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AXIS SYNDICATE 2007

AXIS MANAGING AGENCY LIMITED • REPORT & ACCOUNTS 2017

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DIRECTORS AND ADMINISTRATION

Directors of AXIS Managing Agency Limited 1 January 2017 to 13 March 2018

S P Cane (appointed 1 May 2017)
D J Draper (appointed 11 May 2017)
T J Dziurman (appointed 1 May 2017)
M A J Gregory (appointed 11 May 2017)
S J Hills (resigned 2 May 2017)
K Kwok (appointed 22 December 2017)
G M Lawlor (appointed 1 May 2017)
J P Loweth (resigned 2 May 2017)
F Mullarkey
A M Robson
J Warren (appointed 11 May 2017)
A B Cragg (appointed 2 February 2018)
T Hennessy

Managing agent's registered number

08702952

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Investment managers

BlackRock
12 Throgmorton Avenue
London EC2N 2DL

Active Underwriter

A M Robson (appointed 1 January 2018)

Bankers

Barclays Bank plc
5 North Colonnade, Canary Wharf
London E14 4BB

Citibank NA
CGC Centre, Canary Wharf
London E14 5LB

Lloyds Banking Group
25 Gresham Street
London EC2V 7HN

Royal Bank of Canada
Royal Trust Tower
77 King Street West
Toronto ON. M5W 1P9
Canada

Company Secretary

M K Rowe (appointed 19 December 2017)
N Bugler (resigned 19 December 2017)

Managing agent's registered office

C/O Willkie Farr & Gallagher (UK) LLP
27th Floor, Citipoint
1 Ropemaker Street
London
EC2Y 9AW

ACTIVE UNDERWRITER'S REPORT

The Syndicate transacts a wide variety of insurance and reinsurance business through its underwriting activity as a syndicate at Lloyd's of London. The 2017 calendar year has seen a number of significant events impacting on the operations and financial results of the Syndicate.

This was a particularly active Atlantic hurricane season featuring five major hurricanes in what is anticipated to be the costliest hurricane season on record. When combined with earthquakes in Mexico and wild fires in California, these catastrophe losses had an adverse effect on the financial results for the year.

In January 2018 we entered into a reinsurance-to-close ("RITC") with Enstar's Starstone Syndicate 2008 in respect of all 2015 and prior business. Although the transaction was not effective until 1 January 2018, the financial impact of this transaction is reflected in the loss reserves at 31 December 2017.

Operationally there have also been significant changes, most notably the change in management of the Syndicate following the acquisition of Novae Group plc for £462.9 million on 2 October 2017 by AXIS Specialty UK Holdings Limited, a wholly owned subsidiary of AXIS Capital Holdings Limited ("AXIS"), a Bermuda registered company listed on the New York Stock Exchange. As part of the integration of AXIS and Novae the Managing Agent's Agreement for the Syndicate has been novated from Novae Syndicates Limited ("NSL") to AXIS Managing Agency Limited ("AMAL"), effective from 1 January 2018.

Following the acquisition, the Syndicate has also aligned accounting policies with the AXIS Group, most notably the treatment of override commissions and acquisition related expenses. This has caused a restatement of comparatives.

During 2017, the Syndicate operated at the highest level through three divisions: Property; Marine, Aviation, Political Risk and Specialty (MAPS); and Run-off/Exited. Growth within the Syndicate was focussed on those areas where we have market leading expertise. It is these classes that are at the forefront of the Syndicate's plans for 2018 and beyond. The Board has continued to review those units where it was felt that we do not hold a commanding market position, or where rates remain under persistent pressure, and where consequently the Syndicate does not expect to make adequate returns over the cycle. As part of this process the Board took the decision in Q2 2017 to withdraw from a number of these underperforming classes and close its Casualty Division. The units where we have withdrawn in 2017 and in previous years, are reported in a separate Run-off/Exited Division. Active management of the portfolio remained our focus throughout the year.

The purchase of outward reinsurance is an important part of controlling underwriting risk. Over recent years the Syndicate has made increasing use of quota share reinsurance. The use of quota shares allows us to retain a presence in classes which may be under pricing pressure but which we nevertheless believe will deliver returns in the long term.

Another important risk for the Syndicate is reserving risk. Since 2013 the Managing Agent Board felt it appropriate to hold margin over and above actuarially determined best estimate reserves at syndicate level.

As a specialty syndicate, it is central to our strategic goals that we seek to take on underwriting risks and, to a lesser extent, investment risks. These are our core risks where we have the expertise and experience to price and manage them in order to derive profit. Underwriting risk and reserving risk dominate the risk profile of the Syndicate. A liability-matched duration profile to the investment portfolio is designed to contain market risk and the Syndicate maintains a cautious approach to credit risk in both the investment portfolio and arrangements with reinsurance counterparties. Non-core risks arise as a consequence of executing the strategy for core risks. We do not actively seek to generate economic return from these risks, but to control exposure that arises in the course of business. A fuller assessment of the application of risk management to Syndicate 2007 is contained in note 3 to the accounts.

ACTIVE UNDERWRITER'S REPORT (continued)

Profile of Syndicate 2007

The mix of business written for the 2015, 2016 and 2017 underwriting years at 31 December 2017 is summarised below (in combined sterling £m). They are shown gross of acquisition costs.

	2017 £m	2016 £m	2015 £m
Property			
Property insurance	340.5	335.3	238.6
Property reinsurance	71.4	81.4	55.6
Liability	23.9	36.4	41.1
Agriculture & livestock	5.7	7.6	46.7
Property total	441.5	460.7	382.0
MAPS	2017	2016	2015
Marine & energy	164.9	183.6	133.6
Credit & political	85.7	80.6	83.2
Cyber	66.8	56.0	26.8
Aviation reinsurance	16.5	15.7	23.0
Casualty reinsurance	13.8	13.6	0.2
MAPS total	347.7	349.5	266.8
Run-off/exited	2017	2016	2015
Property & casualty	27.1	70.8	72.5
Specialty, Liability & MAP	27.1	71.8	88.7
Run-off/exited total	54.2	142.6	161.2
Total gross premiums	843.4	952.8	810.0

The above figures reflect the premiums recorded in these financial statements at the current reporting date and are therefore not projected to ultimate. Significant movements in the second year of development can arise on underwriting years due to further recognition of income from binder arrangements.

2017 annually accounted result

The reported result after foreign currency translation differences was a loss of £18.6 million (2016 restated: loss of £26.2 million). The annually accounted results of the Syndicate are set out in detail on pages 16 and 17.

ACTIVE UNDERWRITER'S REPORT (continued)

The forecast return on underwriting capacity at 31 December 2017 for the three years of account are as follows:

	2017	2016	2015
Capacity £m	736.6	649.0	650.0
Forecast £m	(58.7)	(68.9)	127.9
Return on capacity %	(8.0)	(10.6)	19.7



A M Robson
Active Underwriter
13 March 2018

MANAGING AGENT'S REPORT

The Directors of AXIS Managing Agency Limited ("AMAL") present the report on the activities of Syndicate 2007 for the year ended 31 December 2017. This annual report has been prepared using the annual basis of accounting, as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the "Lloyd's Regulations 2008") and is shown on pages 16 to 53.

Separate underwriting year accounts for the 2015 closed year have not been prepared because the sole member for 2015, Novae Capital Underwriting Limited ("NCUL"), has confirmed in writing that these are not required.

Directors

The directors of AMAL who held office during the year and up to the date of signing of the annual accounts were:

S P Cane	(appointed 1 May 2017)
D J Draper	(appointed 11 May 2017)
T J Dziurman	(appointed 1 May 2017)
M A J Gregory	(appointed 11 May 2017)
S J Hills	(resigned 2 May 2017)
K Kwok	(appointed 22 December 2017)
G M Lawlor	(appointed 1 May 2017)
J P Loweth	(resigned 2 May 2017)
F Mullarkey	
A M Robson	
J Warren	(appointed 11 May 2017)
A B Cragg	(appointed 2 February 2018)
T Hennessy	

The directors of NSL who held office during the year and up to the date of signing of the annual accounts were:

M P Hudson	
J L J Butcher	(resigned 31 December 2017)
D F M Cote	
D J Pye	
I Burford	(resigned 1 March 2017)
R D Forster	(resigned 14 December 2017)
R Patel	(resigned 1 November 2017)
N J Moss	
S Burns	(appointed 31 March 2017)

Review of the business

The principal activities and business review of the Syndicate are summarised in the Active Underwriter's Report on pages 4 to 6.

The result for the calendar year 2017 is a loss of £18.6 million (2016 restated: loss of £26.2 million). Members' balance is £(52.3) million (2016 restated: £(3.4) million).

During 2017, the Syndicate renewed its arrangement to purchase quota share reinsurance from Syndicate 6129, a special purpose arrangement ("SPA"), which is also managed by AMAL.

Following the acquisition of the former Novae Group by AXIS Capital Holdings Limited in October 2017 for an aggregate purchase price of £462.9 million, certain accounting policies pertaining to the Syndicate were reviewed and subsequently aligned with AMAL.

MANAGING AGENT'S REPORT (continued)

Review of the business (continued)

The Managing Agent reviewed the Syndicate's accounting policy relating to the treatment of deferred acquisition costs and the associated recognition of acquisition costs in the profit and loss account and the treatment of overrider commissions. This review resulted in changes to accounting policy leading to a restatement of the affected financial statement line items for prior periods in accordance with Section 10 of FRS 102. The impact of the restatement is shown in note 2 to the financial statements.

The 2018 underwriting year opens with an underwriting capacity of £800 million. The Syndicate will continue to purchase quota share reinsurance from Syndicate 6129.

Key performance indicators ("KPIs")

- > Loss of £18.6 million; (2016 restated: loss of £26.2 million)
- > Underlying year-on-year growth in gross written premium, at constant exchange rates, of 9.7% (2016: 4.8%)
- > Investment return of 1.9% on invested assets (2016: 2.0%)
- > Overall combined ratio of 105.9% (2016 restated: 108.1%)
- > Members' balance of £(52.3) million (2016 restated: £(3.4) million)

Future developments

The stamp capacity for the 2017 underwriting year was £800 million. This was maintained at £800m for the 2018 underwriting year. AXIS Capital Holdings Limited ("AXIS") will provide 100% of the capacity on Syndicate 2007 for the 2018 underwriting year through its corporate member, Novae Corporate Underwriting Limited ("NCUL").

