

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

Axis Syndicate 1686
Syndicate Annual Report and Accounts
31 December 2017

AXIS SYNDICATE 1686

CONTENTS

	PAGE
DIRECTORS AND ADMINISTRATION	2
ACTIVE UNDERWRITER'S REPORT	3
MANAGING AGENT'S REPORT	4 - 7
STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES	8
INDEPENDENT AUDITOR'S REPORT	9 - 10
STATEMENT OF PROFIT AND LOSS	11 - 12
STATEMENT OF CHANGES IN MEMBERS' BALANCES	12
STATEMENT OF FINANCIAL POSITION	13 - 14
NOTES TO THE ANNUAL REPORT AND ACCOUNTS	15 - 33

DIRECTORS AND ADMINISTRATION

MANAGING AGENT	AXIS Managing Agency Ltd	
DIRECTORS	Stephen Cane (Chairman)* Adam Cragg Daniel Draper Tadeusz Dziurman* Mark Gregory Tim Hennessy Kenneth Kwok Geraldine Lawlor* Fintan Mullarkey Alistair Robson Jane Warren	* Independent Non-Executive
SECRETARY	Mark Rowe 21 Lombard Street London EC3V 9AH United Kingdom	
MANAGING AGENT'S REGISTERED OFFICE	C/O Wilkie Farr & Gallagher (UK) LLP 27th Floor, Citypoint 1 Ropemaker Street London EC2Y 9AW United Kingdom	
MANAGING AGENT'S REGISTERED NUMBER	08702952	
ACTIVE UNDERWRITER	A M Robson	
SOLICITORS	Willie Farr & Gallagher (UK) LLP 27th Floor, Citypoint 1 Ropemaker Street London EC2Y 9AW United Kingdom	
AUDITORS	Deloitte LLP Statutory Auditor Hill House 1 Little New Street London EC4A 3TR United Kingdom	
PRINCIPAL BANKERS	Citibank NA Citigroup Centre 33 Canada Square Canary Wharf London, E14 5LB United Kingdom	RBC Dexia Investor Services Royal Bank Plaza 200 Bay Street Toronto, Ontario M5J 2J5 Canada

ACTIVE UNDERWRITER'S REPORT

AXIS Syndicate 1686 (the "Syndicate") is a Lloyd's Syndicate of AXIS Capital Holdings Limited ("ACHL"), the Bermuda-based holding company for the AXIS group of companies ("AXIS"). The Syndicate was managed by Asta Managing Agency ("Asta") on a 'turnkey' basis until being transferred to the newly approved AXIS Managing Agency Limited on 4th August 2017. ACHL is the Syndicate's sole capital provider with 100% ownership of AXIS Corporate Capital UK Limited, through other, wholly owned, legal entities. The Syndicate commenced underwriting for contracts incepting from 1 January, 2014 onwards.

The Syndicate achieved USD 397.9m gross premium written representing 36.6% growth on 2016, driven by continued transfer of business from other AXIS entities to the Syndicate across Property classes, and growth within broker facility arrangements. Overall, the Syndicate writes a balanced portfolio, with no single line of business making up more than 16% of total premium. Towards the end of the year, the Syndicate exited the Onshore Energy class of business in light of continued poor market experience and pricing conditions.

2017 initially saw a continuation of the competitive market and rate change was a negative 2.2% overall for the year, although this was better than anticipated as underwriters reacted to eroding margins. There was a noticeably improving trend in the final quarter across most classes, especially those exposed to natural catastrophe perils and specifically to the well-publicised series of events which produced losses to the (re)insurance industry of over USD 100bn.

The Syndicate produced a loss of USD 119.0m (restated 2016: profit USD 1.3m). This primarily resulted from the high frequency of catastrophe events experienced in the year, specifically hurricanes Harvey, Irma and Maria, the Mexico earthquake, and California Wildfires.

During the year AXIS acquired Novae Group PLC, the transaction completing on 2 October 2017, with Syndicate 2007 and SPA 6129 transferring to the management of AXIS Managing Agency Limited from 1st January 2018.



A. M. Robson
Active Underwriter
15 March 2018

MANAGING AGENT'S REPORT

The directors of the managing agent, AXIS Managing Agency Limited ("AMAL") present their annual report for Syndicate 1686 (the Syndicate) for the year ended 31 December 2017.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("Lloyd's Regulations 2008") and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standards applicable in the UK and Ireland" and FRS 103 "Insurance Contracts") and applicable law.

RESULTS

The results of the Syndicate are set out on pages 11 and 12.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Syndicate's principal activity is the underwriting of direct insurance and reinsurance business in the Lloyd's market.

The Syndicate predominately writes energy, property, marine, aviation, professional indemnity and terrorism in the United Kingdom and credit, property, and agriculture in China. During 2017 the Syndicate also commenced underwriting business through AXIS Specialty Underwriters Inc ("AXIS Miami") which serves as a coverholder for the Latin America and Caribbean region. AXIS Miami provides direct and reinsurance coverage focused on energy and property classes.

Gross written premium income by class of business for the calendar year was as follows:

	2017	2016
	USD '000	USD '000
Aviation	19,036	25,402
Aviation War	326	72
Energy Onshore	36,858	19,065
Renewable Energy Onshore	7,414	5,676
Excess Casualty	—	33
London MGA	53,327	34,290
Marine Hull	2,289	2,020
Marine Liability	4,253	4,502
Marine Cargo	37,507	28,631
Marine War	1,423	1,710
Property	49,549	26,139
Terrorism	18,380	9,538
UK PI	63,372	39,672
Renewable Energy Offshore	2,185	3,396
China Reinsurance	36,510	28,166
Broker Facility	51,774	42,571
Offshore Energy Gulf of Mexico Wind	31	589
Offshore Energy Excluding Gulf of Mexico Wind	13,617	19,738
	397,851	291,210

MANAGING AGENT'S REPORT

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS (continued)

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

	2017 USD '000	2016 USD '000 Restated	Change %
Gross written premiums	397,851	291,210	36.6
Net earned premium	203,437	130,841	55.5
Net technical loss	(118,312)	(1,879)	
Combined ratio	158.16%	101.44%	

The forecast return on capacity at 31 December 2017 for the three open years of account is as follows;

	2017 YOA Open	2016 YOA Open	2015 YOA Open
Capacity (USD '000)	454,361	281,838	148,944
Forecast (USD '000)	(76,596)	(47,872)	(17,447)
Return on capacity %	(16.86)%	(16.99)%	(11.71)%

FUTURE DEVELOPMENTS

In 2018 the Syndicate plans to continue to transact in the current classes of general direct insurance and reinsurance business. The trading environment is expected to remain competitive. However if opportunities arise to write new classes of business, these will be investigated at the appropriate time.

Commencing in 2014, the Syndicate and AXIS Specialty Europe SE ("ASE SE") entered into a co-insurance agreement where any risk presented to either one of them for certain classes of business was co-insured. The co-insurance was based on a predefined division by class of business up to the maximum Syndicate's gross line and is subject to a number of exemptions set out in the agreement. The use of default split lines was discontinued from 2017.

The Syndicate will collect the 2015 year of account loss from AXIS Corporate Capital UK Limited in 2018.

