) Scenario Tests - assessing the financial impact on the business of possible future scenarios, e.g, a large catastrophic event or multiple events
b) Sensitivity Tests - assessing the implication of possible alternative assumptions, e.g, variations in premium income and in particular their impact on capital requirements
c) Reverse Stress Tests - Assessing the impact and management actions for scenarios where the Syndicate has become insolvent.

Insurance Risk - Scenario tests

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

21. Insurance Risk Management (continued)

Insurance Risk - Sensitivity Analysis

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

Sensitivity

The following table presents the sensitivity of the gross and net profits and the impact on the members balance for both the 2021 and 2020 the financial years determined by applying the factors listed below separately to the loss ratio and expenses.

	Profit for the financial year		**Member's balance at financial year end**	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
5% increase in loss ratio				
Gross	**(11,961)**	(10,992)	**(11,961)**	(10,992)
Net	**(6,917)**	(6,155)	**(6,917)**	(6,155)
5% decrease in loss ratio				
Gross	**11,961**	10,992	**11,961**	10,992
Net	**6,917**	6,155	**6,917**	6,155
5% increase in expenses				
Gross	**(3,666)**	(3,380)	**(3,666)**	(3,380)
Net	**(2,134)**	(1,841)	**(2,134)**	(1,841)
5% decrease in expenses				
Gross	**3,666**	3,380	**3,666**	3,380
Net	**2,134**	1,841	**2,134**	1,841

Concentrations of Insurance Risk

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

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

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

21. Insurance Risk Management (continued)

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

The above criteria has resulted in 10 classes of business (for the 2021 Year of Account) which have concentrations or pools of risks that have common characteristics and are similar in nature.

COB Code	Class of Business
COB10	Property Direct & Facultative
COB30	Treaty Casualty
COB40	Errors & Omissions
COB50	Directors & Officers
COB60	General Casualty
COB80	Treaty Property - CAT
COB90	Treaty Property - Non CAT
COB100	Marine
COB150	Onshore Construction
COB170	Bespoke

Risk mitigation

Transfer:

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

Acceptance:

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

Limitation:

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

Avoidance:

- AWMA writes business only within its risk appetites.

21. Insurance Risk Management (continued)

Claims development tables

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

Cumulative claims estimates and cumulative payments are translated into Pounds Sterling at the period end rate as at 31 December 2021.

As these tables are on an underwriting year basis, there is an apparent large increase from amounts reported for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

Analysis of claims development - Gross	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**2020 £000**	**2021 £000**
Estimates of gross claims								
End of underwriting year	56,427	73,622	64,634	140,358	78,320	77,810	66,165	60,562
One year later	83,434	110,901	103,818	219,579	162,004	134,502	127,295	
Two years later	85,447	108,866	144,985	228,861	178,073	141,032		
Three years later	66,061	142,307	148,471	228,306	177,143			
Four years later	87,126	150,666	141,179	224,745				
Five years later	86,490	155,521	139,806					
Six years later	85,810	158,495						
Seven years later	89,742							
Less gross claims paid *	77,356	131,761	110,988	171,392	113,570	67,221	24,575	3,859
Gross claims reserve	**12,386**	**26,734**	**28,818**	**53,353**	**63,573**	**73,811**	**102,720**	**56,703**
Gross claims reserve for 2013 and prior years								**5,949**

Analysis of claims development - Net	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**2020 £000**	**2021 £000**
Estimates of net claims								
End of underwriting year	48,114	62,329	41,920	77,174	51,090	49,095	38,337	36,609
One year later	70,329	94,249	66,910	122,595	98,669	82,317	71,128	
Two years later	72,874	90,310	88,697	138,164	106,905	85,836		
Three years later	55,646	116,800	89,757	136,637	103,957			
Four years later	73,170	122,759	86,828	135,130				
Five years later	71,717	126,802	85,517					
Six years later	70,812	128,732						
Seven years later	73,178							
Less net claims paid *	63,391	106,306	68,625	105,162	72,472	47,389	15,356	3,402
Net claims reserve	**9,787**	**22,426**	**16,892**	**29,968**	**31,485**	**38,447**	**55,772**	**33,207**
Net claims reserve for 2013 and prior years								**3,482**

* The claims development tables in the 2020 financial statements translated gross and net claims paid into Pounds Sterling at the rates that applied at the end of each underwriting year. The paid claims were presented on this basis in both the latest year of the estimates of claims and the claims paid disclosures.

22. Related Parties

Ultimate parent company

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

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

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

Allied World Managing Agency

AWMA does not charge a set Managing Agent fee but receives a mark-up on expenses recharged to the Syndicate of 5%. In respect of expense recharge activity, these amounts are included as part of operating expenses. Expenses recharged, including mark up, in 2021 were £15.4m (2020: £15.8m). The creditor balance as at 31 December 2021 was £8.3m (2020: £8.2m).

Allied World Syndicate Services (Singapore) PTE Ltd

The Syndicate underwrites business via the Lloyd's Asia Singapore platform. From 1 April 2014, AWSS has acted as the Lloyd's Asia service company to facilitate the Syndicate's underwriting in Singapore. In respect of expense recharge activity, these amounts are included as part of operating expenses. The fees charged by AWSS to the Syndicate were £2.5m (2020: £2.3m). The creditor balance as at 31 December 2021 was £0.6m (2020: £0.5m).

Allied World Reinsurance Management Company ("ARM")

ARM acts as a cover-holder for the Syndicate underwriting business in Central and South America including the Caribbean. In respect of insurance and ceded outwards reinsurance activity, these amounts are included as part of the technical account within the income statement. In respect of expense recharge activity, these amounts are included as part of operating expenses. The fees charged by ARM were £0.8m (2020: £1.0m). The creditor balance as at 31 December 2021 was £0.2m (2020: £0.2m).

Allied World Syndicate Services (Bermuda), Ltd ("AWSB")

AWSB acts as a cover-holder for the Syndicate underwriting business in Bermuda. In respect of insurance and ceded outwards reinsurance activity, these amounts are included as part of the technical account within the income statement. In respect of expense recharge activity, these amounts are included as part of operating expenses. The fees charged by AWSB were £0.3m (2020: £0.3m). The debtor balance as at 31 December 2021 was £0.9m (2020: £4.4m).

Allied World Assurance Company (Europe) dac ("AWE")

The Syndicate is serviced in terms of accommodation, staff and other overhead costs by AWE. The Syndicate is charged its share of these central costs. In respect of the cost sharing activity, these amounts are included as part of operating expenses.

Allied World Assurance Company, Ltd ("AWA")

The Syndicate participates in an intra-group reinsurance contract with AWA. In respect of insurance and ceded outwards reinsurance activity, these amounts are included as part of the technical account within the income statement. The effect of this contract on the profit and loss account in 2021 was a credit of £5.9m (2020: £0.3m).