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.

The Syndicate will distribute the 2015 year of account profit to NCUL in 2018.

Principle risks and uncertainty

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

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 and underwriting guidelines, which provide a framework for consistent pricing and risk analysis while ensuring alignment to the risk appetite. The Syndicate also mitigates underwriting risk through the purchase of reinsurance.

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. 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.

Investment risk is the risk that our assets and liabilities may be negatively impacted by movements in financial market prices or rates such as equity prices, interest rates, credit spreads and foreign exchange rates. Credit risk represents the risk of incurring financial loss due to the diminished creditworthiness (eroding credit rating and, ultimately, default) of our third party counterparties. The management of investment and credit risk comprises the identification, assessment and controlling of the risks inherent in the financial and credit markets and includes monitoring of compliance with the Syndicate's risk management standards, including various risk tolerance limits. The Syndicate seeks to mitigate investment risk by, among other things, closely managing its investment managers through investment policies and guidelines which place limits on asset class and individual security exposures.

MANAGING AGENT'S REPORT (continued)

Principle risks and uncertainty (continued)

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.

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 operational risks faced by the Syndicate and the associated risk assessments are periodically reviewed by the Risk Committee of the Board.

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.

The Brexit vote had an immediate adverse effect on global financial markets, including foreign currency markets, and could continue to contribute to instability in global financial markets and in European and worldwide economic or market conditions, both during and after the Brexit process. The long-term effect of Brexit on the value of the syndicate investment portfolio at this time is uncertain and such volatility and uncertainty will likely continue as negotiations progress to determine the future terms of the U.K.'s relationship with the E.U. In addition, Brexit could lead to legal and regulatory uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate and the E.U. determines access rights and limitations.

The Syndicate has 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 3.

Statement of disclosure of information to Auditors

Each person who is a director of the Managing Agent at the date of approval of this report confirms that, so far as he is aware, there is no relevant audit information of which the Syndicate's Auditor is unaware, and each director has taken all the steps he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Syndicate's Auditor is aware of that information.

MANAGING AGENT'S REPORT (continued)

Syndicate Annual General Meeting and reappointment of Auditors

As permitted under the Syndicate Meeting (Amendment No.1) Byelaw (No. 18 of 2000), it is not proposed to hold a Syndicate Annual General Meeting of members of Syndicate 2007. Members may object to the matters set out above within 21 days of the issue of these accounts. Any such objections should be addressed to M Rowe, Company Secretary, at the managing agent's registered address set out below.

PricewaterhouseCoopers LLP (PwC) acted as Auditor of Syndicate 2007 during the period under review and their report on the Annual Accounts is on pages 13 to 16. Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Auditor will be replaced by Deloitte in 2018.

General

The directors wish to express their appreciation to all the staff for their efforts and support during the last year. Approved by the directors of ~~AXIS~~ Managing Agency Limited on 13 March 2018.



M K Rowe
Company Secretary
AXIS Managing Agency Limited
21 Lombard Street
London
EC3V 9AH

ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the syndicate annual report and 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 for Syndicate 2007 at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") and Financial Reporting Standard 103 'Insurance Contracts' ("FRS103"). The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of Syndicate 2007 as at that date and of its profit for that year.

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

- a) select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- d) prepare these financial statements on the going concern basis unless it is inappropriate to presume that there will be future years of account of the Syndicate.

The managing agent is responsible for keeping proper accounting records that 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 the 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 website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 2007

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 2007's syndicate annual accounts (the "syndicate annual accounts"):

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

We have audited the Syndicate annual accounts included within the Report & Accounts 2017 (the "Annual Report"), which comprise: the Balance sheet at 31 December 2017, the Profit and loss account for the year then ended, the statement of changes members' balances, the statement of cash flows and the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 2007 (continued)

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

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

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2017 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the managing agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 12, 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 MEMBERS OF SYNDICATE 2007 (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.

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

Use of this report

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

Other required reporting

Other matters on which we are required to report by exception

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

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

We have no exceptions to report arising from this responsibility.

Nick Wilks

Nick Wilks (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

16 March 2018

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT

For the year ended 31 December 2017

	Note	2017		2016 Restated	
		£m	£m	£m	£m
Earned premiums, net of reinsurance					
Gross premiums written	4	988.6		901.0	
Outward reinsurance premiums		(329.5)		(206.9)	
Change in the provision for unearned premiums					
Gross amount	5	9.4		(21.7)	
Reinsurers' share	5	29.4		36.6	
			697.9		709.0
Allocated investment return transferred from the non-technical account					
			20.7		21.0
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(538.7)		(429.4)	
Reinsurers' share		111.2		62.1	
Change in the provision for claims					
Gross amount	5	(226.7)		(102.2)	
Reinsurers' share	5	263.2		21.5	
	6		(391.0)		(448.0)
Net operating expenses					
	7		(340.8)		(318.8)
Balance on the technical account					
			(13.2)		(36.8)

All results for the year and prior year relate to continuing activities.

The notes on pages 22 to 53 form part of these financial statements.

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

For the year ended 31 December 2017

	Note	2017 £m	2016 Restated £m
Balance on the technical account		(13.2)	(36.8)
Investment income	11	22.0	28.5
Unrealised gains on investments		8.5	7.3
Investment expenses and charges	12	(4.0)	(7.0)
Unrealised losses on investments		(5.8)	(7.8)
Allocated investment return transferred to the technical account		(20.7)	(21.0)
(Loss)/gain on foreign exchange		(5.4)	10.6
Loss for the financial year		(18.6)	(26.2)

All results for the year and prior year relate to continuing activities.

There were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the statement of profit or loss, therefore under FRS102 3.19 we have chosen to present only an income statement in these financial statements.

We have amended the titles of the financial statements that are used in FRS 102 to be more consistent with the titles used in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The notes on pages 22 to 53 form part of these financial statements.

BALANCE SHEET: ASSETS

As at 31 December 2017

Assets	Note	2017		2016 Restated	
		£m	£m	£m	£m
Investments					
Financial investments	13		1,009.0		1,076.9
Reinsurers' share of technical provisions					
Provision for unearned premiums	5	108.5		85.5	
Claims outstanding	5	574.6		336.3	
			683.1		421.8
Debtors					
Debtors arising out of direct insurance operations	14	248.4		178.4	
Debtors arising out of reinsurance operations	15	69.9		187.0	
Other debtors	16	0.1		3.7	
			318.4		369.1
Other assets					
Cash at bank and in hand	17	28.5		22.8	
Other	18	1.4		2.0	
			29.9		24.8
Prepayments and accrued income					
Accrued interest		4.5		5.5	
Deferred acquisition costs	19	118.2		120.7	
Other prepayments and accrued income		15.2		15.3	
			137.9		141.5
Total assets			2,178.3		2,034.1

The notes on pages 22 to 53 form part of these financial statements.

BALANCE SHEET: LIABILITIES

As at 31 December 2017

Liabilities	Note	2017		2016 Restated	
		£m	£m	£m	£m
Capital and reserves					
Members' balances	20		(52.3)		(3.4)
Technical provisions					
Provision for unearned premiums	5	452.9		487.7	
Claims outstanding	5	1,562.0		1,394.7	
			2,014.9		1,882.4
Creditors					
Creditors arising out of direct insurance operations	21	5.6		51.0	
Creditors arising out of reinsurance operations	22	188.3		86.1	
Other creditors	23	10.4		12.1	
			204.3		149.2
Accruals and deferred income			11.4		5.9
Total liabilities			2,178.3		2,034.1

The financial statements on pages 16 to 53 were approved by the Board of AXIS Managing Agency Limited on 13 March 2018 and were signed on its behalf by:



F Mullarkey
Finance Director

The notes on pages 22 to 53 form part of these financial statements.

STATEMENT OF CHANGES IN MEMBERS' BALANCES

For the year ended 31 December 2017

		2017	2016
		Members'	Restated
		Balances	Members'
		£m	Balances
			£m
Year ended 31 December 2017	Note		
Total recognised loss for the year		(18.6)	(26.2)
Total recognised in other comprehensive income for the year		-	-
Total comprehensive loss for the year		(18.6)	(26.2)
Transfer to members' personal reserve funds		(30.3)	(89.8)
Net decrease in members' balances		(48.9)	(116.0)
As at 1 January		(3.4)	112.6
As at 31 December	20	(52.3)	(3.4)

The notes on pages 22 to 53 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 £m	2016 Restated £m
Loss for the financial year		(18.6)	(26.2)
<i>Adjustments for:</i>			
(Decrease)/increase in net technical provisions		(128.9)	217.5
Decrease/(increase) in debtors		63.2	(51.4)
Increase in creditors		52.3	79.5
Investment return		(20.7)	(21.0)
Effect of exchange rates on cash presented separately		0.6	(9.9)
Net cash (outflow)/inflow from operating activities		(52.1)	188.5
<i>Cash flow from investing activities:</i>			
Purchase of equity and debt instruments		(677.5)	(1,140.1)
Sale of equity and debt instruments		708.8	1,135.9
Investment income received		15.9	13.7
Impact of foreign exchange on investments		37.9	(105.3)
Net cash inflow/(outflow) from investing activities		85.1	(95.8)
<i>Cash flow from financing activities:</i>			
Transfer to members in respect of underwriting participations		(30.5)	(90.3)
Non-standard personal expenses		0.3	0.5
Net cash (used in) financing activities		(30.2)	(89.8)
Net increase / (decrease) in cash and cash equivalents		2.8	2.9
Opening cash and cash equivalents		115.2	102.4
Effect of exchange rates on cash and cash equivalents		(0.5)	9.9
Closing cash and cash equivalents	17	117.5	115.2

The notes on pages 22 to 53 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of preparation

These annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom, comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") and Financial Reporting Standard 103 'Insurance Contracts' ("FRS103").