On 2 October 2017, AXIS Specialty UK Holdings Limited acquired the shares of Novae for an aggregate purchase price of GBP 462.9m. Novae was a diversified property and casualty (re)insurance business operating through Syndicate 2007 at Lloyd's. The acquisition of Novae was undertaken to accelerate the growth strategy of the AXIS insurance segment, and to significantly scale up its capabilities to enable the Company to even better serve its clients and brokers. There is not expected to be any significant impact on the Syndicate in 2018.

On 8 January 2018 ACHL announced that it had received authorisation from Lloyd's for the managing agency to commence the management and oversight of Syndicate 2007 and SPA 6129. The authorisation became effective 1 January 2018, and creates a single managing agent structure for AXIS' operations at Lloyd's. Syndicate 2007 and SPA 6129 will operate alongside AXIS Syndicate 1686, which the managing agency currently manages. Management has initiated plans to consolidate its Lloyd's business into AXIS Syndicate 1686, under the management of the managing agency, and anticipates completing that process from 1 January 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

The Syndicate's principal risks are underwriting, reserving, credit, market, liquidity and operational risks that arise as a result of doing business.

Underwriting risk

Underwriting risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities transferred to the Syndicate through the underwriting process. Underwriting risk is managed through rigorous protocols, including peer review

MANAGING AGENT'S REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Underwriting risk (continued)

and underwriting guidelines, which provide a framework for consistent pricing and risk analysis while ensuring alignment to the risk appetite. The approved business plan sets out targets for volumes, pricing, line sizes and retention by class of business.

The AMAL Board then monitors performance against the business plan throughout the year. The Syndicate also mitigates underwriting risk through the purchase of reinsurance.

Reserving Risk

The estimation of reserves is subject to uncertainty due to the fact that the settlement of claims that have arisen before the balance sheet date is dependent on future events and developments, as well as the latency and late reporting of claims. The Syndicate seeks to mitigate reserving risk by, among other things, diligently monitoring claims and maintaining a structured process and control framework for determining carried reserves. Reserve adequacy is monitored through the management agent quarterly review by the AMAL Chief Actuary and the Reserving Committee.

Credit risk

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers or intermediaries. The AMAL Board's policy is that the Syndicate will only reinsure with approved reinsurers, supported by collateralisation where required. The AXIS Reinsurance Security Committee monitors reinsurer ratings and is required to approve all new reinsurers before business is placed with them.

Market risk

Market risk exposure relates to fluctuations in interest rates or exchange rate. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The AMAL policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Finance, Investments and Operations Committee (FIOC), and reported up to the Executive Committee and AMAL Board.

Liquidity risk

Liquidity risk is the risk that we may not have sufficient financial resources to meet our obligations when they fall due, or would have to incur excessive costs to do so. The Syndicate aims to ensure it maintains adequate liquidity to meet its liquidity needs under both normal and stressed conditions. The Syndicate manages liquidity through risk limits which define the minimum percentage of the Syndicate's cash and investments to mature within a defined time frame. The Syndicate also has two facility agreements in place with AXIS affiliates to ensure that it can respond to any shortfalls in working capital liquidity and shortfalls arising from large losses respectively.

Operational risk

Operational risk represents the risk of financial loss as a result of inadequate processes, system failures, human error or external events. Transaction type operational risks are managed through the application of process controls throughout the business which are reviewed on a regular basis. In testing these controls, we supplement the work of our internal audit team with regular underwriting and claim peer audits. A risk register, capturing all known significant operational risks faced by the Syndicate and the associated risk assessments is periodically reviewed by the Risk Committee of the Board.

Regulatory risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Agency has a compliance officer who monitors business activity and regulatory developments and assesses any effects on the Agency.

The Syndicate has no appetite for failing to treat customers fairly. The Syndicate manages and monitors its conduct risk through a suite of risk indicators and reporting metrics as part of its documented conduct risk framework.

On June 23, 2016, the U.K. voted to exit the E.U. ("Brexit") and in March 2017, the U.K. government gave official notice of its intention to leave the E.U., commencing the period of up to two years during which the U.K. and the E.U. would negotiate the terms of the U.K.'s withdrawal from the E.U. The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently.

MANAGING AGENT'S REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Regulatory risk (continued)

The Syndicate has significant operations in the U.K. and other E.U. member states. Depending on the final terms, Brexit may disrupt the Lloyd's managing agency and its syndicates', ability to "passport" within the E.U., which is the system by which the insurance entities currently provide insurance across E.U. member states while only being subject to regulation by their "home state" regulators. Any of the effects of Brexit, and others we cannot anticipate, could adversely affect our business, business opportunities, results of operations, financial condition and cash flows.

For a more detailed analysis of the insurance and financial risks faced by the Syndicate and how these risks are managed refer to note 16.

DIRECTORS

Details of the Directors of the managing agent that served during the year and up to the date of signing of the syndicate annual accounts are provided on page 2. Changes to the directors were as follows:

Stephen Cane	Appointed	1 May 2017
Adam Cragg	Appointed	2 February 2018
Daniel Draper	Appointed	11 May 2017
Tadeusz Dziurman	Appointed	1 May 2017
Mark Gregory	Appointed	11 May 2017
Sarah Hills	Resigned	2 May 2017
Kenneth Kwok	Appointed	22 December 2017
Geraldine Lawlor	Appointed	1 May 2017
James Loweth	Resigned	2 May 2017
Jane Warren	Appointed	11 May 2017

DISCLOSURE OF INFORMATION TO THE AUDITOR

So far as each person who was a director of the managing agent at the date of approving the report is aware, there is no relevant audit information, being information needed by the Syndicate auditors in connection with the auditor's report, of which the auditors are unaware. Each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

EVENTS SINCE FINANCIAL YEAR END

There have been no significant events affecting the Syndicate since the financial year end other than those highlighted in the future developments section above.

INDEPENDENT AUDITORS

Deloitte LLP acted as the Syndicate's auditors during the year under review. Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditors will be deemed reappointed and Deloitte LLP will therefore continue in office.

SYNDICATE ANNUAL GENERAL MEETING

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the managing agent does not propose holding an annual meeting this year: Objections to this proposal or the intention to reappoint the auditor for a further 12 months can be made by Syndicate members before 9 April 2018.

On behalf of the Board



Mark Rowe
Company Secretary
15 March 2018

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The directors of the managing agent are responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 "Insurance Contracts", and applicable laws. The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

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

- select suitable accounting policies and then apply them 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 Syndicate annual accounts; and
- prepare the Syndicate accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The directors of the managing agent are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are also responsible for the system of internal control, for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors of the managing agent are responsible for the maintenance and integrity of the corporate and financial information included on the holding company's website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1686

Opinion

In our opinion the syndicate annual financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual financial statements of Syndicate 1686 (the 'syndicate') which comprise:

- the statement of profit and loss;
- the statement of financial position;
- the statement of changes in members' balances; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the syndicate annual financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The managing agent is responsible for the other information. The other information comprises the information included in the active underwriter's report and Managing agent's report, other than the syndicate annual financial statements and our auditor's report thereon. Our opinion on the syndicate annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual financial statements 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 in respect of these matters.