The annual accounts comprise the calendar year movement in the 2015, 2016 and 2017 years of account of Syndicate 2007. All figures included in the financial statements are presented in millions of pounds sterling, rounded to the nearest £0.1 million unless otherwise stated.

Going concern

The Syndicate has adequate financial resources, together with long-term relationships with a diverse group of insureds and intermediaries across different geographic areas and industries. As a consequence the directors believe that the Syndicate is well-placed to manage its business risks successfully.

The directors have a reasonable expectation that the Syndicate has adequate resources to enable it to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2 Accounting policies

Basis of accounting

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Syndicate's annual accounts.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through the profit and loss account. The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) *Recognition and measurement: premiums*

Generally, written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums recognised in respect of binder or consortium agreements are recognised linearly over the duration of the agreement. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. Premiums written include adjustments to contracts entered into in prior accounting periods as well as estimates for future premiums.

An estimate is made at the balance sheet date to recognise retrospective adjustments to premiums or commissions. Earned premium is computed separately for each insurance contract in line with the risk exposure profile. Reinsurance premiums ceded are recognised in line with the related inward business. The provision for unearned premium both gross and ceded represents the portion of written premium expected to be earned in future periods.

NOTES TO THE FINANCIAL STATEMENTS

2 Accounting policies (continued)

(ii) Reinsurance

The Syndicate buys reinsurance in the normal course of business for the purpose of limiting its net loss potential. Outward reinsurance premiums are accounted for in the same period as the premiums for the related insurance or inwards reinsurance business.

Reinsurance assets include amounts recoverable from reinsurers for losses and loss adjustment expenses. If a reinsurance asset is impaired, the Syndicate reduces its carrying amount accordingly, and immediately recognises the impairment loss in the income statement. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event occurring after initial recognition of the asset, that the Syndicate may not receive all amounts due to it under the terms of the contract, and that the event has a reliable measurable impact on the amounts that the Syndicate will receive from the reinsurer.

Reinsurance arrangements do not relieve the Syndicate from its direct obligations to its policyholders.

(iii) Recognition and measurement: claims

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not, and related internal and external claims handling expenses. The ultimate liability as a result of outstanding claims will vary due to subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The main assumptions used in the calculation of the ultimate cost of outstanding claims are detailed in the reserving risk section of note 3 on pages 30 to 32.

(iv) Deferred acquisition costs

Acquisition costs comprise all commissions and other direct costs arising from the conclusion of insurance and reinsurance contracts. Deferred acquisition costs represent the proportion of acquisition costs which will be expensed in subsequent accounting periods; the deferral is calculated in the same manner as the unearned premiums provision. Acquisition costs are deferred only to the extent that available future margins are expected to cover them. Certain reinsurance commissions and profit participations are also included within expenses for the acquisition of insurance contracts and are deferred in line with unearned premium.

(v) Liability adequacy testing

At each balance sheet date, liability adequacy tests are performed at a year of account level and reviewed to ensure the adequacy of the liabilities from insurance and reinsurance contracts net of deferred acquisition costs. In performing these tests, current best estimates are used of future contractual cash flows, claims handling and administration expenses as well as investment income from the assets backing such liabilities. Any deficiency is immediately expensed, initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (unexpired risk provision).

NOTES TO THE FINANCIAL STATEMENTS

2 Accounting policies (continued)

(vi) Foreign exchange

Items included in the financial statements are measured using sterling as this is the functional and presentational currency, being the primary currency in which the Syndicate operates. Transactions in foreign currencies are revalued using the average exchange rates applicable to the period in which the transaction occurs. AMAL considers these to be a reasonable approximation of the rate at which the transaction actually took place.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

The principal exchange rates applied in the period are shown below:

	2017 Year-end rate	2017 Annual average rate	2016 Year-end rate	2016 Annual average rate
Australian dollar	1.73	1.68	1.71	1.82
Canadian dollar	1.70	1.67	1.66	1.79
Euro	1.13	1.14	1.17	1.22
US dollar	1.35	1.29	1.24	1.35

(vii) Investments

Investments are stated at fair value at the balance sheet date. For this purpose, listed investments are stated at market bid-value and deposits with credit institutions and overseas deposits are stated at market value. 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.

The Syndicate has applied the recognition and measurement provisions of IAS 39 and the disclosure requirements of FRS 102 sections 11 and 12.

(viii) Investment return

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 gains and losses on investments carried at fair value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and the valuation of the same investments at the previous balance sheet date or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is then made to the general business technical account to reflect the investment return on funds supporting the underwriting business. All investment return is considered to arise on such funds.

NOTES TO THE FINANCIAL STATEMENTS

2 Accounting policies (continued)

(ix) 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 members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'members' balances' pending recovery from members via the Lloyd's Members' Services unit through consolidated personal accounts. No provision has been made for any other overseas tax payable by members on underwriting results.

(x) Net operating expenses

Net operating expenses consist of acquisition costs, Lloyd's charges and processing costs arising in the period.

The Syndicate is charged a managing agent fee at a rate of 0.75% of stamp capacity with all necessary and reasonable expenses incurred in the administration of the Syndicate being charged to the Syndicate. Where expenses do not relate solely to Syndicate 2007, they are allocated between other AXIS Group companies on such a basis as may be equitable for each type of expense. Where expenses do not relate to any specific year of account they may be apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense. Where expenses are incurred jointly between the Syndicate and other AXIS Group companies, they are apportioned to the Syndicate as appropriate.

Profit-related remuneration of certain underwriting and non-underwriting employees is charged to the Syndicate. Profit-related remuneration relating to the directors is not charged to the Syndicate.

(xi) Pension costs

The Novae Group operated a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the Syndicate as incurred and are included within net operating expenses.

(xii) Related Parties

Related party disclosures, including those relating to the directors, are outlined in note 24 of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2 Accounting policies (continued)

(xiii) Prior year restatement

As part of the alignment of the Syndicate's accounting policies with that of the wider AXIS Group, AMAL reviewed the treatment of overrider commissions, deferred acquisition costs and the associated recognition of acquisition costs in the profit and loss account.

The review resulted in a number of amendments by restating each of the affected financial statement line items for prior periods. The table below summarises the impact on the balance sheet:

	As previously reported	Adjustments	As restated
	£m	£m	£m
As at 1 January 2016			
Reinsurers' share of technical provisions: provision for unearned premiums	38.4	1.8	40.2
Deferred acquisition costs	121.6	(19.6)	102.0
Other assets	1,607.4	-	1,607.4
Total assets	1,767.4	(17.8)	1,749.6
Total liabilities	1,636.9	-	1,636.9
Members' balance	130.5	(17.8)	112.7
As at 31 December 2016			
Reinsurers' share of technical provisions: provision for unearned premiums	79.9	5.5	85.4
Deferred acquisition costs	146.8	(26.1)	120.7
Other assets	1,827.9	-	1,827.9
Total assets	2,054.6	(20.6)	2,034.0
Total liabilities	2,037.4	-	2,037.4
Members' balance	17.2	(20.6)	(3.4)

NOTES TO THE FINANCIAL STATEMENTS

2 Accounting policies (continued)

(xiii) Prior year restatement (continued)

The effects on the profit and loss account for the year ended 31 December 2016 were as follows:

	As previously reported	Adjustments	As restated
For the year ended 31 December 2016	£m	£m	£m
Outward reinsurance premiums	(163.6)	(6.7)	(170.3)
Expenses for the acquisition of insurance contracts	(269.4)	43.8	(225.6)
Administrative expenses	(53.5)	(39.8)	(93.3)
Other profit and loss account items	463.0	-	463.0
Restated profit for the financial year	(23.5)	(2.7)	(26.2)

Critical accounting judgements and estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of these factors allow judgements to be made regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Uncertainties exist where current valuations are dependent on estimates of future results.

The Syndicate's greatest area of estimation relates to claims provisions in respect of insurance and reinsurance contracts and premium income estimates, the carrying values of which are outlined in note 5 of these financial statements. The estimates and assumptions are reviewed on an ongoing basis. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of change.

The second key area of estimation relates to the premiums written during the year that have not been notified to the managing agent by the year end ("pipeline premium"). An initial estimate of the premium income ("EPI") on each binding authority agreement is made upon inception of the contract. This estimate is made based on an assessment of prior year business volumes and expected business volumes for the current financial year. EPI figures are monitored throughout the year against the actual written premium declarations received, and revised where necessary. Pipeline premium is calculated as a function of the EPI, less the notified written premium.

NOTES TO THE FINANCIAL STATEMENTS

3 Risk management

Throughout 2017 Syndicate 2007 (“the Syndicate”) was managed by NSL as an integral part of the former Novae Group. From 1 January 2018, this responsibility passed to AMAL. AMAL has adopted the NSL Risk Management Framework in respect of Syndicate 2007, with AMAL governance replacing the corresponding NSL governance as appropriate. In particular, the governance responsibilities of the NSL Audit & Risk Committee have been assumed as appropriate by the Audit Committee and the Risk Committee of AMAL.

The remainder of this section describes the NSL Framework that has been adopted by AMAL. In this context, the “Managing Agency” refers to NSL prior to 1 January 2018, and to AMAL subsequently. References to the ‘Risk Committee’ or ‘Audit Committee’ in respect of NSL should be taken to mean the Audit & Risk Committee, which fulfilled both these roles.

For the period ended 31 December 2017 risks were assessed as follows:

3.1 Underwriting

Underwriting risk is the principal risk to which Syndicate 2007 is exposed and results from fluctuations in the timing, frequency and severity of insured losses, relative to expectations at the time of underwriting. This may manifest in a number of ways, for example the severe impact of accumulation from catastrophic events, mispricing at the point of underwriting, changes in interpretation in contractual terms. The Managing Agency categorises underwriting risk into catastrophe, non-catastrophe and reserving risk. Functional oversight of the management of insurance risk is delegated to the Underwriting and Reinsurance Committee (“URC”) (in the case of catastrophe and non-catastrophe risk) and to the Reserving Committee (in the case of reserving risk).

The sources of underwriting risk and key techniques applied to mitigate them are discussed below.

3.1.1 Underwriting risk: Catastrophe

Catastrophes and risk accumulations have the scope individually to exert a material impact on underwriting performance and the oversight of catastrophe risk involves managing and analysing such exposures.