Responsibilities of managing agent

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1686

Responsibilities of managing agent (continued)

preparation of the syndicate annual financial statements and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual financial statements, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing, as applicable, matters related to the syndicate's ability to continue in operation and to use the going concern basis of accounting unless the managing agent intends to cease the syndicate's operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the syndicate annual financial statements

Our objectives are to obtain reasonable assurance about whether the syndicate annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

A further description of our responsibilities for the audit of the syndicate annual financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the active underwriter's report and the managing agent's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- active underwriter's and the managing agent's report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified any material misstatements in active underwriter's or the managing agent's report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.



Alexander Arterton, BSc, ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

15 March 2018

AXIS SYNDICATE 1686
STATEMENT OF PROFIT AND LOSS: TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Notes	Financial Year ended 31 December 2017 USD '000	Financial Year ended 31 December 2016 USD '000 Restated
Gross premiums written	3	397,851	291,210
Outward reinsurance premiums		(164,136)	(120,817)
Net premium written		<u>233,715</u>	<u>170,393</u>
Change in the gross provision for unearned premiums	4	(44,185)	(56,607)
Change in the provision for unearned premiums – reinsurers' share	4	13,907	17,055
Change in the net provision for unearned premiums		<u>(30,278)</u>	<u>(39,552)</u>
Earned premiums, net of reinsurance		203,437	130,841
Allocated investment return transferred from the non-technical account		633	240
		<u>204,070</u>	<u>131,081</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(147,910)	(80,715)
Reinsurers' share		62,192	34,797
Net claims paid		<u>(85,718)</u>	<u>(45,918)</u>
Change in provision for claims			
Gross amount	4	(193,223)	(46,084)
Reinsurers' share	4	44,127	17,703
Change in net provision for claims		<u>(149,096)</u>	<u>(28,381)</u>
Claims incurred, net of reinsurance		(234,814)	(74,299)
Net operating expenses	5	(86,935)	(58,421)
Balance on the technical account - general business		<u>(117,679)</u>	<u>(1,639)</u>

AXIS SYNDICATE 1686
STATEMENT OF PROFIT AND LOSS: NON - TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Notes	Financial Year ended 31 December 2017 USD '000	Financial Year ended 31 December 2016 USD '000 Restated
Balance on the technical account - general business		(117,679)	(1,639)
Investment income	8	633	240
Allocated investment return transferred to the technical account		<u>(633)</u>	<u>(240)</u>
		(117,679)	(1,639)
Foreign exchange (losses)/gains		(1,273)	2,969
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		<u><u>(118,952)</u></u>	<u><u>1,330</u></u>

All amounts arise from continuing activities.

There were no recognised gains or losses other than those included in the income statement.

The accompanying notes form an integral part of the annual report.

STATEMENT OF CHANGES IN MEMBERS' BALANCES

	Financial Year ended 31 December 2017 USD '000	Financial Year ended 31 December 2016 USD '000 Restated
As at 1 January	(51,749)	(53,079)
(Loss) for the financial year	(118,952)	(1,068)
Effect of change in accounting policy	—	2,398
2014 year of account cash call	18,004	—
As at 31 December	<u><u>(152,697)</u></u>	<u><u>(51,749)</u></u>

The distribution loss represents the cash call received from the corporate member AXIS Corporate Capital UK Limited ("ACCUKL") to fund the loss of the 2014 year of account. For details on the change in accounting policy refer to the 'summary of accounting policies' section on page 15.

AXIS SYNDICATE 1686

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 USD '000	2016 USD '000 Restated
ASSETS			
Investments			
Financial investments	9	88,323	45,861
		<u>88,323</u>	<u>45,861</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	64,682	48,639
Claims outstanding	4	146,120	97,537
		<u>210,802</u>	<u>146,176</u>
Debtors			
Debtors arising out of direct insurance operations	10	108,411	97,958
Debtors arising out of reinsurance operations	11	83,072	32,868
		<u>191,483</u>	<u>130,826</u>
Cash and other assets			
Cash at bank		35,687	31,106
Other assets	12	15,806	7,510
		<u>51,493</u>	<u>38,616</u>
Prepayments and accrued income			
Deferred acquisition costs	4	41,357	31,546
Other prepayments and accrued income		3,995	1,361
		<u>45,352</u>	<u>32,907</u>
TOTAL ASSETS		<u><u>587,453</u></u>	<u><u>394,386</u></u>

AXIS SYNDICATE 1686

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 USD '000	2016 USD '000 Restated
MEMBERS' BALANCE			
Capital and reserves			
Members' balance		(152,697)	(51,749)
LIABILITIES			
Technical provisions			
Provision for unearned premiums	4	202,366	151,824
Gross claims outstanding	4	406,408	203,187
		<u>608,774</u>	<u>355,011</u>
Creditors			
Creditors arising out of direct insurance operations	13	14,637	16,231
Creditors arising out of reinsurance operations	14	70,226	41,274
Other creditors	15	31,935	23,110
		<u>116,798</u>	<u>80,615</u>
Accruals and deferred acquisition costs		14,578	10,509
TOTAL LIABILITIES AND MEMBERS' BALANCE		<u><u>587,453</u></u>	<u><u>394,386</u></u>

The accompanying notes form an integral part of the annual report and accounts.

The annual report and accounts were approved by the Board of AXIS Managing Agency Limited on 13 March 2018 and signed on its behalf by:


 Fintan Mullarkey
 Finance Director
 15 March 2018

1. BASIS OF PREPARATION

Statement of Compliance

The annual report and accounts have been prepared on a going concern basis and in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102) and FRS 103 "Insurance Contracts" (FRS 103), being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The annual report and accounts are prepared under the historical cost convention except for certain financial instruments which are measured at fair value. The annual report and accounts are prepared in USD which is the functional and presentational currency of the Syndicate. The annual report and accounts are presented in thousands of US Dollars (USD '000) unless otherwise stated.

The Syndicate has taken advantage of the disclosure exemptions available under FRS 102 paragraph 1.12 in respect of presentation of a cash-flow statement and certain share-based payments disclosures, on the basis that it is a qualifying entity and is consolidated into the Group Accounts of its ultimate parent company, AXIS Capital Holdings Limited, incorporated in Bermuda.

2. SUMMARY OF ACCOUNTING POLICIES

Change in accounting policy

In 2017 the Syndicate changed its accounting policy for the recognition of Lloyds levies within personal expenses to align with AXIS group accounting policies in order to be more relevant for directors and other users of the annual accounts. In the prior year personal expenses were expensed in full to the income statement however the Syndicate now defers these costs in line with the gross premium for each year of account. In accordance with FRS 102 the prior year comparatives have been restated, the impact of this change is highlighted in the statement of changes in members' balances. The restatement resulted in deferring USD 2.4m of expenses with the corresponding increase in members balances.

Technical result

The technical result is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance and related investment income as follows:

Premiums and acquisition costs

Premiums written are recorded in accordance with the terms of the underlying policies. Premiums are earned over the period during which the Syndicate is exposed to the underlying risk which is generally one to two years with the exception of multi-year contracts. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force.

Acquisition costs vary with and are directly related to the acquisition of insurance contracts and consist primarily of fees and commissions paid to brokers and premium taxes. Deferred acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. If deferred amounts are estimated to be unrecoverable, they are expensed.