The Syndicate has a positive appetite for catastrophe risk. Catastrophe exposures are diversified across the portfolio, but the potential is recognised for aggregate losses arising from natural or man-made catastrophic events. This risk through the application of aggregate limits and purchase of reinsurance protection controls our exposure to extreme losses. Syndicate 2007 manages and controls aggregate exposure across multiple return periods, and across the many different potential accumulations of risk that exist within a diversified (re)insurance portfolio.

A distinct risk appetite is formulated for this risk, both in aggregate and at the level of individual perils, with considerable variation according to the nature of the event concerned. This variation reflects both the scale of underwriting activity in different areas, the potential returns available, and the probability of different loss events occurring.

The Managing Agency Board sets the overarching appetite for exposure to catastrophe events. This is implemented in practice using a framework for expressing Target Aggregate exposure (“TAg”), where the actual and projected aggregate exposure is periodically assessed against defined targets and limits for a range of scenarios that contribute to the Syndicate’s overall catastrophe risk exposure.

NOTES TO THE FINANCIAL STATEMENTS

3.1.1 Underwriting risk: Catastrophe (continued)

The scenarios and assumptions underpinning this modelling are reviewed on a regular basis by senior management and the principal instances of aggregation of risk are regularly monitored and reported to the Risk Committee and Board through the Quarterly ORSA report. This monitoring takes place on an in-force and prospective basis. Any breaches or potential breaches of limits are reported to the Managing Agency Risk Committee and Board together with any remedial action taken or planned.

This analysis uses a combination of in-house scenarios and scenarios defined by Lloyd's - upon which the Managing Agency Board is required to report. An in-depth review of both in-house and Lloyd's scenarios is undertaken at the time of the submission to Lloyd's. This is subject to a review of the assumptions made in the assessment and is then presented to the Managing Agency Board for approval before submission to Lloyd's. This is supplemented by quarterly reporting of Realistic Disaster Scenarios ("RDS") to the URC and the Board and by ad hoc reviews of actual exposure against Target Aggregates and RDS as appropriate throughout the year. The potential for accumulation of losses from multiple events in the same year is considered by the Managing Agency Board and reported in the Quarterly ORSA process.

In addition to particular natural loss events, the managing agent also considers the impact of non-natural catastrophes. As an example, one such scenario is a corporate collapse following a merger and related fundraising activity. This has the potential to affect a number of exposures in the banking and professional indemnity spheres. Other non-natural events modelled include aviation, marine and energy disasters, terrorism events and various possible scenarios with the potential to affect political risks and credit business. It should be noted that there is a greater degree of uncertainty around exposure to these events, arising both from the nature of potential aggregations and the uncertainty around the impact of insured events on potentially exposed policies.

Some scenarios produce a potential impact that is small at the syndicate level yet may be material in the context of the premium derived from accepting exposure to that risk. The objective of aggregate management in the Syndicate is to derive an appropriate return for the risk assumed as well as limiting peak exposures. The limits on exposure in these less significant areas are therefore set at lower levels.

3.1.2 Underwriting risk: non-catastrophe

The Syndicate is also exposed to risks arising from non-catastrophe loss experience. This is defined as variation in underwriting results that arises from sources other than specific catastrophic events. This could arise in many ways - for example from the underlying variability in claim sizes and frequencies, from variation in pricing and the insurance market cycle, or from changes in policy interpretation leading to new sources of claims.

The Syndicate has a positive appetite for non-catastrophe underwriting risk. The Syndicate underwrites a diverse book of specialty (re)insurance to achieve underwriting profits, and recognise the risk that this brings in terms of the variability of results. The appetite for this risk is determined by the available capital and the adequacy of returns available in the market.

The risk of adverse loss experience is mitigated by controlling the nature and quality of business underwritten. This is achieved through:

- > The use of a set of agreed underwriting protocols; these are produced for each unit and are reviewed at least annually in conjunction with the agreed business plans. These protocols supplement unit plans and provide a clear framework for, and limits to, underwriting authority

NOTES TO THE FINANCIAL STATEMENTS

3.1.2 Underwriting risk: non-catastrophe (continued)

- > Internal peer reviews of risks written to confirm adherence to the protocols
- > Independent external review of samples of risks from most units by a panel of experts who document any concerns and questions. This review is discussed between senior management at the Managing Agency and senior underwriters, and a regular report is provided to the Managing Agency Board
- > Premium rating and rate monitoring controls to ensure that premiums are commensurate with the risks associated with business written
- > Specific reinsurance transactions which reduce the impact of individual large losses to the Syndicate, and a number of strategic quota share arrangements; and
- > Claims management controls, to manage the variability of possible outcomes of disputed claims, unanticipated legal judgements and retrospective legal change when compared to expectations at the time of underwriting

Furthermore, the risk of over-concentration in any one line of business or uncontrolled volumes of transactions is managed through monitoring of premium income against agreed business plans. Premium income monitoring data is circulated weekly and reported monthly to each trading division.

3.1.3 Underwriting risk: reserving

Reserving risk is the risk that claims reserves and related claims handling reserves will be materially different from the ultimate cost of settlement, influenced principally by the occurrence, value and timing of claims.

Syndicate 2007 has a neutral appetite for reserving risk, which arises inherently from underwriting activities, and the need to estimate uncertain claim amounts in advance of final settlement. Our appetite for reserving risk is determined by our reserving policy, which requires that reserves are set prudently, with an explicit margin in excess of the actuarial best estimate.

The Managing Agency Risk Committee has delegated the management of reserving risk to the Reserving Committee (“RC”). Key to the mitigation of reserving risk is the use of proprietary and standardised modelling techniques, with assurance provided by internal and external benchmarking and appropriate claims development review. The Managing Agency Board seeks to establish realistic and accurate reserves for each category of business underwritten. However, it is inherent in the nature of a reserving exercise that instances may arise where subsequent developments, including new information, result in changes to the assessment of reserves required for particular business segments, either upwards or downwards.

The risk of adverse movements in reserves is mitigated through the following key processes and controls:

- > The actuarial team performs a reserving analysis liaising closely with underwriters, claims and reinsurance staff. It is charged with reporting its conclusions on the basis of an actuarial best estimate. In a statistical context, a best estimate should be interpreted as the mean of all possible outcomes. This means that the downside risk (reserves deteriorating) will be balanced by the upside potential (reserves improving)
- > The RC performs a review of the projections produced by the actuarial team, both gross and net of reinsurance, on a quarterly basis. Following this review the RC makes recommendations to the Managing Agency Board as to the quantum of reserves to be established

NOTES TO THE FINANCIAL STATEMENTS

3.1.3 Underwriting risk: reserving (continued)

- > The Chief Actuary produces a quarterly reserving analysis for management, which sets out a review of developments in the quarter compared to the best estimate expectation. This enables management to identify emerging issues for action at the earliest stage possible
- > On an annual basis, an external actuarial consultant is commissioned to produce an independent reserve estimate. This is presented to the Reserving Committee and Audit and Risk Committee, along with a detailed comparison between internal and external views of the best estimate reserves

Given the elements of uncertainty relating to the data and assumptions, a margin is applied over and above the actuarial best estimate. This increases the reserves reflected in the syndicate accounts above the mean expectation. To indicate the potential impact of reserving risk on the Syndicate, were there to be a 1% variation in the Syndicate's total net claims reserve, there would be a pre-tax effect of £9.9m (2016: £10.1 million).

Claims development tables, setting out the development of claims over time on a gross and net of reinsurance basis are provided below:

Claims development table gross of reinsurance

Underwriting year Estimate of cumulative claims	2010&P £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
At end of underwriting year	1,381.3	231.7	205.7	181.1	184.8	201.3	236.7	401.6	401.6
One year later	1,777.5	375.8	340.7	319.4	371.6	452.3	614.9		614.9
Two years later	1,753.5	405.1	372.7	342.0	414.0	451.8			451.8
Three years later	1,783.4	405.9	368.2	346.7	414.5				414.5
Four years later	1,715.3	409.7	379.3	338.8					338.8
Five years later	1,661.8	410.5	368.2						368.2
Six years later	1,654.6	407.5							407.5
Seven years later	1,632.1								1,632.1
Cumulative payments	1,348.6	345.9	291.2	251.5	273.3	282.5	212.1	62.3	3,067.4
Estimated balance to pay	283.5	61.6	77.0	87.3	141.2	169.3	402.8	339.3	1,562.0

NOTES TO THE FINANCIAL STATEMENTS

3.1.3 Underwriting risk: reserving (continued)

Claims development table net of reinsurance

Underwriting year Estimate of cumulative claims	2010&P £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
At end of underwriting year	991.2	209.3	191.5	166.1	166.6	180.7	180.6	184.0	184.0
One year later	1,298.3	341.3	323.5	294.2	341.1	412.7	435.4		435.4
Two years later	1,267.0	369.6	347.7	312.9	377.1	406.8			406.8
Three years later	1,244.8	382.0	345.2	319.9	365.9				365.9
Four years later	1,197.0	371.2	355.9	309.9					309.9
Five years later	1,158.4	372.6	345.4						345.4
Six years later	1,136.0	368.1							368.1
Seven years later	1,118.1								1,118.1
Cumulative payments	969.9	318.8	277.9	237.8	253.8	261.0	181.2	45.8	2,546.2
Estimated balance to pay	148.2	49.3	67.5	72.1	112.1	145.8	254.2	138.2	987.4

3.2 Investment risk

Investment risk is the risk of an adverse change in earnings and/or solvency resulting from fluctuations and volatilities in the value of our assets, liabilities and financial instruments caused by changes in market variables.

The key investment risks the Syndicate is exposed to are interest rate risk, currency risk, credit spread risk, equity risk and counterparty risk. Operational risk also arises from the process of investment management.