At each reporting date the Syndicate performs a liability adequacy test on its insurance liabilities less related deferred acquisition costs to ensure that the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense to the profit and loss account initially by writing off the intangible assets and subsequently by recognising an additional liability for claims provisions or recognising a provision for unexpired risks. The unexpired risks provision is assessed in aggregate for lines of business which are managed together.

Under FRS 103, unearned premiums and deferred acquisition costs are monetary assets. These are therefore valued at closing exchange rate at the reporting period and any foreign currency gains or losses are recognised in the Statement of Profit and Loss: Non-technical account.

2. SUMMARY OF ACCOUNTING POLICIES (continued)

Reinsurance

In the normal course of business, the Syndicate purchases reinsurance protection to limit its ultimate losses from catastrophic events and to reduce its loss aggregation risk. Reinsurance premiums ceded are expensed over the reinsurance coverage period. Unearned reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of the contracts in force.

The Syndicate also participates in a number of Group-purchased global reinsurance treaties for certain risks. The premiums paid to our reinsurers (i.e. outward reinsurance premiums) are expensed over the coverage period. The reinsurers' share of provision for unearned premiums represents the portion of premiums ceded applicable to the unexpired term of the contract in force.

Outstanding reinsurance commitments relating to subsequent instalments are disclosed in note 22.

Reinsurance recoverables are presented net of a reserve for uncollectible reinsurance. Risk attaching contracts cover claims that relate to underlying policies written during the terms of such contracts. The method for determining the reinsurance recoverable on unpaid losses and loss expenses involves actuarial estimates and assumptions. Unpaid losses and loss expenses include an amount determined from individual case estimates and loss reports, and an amount based on past experience, for losses incurred but not reported. Based on reinsurance coverage, the Syndicate determines the amount of recoverables for unpaid losses and loss expenses.

Reinsurance commission

Reinsurance commission income is earned over the period in which the related premiums are expensed.

Critical accounting estimates and judgments

The Syndicate makes estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates. Estimates and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Accounting estimates and judgments are discussed further in the claims incurred and investments accounting policies below.

Claims incurred

Reserves for losses and loss expenses represent an estimate of the unpaid portion of the ultimate liability for losses and loss expenses for insured events that have occurred at or before the balance sheet date. The balance reflects both claims that have been reported ("case reserves") and claims that have been incurred but not yet reported ("IBNR"). These amounts are reduced for estimated amounts of salvage and subrogation recoveries.

Reserves for losses and loss expenses are reviewed on a quarterly basis. Case reserves are primarily established based on amounts reported from insureds, reassured and/or brokers. Management estimates IBNR after reviewing detailed actuarial analyses and applying informed judgment regarding qualitative factors that may not be fully captured in the actuarial estimates. A variety of actuarial methods are utilised in this process, including the Expected Loss Ratio, Bornhuetter-Ferguson and Chain Ladder methods. The Syndicate estimate is highly dependent on management's critical judgment as to which method(s) are most appropriate for a particular accident year and class of business. The Syndicate's historical claims data is often supplemented with industry benchmarks when applying these methodologies.

Any adjustments to previous reserves for losses and loss expenses estimates are recognised in the period they are determined. While management believes that reserves for losses and loss expenses are adequate, this estimate requires a significant judgment and new information, events or circumstances may result in ultimate losses that are materially greater or less than provided for in the balance sheet.

Investments

Investments are measured in accordance with FRS 102 section 11 and section 12.

Financial assets are measured at fair value with fair value changes recognised immediately in the profit and loss account. For this purpose listed investments are stated at bid-market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

2. SUMMARY OF ACCOUNTING POLICIES (continued)

Investments (continued)

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: the quoted (unadjusted) prices in active markets for identical assets or liabilities that the Syndicate can access at the measurement date
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised and unrealised gains and losses arising from changes in the fair value of investments are presented in the Statement of Profit and Loss in the period in which they arise. Investment income includes interest income on fixed income securities and dividend income on equity securities. Dividend and interest income is recognised when earned. The net change in fair value also includes investment management and other related expenses. These expenses are recognised when incurred.

There were no changes to the valuation techniques during the year.

Allocation of investment return transferred from the non-technical to the technical account

Investment income is initially recorded in the non-technical income statement. The income is transferred in full to the general business technical account to reflect the investment return on funds supporting underwriting business.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 19.5%, 2016: 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

Foreign Exchange

The Syndicate's functional currency and presentational currency is US Dollar (USD).

Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency at the prevailing rate of exchange ruling at the balance sheet date and revenues and costs are converted at the rate prevailing at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies have been recorded at historical rates. Profits and losses arising from foreign currency transactions and on settlement of accounts receivable and payable in foreign currencies are dealt with through the Statement of Profit and Loss: Non-technical account.

Pension

The staff utilised by the Syndicate are employed by affiliate entities which operate a defined contribution scheme. Pension costs relating to staff performing duties are charged to the Syndicate and included within net operating expenses.

Syndicate Operating Expenses

Costs incurred by the managing agent exclusively for the Syndicate are charged to the Syndicate on an accrual basis. Expenses which are incurred jointly for the managing agent and the Syndicate are apportioned between the managing agent and the Syndicate depending on the amount of work performed, resources used and volume of business transacted.

The managing agent charges a further management fee of 0.5% of Syndicate capacity.

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

3. SEGMENTAL ANALYSIS

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

	Gross Premiums written 2017 USD'000	Gross Premiums earned 2017 USD'000	Gross Claims incurred 2017 USD'000	Net Operating expenses 2017 USD'000	Reinsurance Balance 2017 USD'000	Total 2017 USD'000
<i>Direct insurance:</i>						
Accident and health	26	18	(16)	(4)	2	—
Marine	4,837	5,131	(4,575)	(1,188)	(1,169)	(1,801)
Aviation	15,581	17,943	(10,690)	(3,899)	996	4,350
Transport	12,235	11,258	(12,312)	(2,550)	826	(2,778)
Energy marine	10,415	10,511	(5,403)	(1,805)	(5,544)	(2,241)
Energy non marine	8,341	7,487	(5,067)	(741)	(3,255)	(1,576)
Fire & other damage to property	113,666	98,883	(125,380)	(24,761)	6,780	(44,478)
Third party liability	70,663	53,324	(47,953)	(13,369)	(2,613)	(10,611)
Pecuniary loss	157	180	(50)	(57)	(54)	19
Total direct insurance	235,921	204,735	(211,446)	(48,374)	(4,031)	(59,116)
Reinsurance:	161,930	148,931	(129,687)	(38,561)	(39,879)	(59,196)
Total	397,851	353,666	(341,133)	(86,935)	(43,910)	(118,312)

	Gross Premiums written 2016 USD'000	Gross Premiums earned 2016 USD'000	Gross Claims incurred 2016 USD'000	Net Operating expenses 2016 USD'000 Restated	Reinsurance Balance 2016 USD'000	Total 2016 USD'000 Restated
<i>Direct insurance:</i>						
Accident and health	43	11	(8)	(6)	1	(2)
Marine	3,661	3,773	(1,986)	(1,050)	746	1,483
Aviation	21,469	10,959	(6,120)	(3,258)	1,132	2,713
Transport	10,201	7,239	(3,283)	(1,792)	(2,437)	(273)
Energy marine	10,466	10,872	(5,918)	(2,064)	(5,441)	(2,551)
Energy non marine	7,920	7,165	(677)	(1,634)	(2,723)	2,131
Fire & other damage to property	68,588	58,546	(29,511)	(12,515)	(10,386)	6,134
Third party liability	42,109	34,815	(24,891)	(8,542)	2,373	3,755
Pecuniary loss	119	65	(10)	(17)	(48)	(10)
Total direct insurance	164,576	133,445	(72,404)	(30,878)	(16,783)	13,380
Reinsurance:	126,634	101,158	(54,395)	(27,543)	(34,479)	(15,259)
Total	291,210	234,603	(126,799)	(58,421)	(51,262)	(1,879)

Personal expenses included within net operating expenses are now deferred in line with gross written premiums. These expenses were previously incurred on an accruals basis. For further details on this change see the summary of accounting policies section.