Key features of our investment strategy include:

- > A whole balance sheet approach to management of syndicate investments, and the appointment of a single investment manager to facilitate this
- > Measurement of risk and return on an economic basis, including the impact of economic variables on both assets and liabilities
- > Optimisation of risk and return subject to a risk appetite and practical constraints (such as liquidity requirements)

3.2.1 Investment risk: governance and operational aspects

The Board retains overall responsibility for setting investment risk appetite, investment strategy and defining the eligible investment universe. The Finance, Investment and Operations Committee ("FIOC") is mandated with implementing the investment strategy and monitoring its performance. Regular investment returns and asset analyses are reported to the Managing Agency Board and the FIOC.

NOTES TO THE FINANCIAL STATEMENTS

3.2.1 Investment risk: governance and operational aspects (continued)

The FIOC has the authority to decide on investment guidelines. While retaining oversight responsibility, the FIOC delegates day to day supervision and transactional execution to appointed investment managers, imposing clear objectives, restrictions and guidelines. Third party investment manager(s) are appointed after a competitive selection process and must be PRA regulated (or equivalent), be of good standing and regarded as fit for purpose and be compliant with the International Standard on Assurance Engagements ISAE 3402 (or equivalent). Third party manager(s)' investment performance and compliance with service level agreements are reviewed by the FIOC on both a relative and absolute basis at least annually. The FIOC meets at least four times a year and is responsible for monitoring investment manager performance and making recommendations where relevant to the Board.

Surplus cash is managed by the treasury team, which is able to place short-term deposits on a bilateral basis with major clearing banks and invest in approved money market funds.

3.2.2 Investment risk: interest rate risk

This is the risk that the value of assets or liabilities will change due to a change in the term structure of interest rates. The Syndicate's exposure to interest rate risk is spread across the investment portfolio, borrowings, cash and cash equivalents.

The investment risk management strategy seeks to match the interest rate risk of its investments to its liabilities thereby minimising the solvency risk associated with changing interest rates.

Duration is a commonly used measure of interest rate risk and gives an indication of the likely sensitivity of the Syndicate's portfolio of fixed income securities to changes in interest rates.

The average duration for investment assets in the Syndicate is shown in the following table:

	2017 Average duration Years	2016 Average duration Years
Total syndicate financial assets	1,037.5	1,099.7

An increase of 100 basis points in interest yields, with all other variables constant, would decrease the valuation of the Syndicate's investments by an estimated £25.8 million (2016: £29.7 million).

NOTES TO THE FINANCIAL STATEMENTS

3.2.3 Investment risk: foreign exchange risk

This risk arises from changes in the level of currency exchange rates.

The Syndicate is exposed to currency risk arising from foreign currency investment portfolios and non-sterling assets and liabilities. The core currencies that the Syndicate receives and reports in are: Sterling, US dollars, Euros, Canadian dollars and Australian dollars. Other currencies are translated into Sterling either at the time of receipt or at the balance sheet date.

Currency exposures are monitored on both an accounting and economic basis. These are managed so as to reduce the impact of foreign exchange rate movements on the business. The management of foreign exchange risk is carried out by the Treasury team, with oversight provided by the relevant functional committee.

In cases where short-term factors create a significant mismatch in currencies other than the four material non-sterling transactional currencies, the Syndicate will purchase and hold the relevant currency to limit the currency exposure.

The carrying value of total assets and total liabilities categorised by currency is as follows:

At 31 December 2017:

	GBP £m	USD £m	EUR £m	CAD £m	AUD £m	Total £m
Financial investments	179.4	514.7	148.9	69.4	96.6	1,009.0
Reinsurers' share of technical provisions	148.3	479.4	20.3	22.9	12.2	683.1
Insurance and reinsurance receivables	67.7	248.7	(5.3)	2.0	5.3	318.4
Cash and cash equivalents	17.1	2.7	5.6	-	3.1	28.5
Other assets	45.5	77.4	9.3	2.7	4.4	139.3
Total assets	458.0	1,322.9	178.8	97.0	121.6	2,178.3
Technical provisions	(579.1)	(1,113.0)	(156.7)	(83.9)	(82.2)	(2,014.9)
Insurance and reinsurance payables	(21.7)	(162.1)	(2.7)	(2.3)	(5.1)	(193.9)
Other creditors	(12.0)	(8.7)	(0.4)	(0.4)	(0.3)	(21.8)
Total liabilities	(612.8)	(1,283.8)	(159.8)	(86.6)	(87.6)	(2,230.6)
Net assets	(154.8)	39.1	19.0	10.4	34.0	(52.3)

NOTES TO THE FINANCIAL STATEMENTS

3.2.3 Investment risk: foreign exchange risk (continued)

At 31 December 2016 (restated):

	GBP £m	USD £m	EUR £m	CAD £m	AUD £m	Total £m
Financial investments	275.8	501.7	142.9	73.4	83.1	1,076.9
Reinsurers' share of technical provisions	134.7	233.7	17.7	21.3	14.4	421.8
Insurance and reinsurance receivables	102.4	248.7	1.8	1.3	11.2	365.4
Cash and cash equivalents	14.0	1.4	4.7	-	2.7	22.8
Other assets	48.0	82.2	8.8	3.7	4.5	147.2
Total assets	574.9	1,067.7	175.9	99.7	115.9	2,034.1
Technical provisions	596.9	938.2	169.4	73.3	104.6	1,882.4
Insurance and reinsurance payables	26.5	102.6	3.0	1.9	3.2	137.2
Other creditors	12.7	5.2	-	-	-	17.9
Total liabilities	636.1	1,046.0	172.4	75.2	107.8	2,037.5
Net assets	(61.2)	21.7	3.5	24.5	8.1	(3.4)

If the US dollar, Canadian dollar, Australian dollar and Euro were to weaken against sterling by 10%, with all other variables constant, profit would be lower by an estimated £9.3 million (2016: £4.8 million).

This analysis is based on the current information available and our assumptions in making this assessment are:

- > The closing year-end spot rates and average rates throughout the year are 10% higher than opening rates
- > There is no active hedging of currency during the year
- > The analysis includes an estimate of the impact on foreign borrowings

3.2.4 Investment risk: investment credit risk

This is the risk that arises from the sensitivity of the value of assets to changes in the level of credit spreads over the risk-free interest rate term structure. In addition we consider the concentration risk that arises from large investment in individual counterparties and single name exposures.

The Syndicate's investment portfolio is exposed to credit spread risk through its investment in debt instruments and other debt-like obligations issued by third parties, including governments, supra-national entities, banks and major corporate entities.

The Investment Guidelines specify limits to control the level of credit spread risk. This includes concentration limits that restrict individual counterparty exposures and limitations on the type, credit quality and maturity profile for investments. The FIOC monitors this exposure.

NOTES TO THE FINANCIAL STATEMENTS

3.2.4 Investment risk: investment credit risk (continued)

At 31 December 2017 the Syndicate held no material investment assets that were past due or impaired beyond their reported fair values (2016: none). During 2017 the Syndicate did not experience any defaults on financial assets (2016: none). With respect to its financial assets, the Syndicate uses ratings issued by agencies as follows:

As at 31 December 2017	AAA	AA	A	BBB	<BBB	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	-	-	5.8	-	-	23.0	28.8
Debt securities	66.8	252.9	195.2	145.6	22.0	68.5	751.0
Participation in investment pools	-	3.0	79.7	-	-	-	82.7
Overseas deposits as investments	76.8	23.0	13.6	12.7	0.7	19.8	146.6
Derivative assets	-	-	-	-	-	-	-
Reinsurers' share of claims outstanding	0.1	142.0	364.0	0.6	-	67.9	574.6
Reinsurance debtors	-	5.4	13.8	-	-	2.6	21.8
Cash at bank and in hand	-	-	28.5	-	-	-	28.5
Total credit risk	143.7	426.3	700.6	158.9	22.7	181.8	1,634.0

As at 31 December 2016	AAA	AA	A	BBB	<BBB	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	-	-	9.1	-	-	19.8	28.9
Debt securities	176.0	278.3	197.2	141.5	21.0	19.2	833.2
Participation in investment pools	-	5.4	79.0	-	-	-	84.4
Overseas deposits as investments	70.2	22.2	11.8	7.0	-	19.2	130.4
Derivative assets	-	-	-	-	-	-	-
Reinsurers' share of claims outstanding	0.3	156.8	173.6	2.2	-	3.4	336.3
Reinsurance debtors	-	3.9	4.2	0.1	-	0.9	9.1
Cash at bank and in hand	-	-	22.8	-	-	-	22.8
Total credit risk	246.5	466.6	497.7	150.8	21.0	62.5	1,445.1

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. These amount to £0.3m (2016: £0.9m). The Syndicate does not consider these debtors to be impaired on the basis of stage of collection of amounts owed to the Syndicate.

The Syndicate also has debtors arising from direct insurance operations that are impaired at the reporting date. These debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties.

The key aspects of the fixed income investment guidelines that relate specifically to financial asset credit risk are:

- > Average credit rating of the portfolio: must be A+ or better
- > Corporate securities: not to exceed 52% of the total
- > Securities below A- rating: not to exceed 33% of the total, of which BBB- is the minimum
- > Securities issued by any one issuer rated A- or above: not to exceed 5% of the total
- > Securities issued by any one issuer rated below A-: not to exceed 2% of the total
- > Securitised investments: not to exceed 17% of the total and must be rated AA- or better

NOTES TO THE FINANCIAL STATEMENTS

3.2.4 Investment risk: investment credit risk (continued)

The fixed income guidelines apply to all elements of the portfolio with the exception of the money market funds and a defined component (currently less than 10%) which is invested in strategic pooled funds. These funds have limited investment permission to invest in equities, emerging market debt and high yield instruments, which may include sub-investment grade assets.

Monthly investment reports are produced by the third party investment manager showing aggregate credit ratings. Compliance with guidelines, at both portfolio and individual holdings level, is reviewed monthly by the treasury team. Meetings with investment managers were held monthly with the Chief Financial Officer and the Chief Investment Officer. The investment manager is also required to present formally to the FIOC each quarter.

Cash and cash equivalents (including money market funds), certificates of deposit and floating rate notes are also subject to credit risk. Counterparty concentrations are regularly reviewed.

3.2.5 Investment risk: valuation risk

Valuation risk is the risk of deviation in asset values due to the valuation basis used, particularly where it is necessary to use data other than that directly observable from market information.

The table below analyses recurring fair value measurement for financial assets. The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation techniques used. The different levels are defined as follows:

Level 1	Fair values measured using quoted prices (unadjusted) in active markets for identical instruments
Level 2	Fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on observable market data
Level 3	Fair values measured using valuation techniques for which all significant inputs are not based on observable market data

At 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and unit trusts	5.8	23.0	-	28.8
Debt securities	15.4	735.5	-	750.9
Participation in investment pools	82.7	-	-	82.7
Derivative assets	-	-	-	-
Overseas deposits as investments	25.8	120.8	-	146.6
Total financial assets	129.7	879.3	-	1,009.0

At 31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and unit trusts	8.5	20.4	-	28.9
Debt securities	6.0	827.2	-	833.2
Participation in investment pools	84.4	-	-	84.4
Derivative assets	-	-	-	-
Overseas deposits as investments	28.6	101.8	-	130.4
Total financial assets	127.5	949.4	-	1,076.9

NOTES TO THE FINANCIAL STATEMENTS

3.2.5 Investment risk: valuation risk (continued)

The fair value of the Syndicate's financial assets is based on prices provided by our investment manager, who obtains market data from numerous independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets.

3.2.6 Investment risk: equity risk

Equity risk is the risk that the value of a financial instrument will fluctuate due to changes in equity markets. The Syndicate's exposure to equity risk comes from a holding in a pooled equity fund as part of the syndicate's diversified investment strategy.

The FIOC reviews quarterly the modelled effect of equity market fluctuations on the valuation of the Funds at Lloyd's and Syndicate Premiums Trust Funds and the consequential impact on the Syndicate's member balances. A maximum exposure to equity is also specified within the investment guidelines.

3.2.7 Non-core risks

Non-core risks are those which are not actively sought in the execution of business strategy, but which arise unavoidably as a consequence of operating in our chosen markets.

3.3 Credit risk

Syndicate 2007 has a neutral appetite towards credit risk. Credit risk is also derived from contractual arrangements between the Syndicate and business counterparties, such as reinsurers, financial intermediaries, policyholders and intermediaries relating to (re)insurance.

3.3.1 Credit risk: insurance and other receivables

The Syndicate's appetite for credit risk from policyholders and their appointed intermediaries, including insurance business written on a delegated basis, is low. Syndicate 2007 mitigates the effect of credit risk from these sources by applying intermediary credit limits.

Policyholders

Policyholder credit risk is not typically significant, as in the majority of cases a clause in the contract states that a lack of payment by the policyholder will result in policy cancellation. However, where premiums are considered material or originate from a jurisdiction where political risk may affect payment, underwriting staff consider the use of credit checks or premium payment warranties within terms of trade. Policyholder credit risk is monitored by a dedicated credit control team.

Delegated underwriting

Premium credit control is managed by the credit control team, supplemented by additional data and collection services supplied by a specialist outsourced firm. Delegated underwriting premium credit control is managed primarily through underwriting teams, assisted by the delegated underwriting management team. Contractual terms such as policy cancellation are considered and applied as appropriate. Aged premium debt listings and exception analyses are produced against established targets and performance reported regularly to the FIOC and the Managing Agency Board.

NOTES TO THE FINANCIAL STATEMENTS

3.3.2 Credit risk: reinsurance assets

Reinsurance credit risk management is the responsibility of the Director of Reinsurance, who reports to the Underwriting and Reinsurance Committee ("URC").

The managing agent has set a risk appetite for the maximum exposure (concentration) limits for all reinsurers, either by financial strength rating category or a specific restricted usage limit in conjunction with in-house credit assessments. In some cases usage is acceptable only if collateral in the form of a letter of credit or provision for an outstanding claim advance is in place from inception of the exposure. The Syndicate's exposure to reinsurance credit risk is monitored by the Head of Ceded Re and considered in conjunction with individual limits on current business.

Counterparty unwillingness to deliver to contractual requirements also gives rise to credit risk. Syndicate 2007 seeks to mitigate risk from this source by:

- a) working to ensure that contractual terms (for instance with reinsurers) are fit for purpose and that full disclosure of relevant information is made; and
- b) exerting significant contractual and other credit control measures in pursuit of premium and reinsurance recoverables due.

Reinsurance recoveries on paid claims are monitored by the credit control team. There are no aged debt or bad debt considerations.

At the end of each reporting period, individual reinsurance assets are assessed for any objective evidence of impairment. Such objective evidence may include, but is not limited to, significant financial difficulty of the issuer or obligor, a breach of contract, or adverse changes in the payment status of borrowers in the Syndicate. If no objective evidence of impairment exists for a particular RI asset when individually assessed, then the asset is included in a group of similar credit risk characteristics and collectively assessed for impairment. No general bad debt provision is applied.

3.4 Liquidity risk

Liquidity risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

Liquidity constraints emerge either as a result of an absolute shortfall of resources per se or as a result of a lack of marketability of investment or other assets. Specifically, liquidity risk exists to the extent that the Syndicate is required to satisfy claims costs, fulfil regulatory solvency and funding requirements and meet working capital needs. The effects of catastrophic underwriting loss (including hurricanes) on the Syndicate's liquidity, including the effects of overseas regulatory funding requirements, are modelled and reviewed on a monthly basis.

The principal mitigation techniques applied to manage liquidity risk are appropriate asset/liability and liquidity monitoring. In the review of the Syndicate's investment strategy, the liquidity of the strategy is monitored. Our cash and investment grade fixed income securities have duration characteristics similar to our expected claim pay outs and are, therefore, central to our investment portfolio's asset allocation. At December 31, 2017, the duration of our cash and fixed maturities portfolio was approximately 2.5 years, which approximates the estimated duration of our net insurance liabilities.

NOTES TO THE FINANCIAL STATEMENTS

3.4 Liquidity risk (continued)

The below table shows a maturity analysis for the Syndicate's financial liabilities:

At 31 December 2017:

	0-1 year £m	1-3 years £m	3-5 years £m	> 5 years £m	Total £m
Technical provisions	569.7	551.5	237.3	203.5	1,562.0
Creditors	155.3	60.4	-	-	215.7
Total liabilities	725.0	611.9	237.3	203.5	1,777.7

At 31 December 2016:

	0-1 year £m	1-3 years £m	3-5 years £m	> 5 years £m	Total £m
Technical provisions	464.1	504.2	213.4	213.0	1,394.7
Creditors	123.9	31.2	-	-	155.1
Total liabilities	588.0	535.4	213.4	213.0	1,549.8

3.5 Operational risk

The managing agent has a negative appetite towards operational risk, seeking to reduce exposures subject to cost and operational considerations. The Managing Agency recognises that operational risks arise in all business systems and processes, and to eliminate these risks entirely would entail excessive costs. The Managing Agency has developed an operational control system that covers all material business processes, and serves to keep the likelihood and impact of operational failures within acceptable bounds.

The Managing Agency Risk Committee has delegated the management of regulatory and operational risk to the relevant functional committees. Three major operational risk categories have been identified and key mitigating actions are taken in the management of them.

3.5.1 Operational risk: regulatory compliance and legal risk

The Managing Agency is required to discharge its regulatory and non-insurance legal obligations and failure to do so could give rise to risk that the Syndicate might have to curtail significantly its business operations and/or face fines or penalties.

Sources of this risk would include:

- > The PRA, FCA, Lloyd's and other overseas regulators jurisdiction over the Syndicate
- > Data protection regulations and adherence with requirements of the Data Protection Act
- > Compliance with Money Laundering Regulations, Proceeds of Crime Act, Serious Organised Crime and Police Act and the Bribery Act
- > Amendment to employment law under contract or statutory provision

To mitigate this risk the Managing Agency maintains a Compliance function, with responsibility for alerting the business to and advising on changes in regulatory compliance requirements, supporting the business in developing appropriate processes and controls to ensure compliance, and also for monitoring and challenging the effectiveness of compliance procedures. With coordination from the Compliance function, the Managing Agency maintains continuous dialogue with regulators and monitors regulatory and legislative developments.

NOTES TO THE FINANCIAL STATEMENTS

3.5.1 Operational risk: regulatory compliance and legal risk (continued)

The Managing Agency continues to develop and improve its management of conduct risk, including its responses to the relevant Lloyd's Minimum Standards and the Financial Conduct Authority's expectations, with particular regard to delegated underwriting.

A strong company focus on supporting technology has enabled greatly increased visibility and reporting capability on these third party operations.

The continued priorities for 2018 are in (i) further embedding of conduct risk principles and practice both internally and with business partners and (ii) increasing the quantity and quality of management information from outsourced underwriting operations, thus allowing more detailed oversight in respect this activity.

3.5.2 Operational risk: IT and Operations risks

IT availability: The smooth running of the business is largely dependent upon the availability and performance of its IT systems. In the event of IT services which support key business processes being unavailable, (e.g. due to an underlying system failure, or as the result of a cyber-attack) the Syndicate could for example, lose business or fail to meet its regulatory or legislative requirements. The Managing Agency operates a number of controls to mitigate these risks including the performance of proactive maintenance, agreeing performance SLA's for key systems and services, conducting periodic IT systems' resilience and scale reviews and having suitable disaster recovery plans in place for key systems.

Information security: The Managing Agency is committed to protection of the data and information it holds, including from cyber-attack threats. There are a number of controls in place to mitigate the risk of the unauthorised disclosure and/or modification, loss of access, or inappropriate use of information which could lead to financial and reputational damage. The controls include an information security policy and a suite of technical controls and physical access controls, which are updated in response to the evolving cyber threat landscape.

Business continuity: The Managing Agency has an established Business Continuity Plan ("BC Plan") which seeks to address and mitigate the impact of material operational failure on the Syndicate's business. The BC Plan is designed to provide sufficient flexibility to respond to a variety of events and requires essential services to be restored within 48 hours and a near normal service to be available within one week. The BC Plan is reviewed once every two years by a third party business continuity adviser. The plan is tested at least annually by senior business continuity team members. The effectiveness of the BC Plan is challenged internally by the use of evacuation, communications, IT recovery and business scenario tests. Managing Agency business continuity staff also engage in wider market and financial services tests on a regular basis.