The 2017 gross written premium by underwriting location was: London USD 361.4m (2016: USD 263.0m) and China USD 36.5m (2016: USD 28.2m)

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

4. INSURANCE ASSETS AND LIABILITIES

Technical provisions

	Gross provisions USD'000	Reinsurance assets USD'000	Net USD'000
Provision for unearned premiums			
As at 1 January 2017	151,824	(48,639)	103,185
Movement in provision	44,185	(13,907)	30,278
Foreign exchange	6,357	(2,136)	4,221
As at 31 December 2017	202,366	(64,682)	137,684
As at 1 January 2016	96,762	(31,919)	64,843
Movement in provision	56,607	(17,055)	39,552
Foreign exchange	(1,545)	335	(1,210)
As at 31 December 2016	151,824	(48,639)	103,185
	Gross provisions USD'000	Reinsurance assets USD'000	Net USD'000
Provision for claims outstanding			
As at 1 January 2017	203,187	(97,537)	105,650
Movement in provision	193,223	(44,127)	149,096
Foreign exchange	9,998	(4,456)	5,542
As at 31 December 2017	406,408	(146,120)	260,288
As at 1 January 2016	161,292	(81,932)	79,360
Movement in provision	46,084	(17,703)	28,381
Foreign exchange	(4,189)	2,098	(2,091)
As at 31 December 2016	203,187	(97,537)	105,650
	Gross provisions USD'000	Reinsurance assets USD'000	Net USD'000
Provision for claims outstanding			
Claims notified	203,997	(72,512)	131,485
Claims incurred but not reported	202,411	(73,608)	128,803
As at 31 December 2017	406,408	(146,120)	260,288
Claims notified	101,142	(52,310)	48,832
Claims incurred but not reported	102,045	(45,227)	56,818
As at 31 December 2016	203,187	(97,537)	105,650

The Syndicate has applied a similar approach at the current year end to that applied at the previous year end in establishing the technical provisions for claims outstanding reserves and the reinsurers' share thereof. Included within net claims incurred of USD 260.3m (2016: USD 105.7m) is an increase in incurred claims relating to 2016 and prior years of account of USD 50.3m (2016: increase in incurred claims relating to 2015 and prior years of account USD 26.3m).

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Technical provisions (continued)

	Gross assets USD'000	Reinsurance liabilities USD'000	Net USD'000
Deferred acquisition costs			
As at 1 January 2017	31,546	(9,856)	21,690
Change in deferred acquisition costs	11,438	(4,125)	7,313
Effect of movements in exchange rates	(1,627)	(545)	(2,172)
As at 31 December 2017	<u>41,357</u>	<u>(14,526)</u>	<u>26,831</u>
As at 1 January 2016	14,605	(4,667)	9,938
Change in deferred acquisition costs	17,397	(5,098)	12,299
Effect of movements in exchange rates	(456)	(91)	(547)
As at 31 December 2016	<u>31,546</u>	<u>(9,856)</u>	<u>21,690</u>

5. NET OPERATING EXPENSES

	2017 USD'000	2016 USD'000 Restated
Acquisition costs	(92,352)	(74,368)
Change in deferred acquisitions costs	11,438	17,397
Administration expenses	(36,749)	(20,615)
Operating expenses	<u>(117,663)</u>	<u>(77,586)</u>
Reinsurance commissions	30,728	19,165
Net operating expenses	<u>(86,935)</u>	<u>(58,421)</u>

Members' standard personal expenses amounting to USD 7.4m (2016: USD 6.6m) are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, Central Fund contributions and managing agent's fees.

6. AUDITOR'S REMUNERATION

	2017 USD'000	2016 USD'000
Audit of the Syndicate annual accounts	164	119
Other services pursuant to Regulations and Lloyd's Byelaws	84	64
	<u>248</u>	<u>183</u>

7. INFORMATION REGARDING DIRECTORS

The directors of the managing agency are executives of the related Group Companies. The directors received total remuneration of USD 8.4 m (2016: USD 7.5 m) from related Group Companies during the year. It is not practicable to allocate this between their services as executives of Group companies and their services as directors of AMAL.

The active underwriter received remuneration of USD 0.8m (2016: USD 0.7m) during the year based on the allocation of his service as active underwriter as a proportion of his service to other AXIS Group entities.

No other compensation was payable to key management personnel.

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

8. INVESTMENT RETURN

	2017 USD'000	2016 USD'000
Net gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	633	240
Total investment income	633	240

9. FINANCIAL INVESTMENTS

	2017	
	Carrying value USD'000	Purchase price USD'000
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	88,323	88,323
	88,323	88,323
	2016	
	Carrying value USD'000	Purchase price USD'000
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	45,861	45,861
	45,861	45,861

Amounts included within Shares and other variable securities include CIS/Unit Trusts where funds are invested in a single entity which invests in other underlying investments. These are treated as cash instruments with the carrying value and purchase price being the same.

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
As at 31 December 2017				
Shares and other variable yield securities and units in unit trusts	—	88,323	—	88,323
Overseas deposits	4,176	11,630	—	15,806
Total	4,176	99,953	—	104,129
As at 31 December 2016				
Shares and other variable yield securities and units in unit trusts	—	45,861	—	45,861
Overseas deposits	1,331	6,179	—	7,510
Total	1,331	52,040	—	53,371

Included in the Level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

9. FINANCIAL INVESTMENTS (continued)

exchange, dealer, broker, industry Syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's own models whereby the significant inputs into the assumptions are market observable.

Level 3 financial instruments have a fair value derived from inputs that are not based on observable market data. The Syndicate does not currently hold any level 3 financial instruments.

10. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2017 USD'000	2016 USD'000
Due from intermediaries within one year	108,411	97,841
Due from intermediaries greater than one year	—	117
	<u>108,411</u>	<u>97,958</u>

11. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2017 USD'000	2016 USD'000
Due from intermediaries within one year	83,035	32,749
Due from intermediaries greater than one year	37	119
	<u>83,072</u>	<u>32,868</u>

12. OTHER ASSETS

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

13. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2017 USD'000	2016 USD'000
Due to intermediaries within one year	14,637	8,129
Due to intermediaries greater than one year	—	8,102
	<u>14,637</u>	<u>16,231</u>

14. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2017 USD'000	2016 USD'000
Due to intermediaries within one year	70,129	41,269
Due to intermediaries greater than one year	97	5
	<u>70,226</u>	<u>41,274</u>

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

15. OTHER CREDITORS

	2017	2016
	USD'000	USD'000
Amounts payable to group companies	15,303	11,149
Loans payable to group companies	16,632	11,961
	31,935	23,110

The Syndicate has a GBP 10m facility agreement with AXIS Specialty UK Holdings Limited. The purpose of this facility is to fund the working capital requirement of the Syndicate as required. The total value of the outstanding loan as at 31 December 2017 is GBP 9.5m or USD 12.8m (2016: GBP 9.5m or USD 12.0m).

The Syndicate has a further GBP 35m shock loss facility agreement with AXIS Specialty Limited. The purpose of this facility is to fund large losses as required. In February 2017 USD 20.1m was drawn down and in March 2017 USD 16.3m was repaid. The total value of the outstanding loan as at 31 December 2017 is USD 3.8m (2016: Nil).

All loans drawn and outstanding under the facilities are repayable on demand. Interest accrues daily and is payable annually in arrears, interest payable as at 31 December 2017 was USD Nil (2016: USD 0.3m).

16. RISK MANAGEMENT

a) Governance framework

The risk and financial management framework aims to protect the members' capital from events that might otherwise prevent the Syndicate from meeting its policyholder obligations, while maximising the returns to its members. The Directors recognise the critical importance of having efficient and effective risk management systems in place.

The managing agent maintains a risk management function for the Syndicate with clear terms of reference from the AMAL Board, its committees and sub committees. The managing agent supplements this with a clear organisational structure with documented delegated authorities and responsibilities from the main managing agency board to the Syndicate who perform the underwriting activities. Lastly, the policy framework sets its standards, risk management and control and business conduct.

The Board Risk Committee approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate goals, and specify reporting requirements. The AMAL Board places significant emphasis on the assessment and documentation of risks and controls, including the articulation of the Syndicate's risk appetite.

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II Insurance Capital Requirements ("Solvency II"), and beyond that to meet its own financial strength, licence and ratings objectives.

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of the Syndicate is not disclosed in these annual report an accounts.

16. RISK MANAGEMENT (continued)

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 is 35% (2017: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's or "FAL"), assets held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. The Syndicate's ECA is supported by FAL held in an affiliate company, AXIS Specialty Limited.

c) Insurance risk management

The insurance risk category encompasses underwriting risks in all lines of business including the marine, energy, property, credit, liability and accident and health classes of insurance and facultative reinsurance business. Insurance risk is defined as the risk of insured losses being higher than expectations. Premium and reserve risks are significant components of insurance risk. Premium risk is the risk of future claims payments relating to insured losses that have not yet occurred being higher than expected. Reserve risk is the risk of net loss reserves established to cover losses that have already been incurred being insufficient.

Premium risk

Premium risk is managed through the Syndicate's underwriting risk governance framework. A key component of this is the peer review process which allows for a collaborative review of risk and pricing by management, and ensures underwriting is within established protocol and guidelines. Underwriting guidelines are in place to provide a framework for consistent pricing and risk analysis. Limits are set on underwriting capacity, and authority is cascaded to individuals based on their specific roles and expertise.

There are also periodic reviews of underwriting files performed by teams independent of those who originated the transactions, the purpose of which is to test the robustness of underwriting, claims and operating processes and to recognise any early indicators of future trends in operational risk.

Natural catastrophe risk

Natural catastrophes such as earthquakes, storms and floods represent a challenge for risk management due to their accumulation potential and volatility. In managing natural catastrophe risk, the internal risk tolerance framework for the Syndicate aims to limit the impact to its Regulatory SCR coverage ratio from an aggregation of natural peril catastrophe events. The Board-approved Risk Limit for natural catastrophes sets out the maximum acceptable losses for the Syndicate calibrated to a 1% annual probability (1 in 100 year event). There have been no breaches of the Syndicate's natural catastrophe risk limit during the year.

Man-made catastrophe risk

Similar to the management of natural peril catastrophe exposures an analytical approach is taken for the management of man-made catastrophes. Man-made catastrophes include such risks as train collisions, airplane crashes, hotel fires or terrorism. For these risks vendor models (where available) are used with bespoke modelling, underwriting judgment and expertise.

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

16. RISK MANAGEMENT (continued)

c) Insurance risk management (continued)

As an example of this approach, an assessment of terrorism risk is based on a mixture of qualitative and quantitative data (e.g. for estimating property damage, business interruption, mortality and morbidity subsequent to an attack of a predefined magnitude), which is used to control, limit and manage aggregate terrorism exposure. Commercially available vendor modelling and bespoke modelling tools are used to measure accumulations around potential terrorism accumulation zones on a deterministic and probabilistic basis. The results of modelling are supplemented with underwriting judgment.

Ceded reinsurance risk

Reinsurance risk to the Syndicate arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated resulting in coverage disputes, or prove inadequate in terms of the vertical or horizontal limits purchased. The Syndicate aims to establish appropriate retention levels and limits of protection that are consistent with keeping within the Board's risk limits. The efficacy of protection sought is assessed against the cost of reinsurance, taking into consideration current and expected market conditions.

The AXIS group has a centralised Ceded Reinsurance department which coordinates external treaty reinsurance purchasing across the group and is overseen by the Reinsurance Purchasing Group, in conjunction with the Reinsurance Security Committee.

The Syndicate predominantly cedes business with reinsurers rated A- or better by Standard & Poor's and/or AM Best.

The Syndicate also benefits from an internal quota share and internal excess of loss agreements with AXIS Specialty Limited ("ASL").

Reserving risk

The estimation of reserves is subject to uncertainty due to the fact that the settlement of claims that have arisen before the balance sheet date is dependent on future events and developments. Unforeseen loss trends resulting from court rulings, changes in the law, differences in loss adjustment practice, medical and long-term care, and economic factors such as inflation can have a considerable impact on run-off results.

The reserves for losses and claims settlement costs are calculated in accordance with actuarial practice based on substantiated assumptions, methods and assessments. The assumptions are regularly reviewed and updated. Application of Group-wide reserving policy and standards of practice ensures a substantially reliable and consistent procedure.

Sensitivity analysis of the reserves for unpaid losses and loss expenses

Expected loss ratios are a key assumption in the estimate of ultimate losses for business at an early stage of development. All else remaining equal, a higher expected loss ratio would result in a higher ultimate loss estimate. Assumed loss development patterns are another significant assumption in estimating the loss reserves. The uncertainty in the timing of the emergence of claims (i.e. the length of the development pattern) is generally greater for a company with a limited operating history which, therefore, must rely on industry benchmarks to a certain extent when establishing loss reserve estimates.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net claims outstanding, profit and members' balances.

	2017	2016
	USD'000	USD'000
<u>Gross outstanding claims</u>		
Five percent increase	20,524	10,261
Five percent decrease	(20,524)	(10,261)
<u>Net outstanding claims</u>		
Five percent increase	13,145	5,335
Five percent decrease	(13,145)	(5,335)

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

16. RISK MANAGEMENT (continued)

Claims development table

The tables below show the Syndicate's cumulative incurred claims development, including both claims notified and incurred but not reported for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.