Change management: The delivery failure of projects or change management can have significant implications for the business in terms of opportunity costs and misallocated resources. This risk is mitigated by a robust project governance process, overseen by the relevant functional committee with specific involvement from the Risk Management and Internal Audit functions where appropriate.

Outsourcing: The Managing Agency aims to outsource only where there is a clear benefit, either because AXIS does not have the resources, or could not get such resources, where the cost of outsourcing is considerably less than retaining the function in-house, or where the perceived relevance of the work is of a temporary nature and to retain the work would require hiring staff only to have to make them redundant at a future date.

NOTES TO THE FINANCIAL STATEMENTS

3.5.2 Operational risk: IT and Operations risks (continued)

Outsourcing risk can arise from both the transaction of insurance business under delegated underwriting authority and other non-underwriting outsourcing arrangements. Risk can arise from third parties not complying with specified procedures or requirements, including poor regulatory and legal oversight. The Managing Agency looks to mitigate outsourcing risk by central review, control monitoring of contracts and by the imposition of contractual service level agreements specifying key performance and risk indicators where appropriate.

3.5.3 Operational risk: key staff risk

The Managing Agency is dependent on its employees, both directly within its underwriting business and to fulfil the wider operational, regulatory, financial and compliance functions. There is little desire to carry material risk arising from the loss of any one person for whatever reason. The Managing Agency may, however, be exposed to the loss or actions of a key individual or groups of individuals which may impact upon its ability to operate, at least in the short-term.

In mitigation, the Managing Agency maintains, reviews and monitors a full succession plan to seek to ensure that the Syndicate does not become over reliant on one single employee or team of employees. Appropriate employment contracts and compensation policies are adopted. Share ownership by key employees is encouraged. The HR department monitors staff turnover rates and reports this to the Board. Remuneration policy is in line with business and risk strategy and policy.

3.6 Capital risk

The Corporation of Lloyd's determines the amount of capital required at the market level to meet the market's commercial objectives and in particular to sustain the market's financial strength rating at the target level. This capital requirement is met from the aggregate of central resources - the Lloyd's Central Fund plus reinsurances - and capital provided by underwriting members, who are required to deposit assets at Lloyd's equal to the member's Economic Capital Assessment ("ECA"). As in prior years, this is based on the Solvency II capital calculation.

NOTES TO THE FINANCIAL STATEMENTS

4 Segmental analysis

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

2017	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Result before investment return £m
Direct insurance:						
Accident and health	18.3	17.5	(13.5)	(6.7)	1.0	(1.7)
Marine, aviation and transport	51.1	55.3	(47.5)	(19.3)	3.1	(8.4)
Fire and other damage	331.7	328.0	(278.7)	(137.4)	53.7	(34.4)
Third party liability	159.4	160.0	(87.2)	(46.3)	(12.4)	14.1
Motor (other classes)	19.7	16.7	(17.3)	(7.1)	5.8	(1.9)
Credit and suretyship	64.4	56.1	(20.6)	(17.4)	(7.3)	10.8
Miscellaneous	0.1	-	-	-	0.1	(0.1)
Direct insurances	644.7	633.6	(464.8)	(234.2)	43.8	(21.6)
Reinsurance acceptances	343.9	364.4	(300.6)	(106.6)	30.5	(12.3)
Total	988.6	998.0	(765.4)	(340.8)	74.3	(33.9)
2016 Restated						
	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Result before investment return £m
Direct insurance:						
Accident and health	15.8	14.3	(7.5)	(7.9)	(0.8)	(1.9)
Marine, aviation and transport	68.6	64.0	(41.0)	(23.9)	(1.0)	(1.9)
Fire and other damage	315.2	263.8	(137.4)	(107.6)	(25.5)	(6.7)
Third party liability	163.0	157.2	(101.6)	(60.1)	(9.9)	(14.4)
Motor (other classes)	8.6	6.3	(4.5)	(2.4)	(0.8)	(1.4)
Credit and suretyship	64.6	49.1	(31.1)	(17.2)	1.1	1.9
Miscellaneous	0.2	0.2	(0.1)	(0.1)	-	-
Direct insurances	636.0	554.9	(323.2)	(219.2)	(36.9)	(24.4)
Reinsurance acceptances	265.0	324.4	(208.4)	(99.6)	(50.0)	(33.6)
Total	901.0	879.3	(531.6)	(318.8)	(86.9)	(58.0)

The analyses in the tables above have been prepared in accordance with the requirements of Schedule 3 of *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008: Insurance Companies* and do not necessarily reflect how the Board of AMAL presents and uses information in its management of the Syndicate.

NOTES TO THE FINANCIAL STATEMENTS

4 Segmental analysis (continued)

Geographical origin of direct insurance gross premiums written

An analysis of gross direct premiums written by reference to the location where the insurance contract was concluded:

	2017 £m	2016 £m
United Kingdom	644.7	636.0

The Lloyd's insurance market has been treated as one geographical segment. All business is signed and concluded in the United Kingdom.

5 Technical provisions

	2017			2016 Restated		
	Gross provisions £m	Reinsurance assets £m	Net provisions £m	Gross provisions £m	Reinsurance assets £m	Net provisions £m
Claims outstanding						
Balance at 1 January	1,394.7	(336.3)	1,058.4	1,157.9	(284.3)	873.6
Change in claims outstanding	226.7	(263.2)	(36.5)	102.2	(21.5)	80.7
Effect of movements in exchange rates	(59.4)	24.9	(34.5)	134.6	(30.5)	104.1
Balance at 31 December	1,562.0	(574.6)	987.4	1,394.7	(336.3)	1,058.4
Consisting of:						
Claims notified	931.7	(250.1)	681.6	792.0	(214.0)	578.0
Claims incurred but not reported	630.3	(324.5)	305.8	602.7	(122.3)	480.4
Balance at 31 December	1,562.0	(574.6)	987.4	1,394.7	(336.3)	1,058.4
Unearned premiums						
Balance at 1 January	487.7	(85.5)	402.2	409.7	(40.3)	369.4
Change in unearned premiums	(9.4)	(29.4)	(38.8)	21.7	(36.6)	(14.9)
Effect of movements in exchange rates	(25.4)	6.4	(19.0)	56.3	(8.6)	47.7
Balance at 31 December	452.9	(108.5)	344.4	487.7	(85.5)	402.2

The gross and net provisions at 31 December 2017 include margin held above actuarial best estimate of £18.7 million (2016: gross and net provisions included margin of £55.5 million). No margin was held for 2015 and prior reserves due to the agreed value of the RITC with Enstar. No margin was held in the reinsurance assets.

NOTES TO THE FINANCIAL STATEMENTS

6 Net claims incurred in the calendar year and reserve movements on prior years

Claims incurred, net of reinsurance, totalled £391.0 million during the calendar year (2016: £448.0 million). This includes an amount of £63.6 million in respect of reserve releases on 2015 and prior underwriting years (2016: £33.1 million in respect of reserve releases from 2014 and prior underwriting years).

7 Net operating expenses

	2017 £m	2016 Restated £m
Brokerage and commissions	251.4	231.2
Change in deferred acquisition costs	(3.5)	(5.6)
Administrative expenses	81.6	84.1
Personal expenses	11.3	9.2
Profit commission payable movement	-	(0.1)
	340.8	318.8

Average commission rates for direct insurance, as a proportion of gross premiums written in the year, amounted to 27.6% (2016 restated: 29.3%).

The total commission for direct insurance business accounted for in the year was £177.8 million (2016: £186.2 million).

Administrative expenses include:

	2017 £m	2016 £m
Fees payable to the Syndicate's auditor for the audit of the Syndicate	0.4	0.3
Fees payable to the Syndicate's auditor for other services:	-	-
	0.4	0.3

NOTES TO THE FINANCIAL STATEMENTS

8 Staff numbers and costs

All staff were employed by Novae Management Limited, a wholly owned subsidiary of AXIS Capital Holdings Limited (the ultimate parent company of the current and former managing agent). The following amounts were incurred by the Syndicate in respect of staff costs.

	2017 £m	2016 £m
Wages and salaries	26.3	28.0
Profit-related remuneration	7.0	12.0
Social security costs	4.3	3.4
Pension costs	3.9	3.5
Redundancy costs	2.1	-
Other	3.3	3.1
	46.9	50.0

The average number of employees working for the Syndicate during the year was as follows:

	2017 Number	2016 Number
Support	167	176
Underwriting	112	124
Claims and reinsurance	51	55
	330	355

9 Directors' emoluments

The directors of AXIS Managing Agency Limited received no remuneration for the year ended 31 December 2017 relating to the activities of the Syndicate. The following remuneration charged to the Syndicate and included within net operating expenses is in respect of the directors of former managing agency Novae Syndicates Limited ("NSL"):

	2017 £m	2016 £m
Wages and salaries	0.7	1.1
Post-employment benefits	0.1	0.2
Other benefits	-	-
	0.8	1.3

NSL Directors' bonuses, compensation for loss of office and other variable incentives are not included within the emoluments above as these were borne by Novae Management Limited and NCUL respectively.

NOTES TO THE FINANCIAL STATEMENTS

9 Directors' emoluments (continued)

The highest paid NSL director R Forster received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2017 £m	2016 £m
Wages and salaries	0.2	0.3
Post-employment benefits	-	-
Other benefits	-	-
	0.2	0.3

No other compensation was payable to key management personnel.

10 Active Underwriter's emoluments

The former Active Underwriters I Burford and R Forster received the following remuneration charged to the Syndicate and included within net operating expenses:

	2017 £m	2016 £m
Wages and salaries	0.2	0.3
Post-employment benefits	-	-
Other benefits	-	-
	0.2	0.3

The former Active Underwriters' bonus and other variable incentives are not included within the emoluments above as these are borne by NCUL. The current active underwriter received no remuneration charged to the Syndicate for the year ended 31 December 2017.