Underwriting Year	2014	2015	2016	2017
	USD'000	USD'000	USD'000	USD'000
Estimate of cumulative gross claims incurred:				
At end of underwriting year	41,829	50,779	76,761	173,790
One year later	153,051	97,342	233,767	
Two years later	151,886	122,465		
Three years later	148,474			
Less cumulative gross paid	(112,200)	(59,600)	(75,392)	(24,897)
Liability for gross outstanding claims (2014 to 2017)	36,274	62,865	158,375	148,894
Total Gross outstanding claims all years			<u>406,408</u>	

Underwriting Year	2014	2015	2016	2017
	USD'000	USD'000	USD'000	USD'000
Estimate of cumulative net claims incurred:				
At end of underwriting year	25,859	34,251	43,018	123,970
One year later	68,477	65,216	152,077	
Two years later	66,250	75,084		
Three years later	65,085			
Less cumulative net paid	(44,777)	(41,340)	(50,174)	(19,638)
Liability for net outstanding claims (2014 to 2017)	20,309	33,744	101,903	104,333
Total Net outstanding claims all years			<u>260,288</u>	

The uncertainty associated with the ultimate claims experience of an underwriting year is greatest when the underwriting year is at an early stage of development and the margin for future experience potentially being more adverse than assumed is at its highest. As claims develop, and the ultimate cost of the claims becomes more certain, the relative level of margin should decrease. Due, however, to the uncertainty inherent in the claims estimation process, initial reserves may not always be sufficient.

The Syndicate has elected to translate estimated outstanding claims at a consistent rate of exchange as determined at the balance sheet date.

d) Financial risk

The Syndicate monitors and manages the financial risks relating to the operations of the Syndicate encompassing credit risk, market risk and liquidity risk.

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

16. RISK MANAGEMENT (continued)

i) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Syndicate. The key areas of exposure to credit risk for the Syndicate are in relation to its investment portfolio, reinsurance program, amounts due from policyholders and intermediaries and credit risk assumed through insurance contracts.

A credit risk exposure database is used to monitor and control the Syndicate's credit risk accumulations consistent with the Syndicate risk limit framework.

The following sections discuss specific components of credit risk.

Investment portfolio

Amounts included within investment include CIS/Unit Trusts where funds are invested in a single entity which invests in other underlying investments. These are treated as cash instruments with the carrying value and purchase price being the same. The credit ratings of investments are shown in the table below.

Reinsurance recoverable assets

Within the reinsurance purchasing activities the Syndicate is exposed to the credit risk of a reinsurer failing to meet its obligations under the reinsurance contracts. To help mitigate this, all reinsurance purchasing is subject to financial security requirements specified by the Reinsurance Security Committee. The Reinsurance Security Committee maintains a list of approved reinsurers, performs credit risk assessments for potential new reinsurers, regularly monitors approved reinsurers with consideration for events which may have a material impact on their creditworthiness, recommends counterparty tolerance levels for different types of ceded business and monitors concentrations of credit risk. This assessment considers a wide range of individual attributes, including a review of the counterparty's financial strength, industry position and other qualitative factors.

Premium receivables

The largest credit risk exposure to receivables is from brokers and other intermediaries; the risk arises where they collect premiums from customers or pay claims to customers on behalf of the Company. There are policies and standards in place to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements.

2017	USD'000			
	Neither past due or Impaired	Past due	Impaired	Total
Shares and other variable yield securities	88,323	—	—	88,323
Overseas deposits	15,806	—	—	15,806
Reinsurers share of claims outstanding	146,120	—	—	146,120
Debtors arising out of direct insurance operations	77,173	31,238	—	108,411
Debtors arising out of direct reinsurance operations	5,772	—	—	5,772
Other debtors	174,362	12,972	—	187,334
Cash and cash equivalents	35,687	—	—	35,687
Total	543,243	44,210	—	587,453

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

16. RISK MANAGEMENT (continued)

2016 - Restated	USD'000			
	Neither past due or Impaired	Past due	Impaired	Total
Shares and other variable yield securities	45,861	—	—	45,861
Overseas deposits	7,510	—	—	7,510
Reinsurers share of claims outstanding	97,537	—	—	97,537
Debtors arising out of direct insurance operations	83,373	14,585	—	97,958
Debtors arising out of direct reinsurance operations	2,384	—	—	2,384
Other debtors	87,442	24,588	—	112,030
Cash and cash equivalents	31,106	—	—	31,106
Total	355,213	39,173	—	394,386

Included within 'other debtors' is reinsurers' share of unearned premiums, inwards reinsurance debtors, deferred acquisition costs and other prepayment's and accrued income.

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2017 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated, Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

2017	USD'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	—	—	88,323	—	—	—	88,323
Overseas deposits as investments	7,669	1,766	1,501	962	434	3,474	15,806
Reinsurers' share of claims outstanding	—	—	146,097	—	—	23	146,120
Reinsurance debtors	—	—	5,772	—	—	—	5,772
Cash at bank and in hand	—	—	35,687	—	—	—	35,687
Total	7,669	1,766	277,380	962	434	3,497	291,708

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

16. RISK MANAGEMENT (continued)

2016	USD'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	—	—	45,861	—	—	—	45,861
Overseas deposits as investments	4,171	1,276	788	381	—	894	7,510
Reinsurers' share of claims outstanding	—	—	95,263	—	—	2,274	97,537
Reinsurance debtors	—	—	2,384	—	—	—	2,384
Cash at bank and in hand	—	—	31,106	—	—	—	31,106
Total	4,171	1,276	175,402	381	—	3,168	184,398

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business.

During the year, no credit exposure limits were exceeded.

ii) Liquidity risk

Liquidity risk is the risk that there would not be sufficient liquid financial resources to meet obligations when they fall due, or the Syndicate would have to incur excessive costs to do so. As an insurer, the core business generates liquidity primarily through premium and investment income. Exposure to liquidity risk stems mainly from the need to cover potential extreme loss events. To manage this risk, a range of liquidity policies and measures are in place including maintaining cash and cash equivalents and high quality, liquid investment portfolios to meet expected outflows, as well as those that could result from a range of potential stress events. There are set internal limits on the minimum percentage of the investment portfolio to mature within a defined timeframe.

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable. Repayments which are subject to notice are treated as if notice were to be given immediately.

2017	USD'000				
	0-1 year	1-3 years	3-5 years	More than 5 years	Total
Claims outstanding	183,490	164,298	44,550	14,070	406,408
Creditors	116,700	97	—	—	116,797
Total	300,190	164,395	44,550	14,070	523,205

2016	USD'000				
	0-1 year	1-3 years	3-5 years	More than 5 years	Total
Claims outstanding	94,500	80,842	20,730	7,115	203,187
Creditors	72,507	8,108	—	—	80,615
Total	167,007	88,950	20,730	7,115	283,802

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

16. RISK MANAGEMENT (continued)

iii) Market risk

Market risk is the risk that financial instruments may be negatively impacted by movements in financial market prices or rates such as equity prices, interest rates, credit spreads and foreign exchange rates. Fluctuations in market rates primarily affect the investment portfolio.

Through asset and liability management, the Syndicate aims to ensure that risks influence both the economic value of investments and underwriting liabilities in the same way, thus mitigating the effect of market fluctuations. For example, important features of liabilities are reflected, such as maturity patterns and currency structures, on the asset side of the balance sheet by acquiring investments with similar characteristics.

Asset-liability management is supplemented with various internal policies and limits. As part of the strategic asset allocation process, different asset strategies are simulated and stressed in order to assess an appropriate portfolio (given return objectives and risk constraints). The management of asset classes is centralised to control aggregation of risk, and provide a consistent approach to constructing portfolios as well as the selection process of external asset managers. Limits are set on the concentration of investments by single issuers and certain asset classes and on the level of illiquid investments. Further, the Syndicate's investment guidelines do not permit the use of leverage in any of the fixed maturity portfolios. Investment portfolios are stress tested using historical and hypothetical scenarios to analyse the impact of unusual market conditions and to ensure potential investment losses remain within risk appetite.

Currency risk

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

2017	USD'000							Total
	GBP	USD	EUR	CAD	AUD	JPY	OTH	
Total Assets	51,906	368,621	41,713	35,201	20,703	14,761	54,548	587,453
Total Liabilities	(93,309)	(472,819)	(47,876)	(28,412)	(19,780)	(19,762)	(58,192)	(740,150)
Net Assets	(41,403)	(104,198)	(6,163)	6,789	923	(5,001)	(3,644)	(152,697)

2016	USD'000							Total
	GBP	USD	EUR	CAD	AUD	JPY	OTH	
Total Assets	22,999	266,134	29,705	22,823	10,453	13,929	28,343	394,386
Total Liabilities	(49,942)	(297,807)	(28,575)	(13,866)	(9,880)	(17,197)	(28,868)	(446,135)
Net Assets	(26,943)	(31,673)	1,130	8,957	573	(3,268)	(525)	(51,749)

The Syndicate matches its currency position so it holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's obligations and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates.

The Syndicate does not have sufficient assets to cover its liabilities as it has been loss making. When a year of account closes, the Syndicate will call on members to fund a loss.

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage change in the relative strength of the US dollar against the value of the Sterling, Canadian dollar and Euro simultaneously. The analysis is based on the information at the financial year end.

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

16. RISK MANAGEMENT (continued)

Impact on profit and members' balance	2017	2016
	USD'000	USD'000
<u>US Dollar Weakens</u>		
10% against other currencies	(4,485)	(1,955)
20% against other currencies	(8,970)	(3,910)
<u>US Dollar Strengthens</u>		
10% against other currencies	4,485	1,955
20% against other currencies	8,970	3,910

e) Interest rate risk

The Syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

	2017	2016
	USD'000	USD'000
<u>Interest rate risk</u>		
Impact of 50 basis point increase on result	580	303
Impact of 50 basis point decrease on result	(580)	(152)
Impact of 50 basis point increase on net assets	580	303
Impact of 50 basis point decrease on net assets	(580)	(152)

The method used for deriving sensitivity information and significant variables did not change from the previous period.

17. REINSURANCE ASSETS

The Syndicate purchases reinsurance to reduce the risk of exposure to loss. Three types of reinsurance cover are purchased: facultative, excess of loss and quota share. Facultative covers are typically individual risk purchases. Excess of loss covers provide a contractually set amount of cover after an excess point has been reached. This excess point can be based on the size of an industry loss or a fixed monetary amount. Generally these covers are purchased on a package policy basis, and they may provide cover for a number of lines of business within one contract. Quota share covers provide a proportional amount of coverage from the first dollar of loss.

All of these reinsurance covers provide for recovery of a portion of losses and loss reserves from reinsurers. Under its reinsurance security policy, the Syndicate predominantly cedes business with reinsurers rated A- or better by Standard & Poors and/or AM Best. The Syndicate remains liable to the extent that reinsurers do not meet their obligations under these agreements either due to solvency issues, contractual disputes or some other reason. Included within reinsurance losses recoverable as at 31 December 2017 were amounts of USD 65.1m (2016: USD 26.4m) recoverable from a group company. Included within the provision for unearned premiums ceded as at 31 December 2017 is an amount of USD 35.8m (2016: USD 26.5m) ceded to a group company.

18. RELATED PARTIES

The Syndicate has availed itself of the exemption in FRS 102, Section 33 in relation to related party transactions with entities that are wholly owned by the ultimate parent undertaking AXIS Capital Holdings Limited.

Asta provided services and support to Syndicate 1686 in its capacity as managing agent up to 4 August 2017.

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

18. RELATED PARTIES (continued)

The fees below were charged by Asta.

	2017 USD'000	2016 USD'000
Managing Agency Fee	2,311	2,559
Service Charges	1,413	3,725
Total	<u>3,724</u>	<u>6,284</u>

As at the 31 December 2017 there were no amounts due to Asta in respect of services provided.

Harrington Re Ltd. ("Harrington Re"), a direct, wholly-owned subsidiary of Harrington Reinsurance Holdings Limited ("Harrington"), is a Class 4 Bermuda based reinsurance company jointly sponsored by AXIS Capital and The Blackstone Group L.P. Harrington and Harrington Re commenced operations during 2016. AXIS Ventures Limited, a subsidiary of AXIS Capital, owns 19% of the common equity of Harrington and has the ability to exercise significant influence over Harrington Re and therefore it considered a related party. In the normal course of business, the Syndicate enters into certain reinsurance transactions with Harrington Re.

During the year ended 31 December, the Syndicate recognised the following amounts in relation to transactions with Harrington Re:

	2017 USD'000	2016 USD'000
Outwards reinsurance premiums	(1,571)	(440)
Change in the provision for unearned premiums - reinsurers share	598	319
Change in the provision for claims - reinsurers share	663	85
Acquisition costs	503	141
Change in deferred acquisition costs	(192)	(102)

At 31 December, the following balances were outstanding in relation to transactions with Harrington Re:

	2017 USD'000	2016 USD'000
Reinsurers' share of technical provisions	1,679	404
Deferred acquisition costs	(296)	(102)
Creditors arising out of direct insurance operations	(355)	(245)

19. DISCLOSURE OF INTERESTS

Managing agent's interest

During 2017 AMAL was the managing agent for AXIS Syndicate 1686.

The Financial Statements of the managing agency can be obtained by application to the Registered Office (see page 2).

20. FUNDS AT LLOYD'S

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

AXIS SYNDICATE 1686
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

20. FUNDS AT LLOYD'S (continued)

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses as required.

21. OFF BALANCE SHEET ITEMS

The Syndicate has not been party to any arrangement which is not reflected in its statement of financial position, where material risks and benefits arise for the Syndicate.

22. COMMITMENTS AND CONTINGENCIES

Reinsurance purchase commitments

During 2017, the Syndicate participated in a number of group-purchased global reinsurance policies on the Aviation, Marine, Terrorism and Property lines of business. Deposit reinsurance premiums are typically contractually due on a quarterly basis in advance. At 31 December 2017, the Syndicate has an outstanding reinsurance purchase commitment of USD 10.1 million (2016: USD 4.4 million).

23. APPROVAL OF ANNUAL REPORT AND ACCOUNTS

The annual report and accounts were approved by the Board of Directors on 13 March 2018.