11 Investment income

	2017 £m	2016 £m
Income from investments	17.2	16.4
Gains on the realisation of investments	4.8	12.1
	22.0	28.5

Average syndicate funds available for investment during the year (original currency):

Sterling (including converted minor currencies)	197.0	290.1
Australian dollar	172.3	146.6
Euro	174.7	172.7
US dollar	697.8	623.6
Canadian dollar	117.9	121.9
Combined sterling	1,064.4	1,042.2
Aggregate investment return for the calendar year	20.7	21.0

The Australian dollar, Euro, US dollar and Canadian dollar figures above are in original currency.

NOTES TO THE FINANCIAL STATEMENTS

11 Investment income (continued)

	2017	2016
Calendar year investment yield:		
Sterling (including converted minor currencies)	1.6%	3.5%
Australian dollar	2.9%	1.4%
Euro	0.3%	1.0%
US dollar	2.6%	1.6%
Canadian dollar	0.2%	0.9%
Combined sterling	1.9%	2.0%

The average amount of syndicate funds available for investment has been calculated as the monthly average balance of financial investments and cash at bank and in hand.

12 Investment expenses and charges

	2017 £m	2016 £m
Investment management expenses	0.9	1.1
Losses on realisation of investments	3.1	5.9
	4.0	7.0

13 Financial investments

	Market value		Cost	
	2017 £m	2016 £m	2017 £m	2016 £m
Other shares and variable yield securities	28.8	28.9	22.9	26.2
Debt securities and other fixed income securities	750.9	833.3	754.4	837.4
Participation in investment pools	82.7	84.5	82.7	84.5
Overseas deposits	146.6	130.2	146.6	130.2
	1,009.0	1,076.9	1,006.6	1,078.3

Overseas deposits is comprised of £126.9m of debt funds and £19.7m of fixed deposits.

14 Debtors arising out of direct insurance operations

	2017 £m	2016 £m
Amounts due from intermediaries:		
Due within one year	247.8	178.1
Due after one year	0.6	0.3
	248.4	178.4

NOTES TO THE FINANCIAL STATEMENTS

15 Debtors arising out of reinsurance operations

	2017 £m	2016 £m
Due within one year	46.4	186.9
Due after one year	23.5	0.1
	69.9	187.0

16 Other debtors

	2017 £m	2016 £m
Amounts due from AXIS (formerly Novae) group companies	-	3.4
Overseas tax	0.1	0.3
	0.1	3.7

All are due within one year (2016: all due within one year)

17 Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	28.5	22.8
Deposits with credit institutions	89.0	92.4
Total cash and cash equivalents	117.5	115.2

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

18 Other assets - other

	2017 £m	2016 £m
Collateralised letter of credit	1.4	2.0

The collateralised letter of credit relates to a facility held in respect of a single Lloyd's policy.

19 Deferred acquisition costs

	2017 £m	2016 Restated £m
Balance at beginning of the year	120.7	102.0
Movement in provision	3.5	5.6
Foreign exchange movement	(6.0)	13.1
Balance at end of the year	118.2	120.7

NOTES TO THE FINANCIAL STATEMENTS

20 Reconciliation of members' balances

	2017 £m	2016 £m
Members' balances brought forward at 1 January	17.2	130.5
Impact of restatement	(20.6)	(17.8)
Restated members' balances brought forward at 1 January	(3.4)	112.7
Total recognised gains since last annual report	(18.6)	(26.3)
Transfers to members' personal reserve funds	(30.3)	(89.8)
Members' balances carried forward at 31 December	(52.3)	(3.4)

Each member participates on a syndicate by reference to individual years of account and its ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account. Transfers to members' personal reserve funds include foreign exchange movements on balances due (to)/from members.

21 Creditors arising out of direct insurance operations

	2017 £m	2016 £m
Amounts due from intermediaries:		
Due within one year	5.6	50.8
Due after one year	-	0.2
	5.6	51.0

22 Creditors arising out of reinsurance operations

	2017 £m	2016 £m
Due within one year	128.0	55.4
Due after one year	60.3	30.7
	188.3	86.1

23 Other creditors

	2017 £m	2016 £m
Amounts due to AXIS (formerly Novae) group companies	10.4	12.1

Of this amount nil is due after one year (2016: £0.2 million)

NOTES TO THE FINANCIAL STATEMENTS

24 Related parties

(a) Directors' interests in other AXIS group companies

The ultimate parent company of AMAL is AXIS Capital Holdings Limited. A copy of AXIS' consolidated financial statements can be obtained from that company's registered office which is located at AXIS House, 92 Pitts Bay Road, Pembroke, HM08, Bermuda or from its website at www.axiscapital.com. AXIS, through intermediate holding companies, also owns Novae Corporate Underwriting Limited ("NCUL"), a corporate member of Lloyd's and the principal capital provider to Syndicate 2007, and Novae Underwriting Limited ("NUL").

Details of NSL directors, who were also directors of other relevant AXIS and Novae group companies at any time between 1 January 2015 and 31 December 2017, are shown below:

Novae Group Limited (formerly Novae Group plc)

J R Adams	resigned from NSL 17 March 2015
L P Adams	resigned from NSL 31 December 2015
S Burns	resigned from NSL 31 March 2017; resigned from NGL 2 October 2017
Sir Bryan Carsberg	resigned from NGL and NSL 31 December 2015
R D C Henderson	resigned from NGL and NSL 31 December 2015
M C Phibbs	resigned from NSL 31 December 2015
R Patel	resigned from NSL 1 November 2017; resigned from NGL 11 December 2017
D J Pye	resigned from NGL 1 March 2016

Novae Holdings Limited

N Moss	appointed to NSL and NHL 14 November 2016;
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Novae Corporate Underwriting Limited

J R Adams	resigned from NSL 17 March 2015; resigned from NCUL 23 March 2015
J Butcher	resigned from NSL and NCUL 31 December 2017
M A Hudson	resigned from NSL 9 September 2016
R Patel	resigned from NSL 1 November 2017; appointed to NCUL 1 July 2016

Novae Management Limited

J Butcher	resigned from NSL and NML 31 December 2017
N Moss	appointed to NSL and NML 14 November 2016
R Patel	resigned from NSL 1 November 2017; appointed to NML 1 July 2016

Novae Underwriting Limited

J R Adams	resigned from NSL 17 March 2015; resigned from NUL 30 April 2015
J Butcher	resigned from NSL and NUL 31 December 2017
I Burford	resigned from NSL 31 March 2017; resigned from NUL 31 May 2017
J L J Butcher	appointed to NUL 23 June 2015
M A Hudson	resigned from NUL and NSL 9 September 2016
N Moss	appointed to NSL 14 November 2016; appointed to NUL 1 February 2017

The interests of current NSL directors and persons connected with them in the share capital of AXIS Capital Holdings Limited as at 31 December 2017 amounted to nil (2016: nil).

NOTES TO THE FINANCIAL STATEMENTS

24 Related parties (continued)

(b) Directors' interests in related party transactions

J L J Butcher is connected to Henrietta Butcher, a director and shareholder of Tyser & Co. Limited ("Tyser"). Tyser act as a broker placing (re)insurance business on an arm's length basis with the Syndicate. During the year under review, Tyser introduced £18.0m of business to the Syndicate (2016: £25.6m).

J L J Butcher is connected to Charles Butcher, a broker for RFIB Group Limited ("RFIB"). During the year under review, RFIB introduced £5.9m of business to the Syndicate (2016: £7.7m).

S Burns has a beneficial interest in 52,000 QBE Insurance Group shares and has outstanding restricted units of 58,000 in the same entity which is listed in Australia. The risks placed with the Syndicate in 2017 totalled £77,667 (2016: £80,863).

D J Pye is a non-executive director of Independent Services Group Limited and its subsidiary Independent Broking Solutions Limited, which places business in Lloyd's for a number of appointed representatives. The cover is provided on normal commercial terms and on an arm's length basis. The risks placed with the Syndicate in 2017 totalled £316,284 (2016: £163,833).

(c) Other related party transactions

Details shown below relate to transactions concerning the relevant years of account for the Syndicate during the period(s) under review:

(i) *Novae Underwriting Limited*

Novae Underwriting Limited ("NUL") is a Lloyd's service company. It has been granted consent by Lloyd's under the Related Parties Byelaw (No. 2 of 1986) to act as a cover-holder for Lloyd's managed syndicates and is authorised and regulated by the Financial Conduct Authority.

NUL is an indirect subsidiary of AXIS Capital Holdings Limited ("the Group"). During the period it serviced business arising from certain underwriting units within the Group. No commissions were retained by NUL on this business.

(ii) *Novae Corporate Underwriting Limited*

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.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's and 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.

Novae Group Limited (formerly Novae Group plc, "NGL") provided the whole of the capacity on Syndicate 2007 for the 2015, 2016 and 2017 underwriting years through its own corporate member, Novae Corporate Underwriting Limited ("NCUL"). NCUL continues to provide the capacity for the 2018 underwriting year under the ultimate ownership of AXIS Capital Holdings Limited.

NOTES TO THE FINANCIAL STATEMENTS

24 Related parties (continued)

iii) Novae Management Limited

Novae Management Limited (“NML”) is a wholly owned subsidiary of AXIS Capital Holdings Limited and acts as a management company.

Expenses of £65.8 million (2016: £78.2 million) were recharged to and retained by Syndicate 2007 from NML during the year. At 31 December 2017, there were no amounts receivable from NML (2016: £3.4 million receivable). There were no other transactions or arrangements involving the managing agent or any of its directors or executives that require disclosure under the provision of Schedule 4, Paragraph 42 of the Syndicate Accounting Byelaw (No. 18 of 1994) as amended.

25 Post balance sheet events

(i) Transfers to members’ personal reserve funds

The following amounts are proposed to be transferred to members’ personal reserve funds. The figures stated are before members’ charges.

	2017 £m	2016 £m
2015 closing year of account	127.9	-
2014 closing year of account	-	30.5
	127.9	30.5

(ii) 2015 and prior reinsurance-to-close

On 29 January 2018 the Syndicate entered into a reinsurance-to-close (“RITC”) transaction with Enstar’s Starstone Syndicate 2008 in respect of all 2015 and prior business. This RITC was effective as at 1 January 2018 and therefore the financial impact of this transaction is reflected in the value of the 2015 and prior liabilities as at 31 December 2017.

