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Axis Syndicate 2007
Syndicate Annual Report and Accounts
31 December 2018

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AXIS SYNDICATE 2007

DIRECTORS AND ADMINISTRATION

MANAGING AGENT	AXIS Managing Agency Ltd	
DIRECTORS	Stephen Cane (Chairman)* Adam Cragg Tadeusz Dziurman* Mark Gregory Tim Hennessy Kenneth Kwok Geraldine Lawlor* Fintan Mullarkey Tom Rivers Alistair Robson	* Independent Non-Executive
SECRETARY	Mark Rowe C/O Willkie Farr & Gallagher (UK) LLP 27th Floor, Citypoint 1 Ropemaker Street London EC2Y 9AW United Kingdom	
MANAGING AGENT'S REGISTERED OFFICE	C/O Willkie Farr & Gallagher (UK) LLP 27th Floor, Citypoint 1 Ropemaker Street London EC2Y 9AW United Kingdom	
MANAGING AGENT'S REGISTERED NUMBER	08702952	
ACTIVE UNDERWRITER	Alistair Robson	
SOLICITORS	Willkie Farr & Gallagher (UK) LLP 27th Floor, Citypoint 1 Ropemaker Street London EC2Y 9AW United Kingdom	
AUDITORS	Deloitte LLP 1 New Street Square London EC4A 3HQ United Kingdom	
PRINCIPAL BANKERS	Citibank NA Citigroup Centre 33 Canada Square Canary Wharf London, E14 5LB United Kingdom	RBC Dexia Investor Services Royal Bank Plaza 200 Bay Street Toronto, Ontario M5J 2J5 Canada
	Lloyds Banking Group 25 Gresham Street London, EC2V 7HN	

ACTIVE UNDERWRITER'S REPORT

AXIS Syndicate 2007 (the "Syndicate") is a Lloyd's Syndicate of AXIS Capital Holdings Limited ("ACHL"), the Bermuda-based holding company for the AXIS group of companies ("AXIS"). It is managed by AXIS Managing Agency Limited ("AMAL").

For financial year end December 2018, the Syndicate achieved gross written premiums of GBP 946.0m representing a 4.3% reduction from 2017 (GBP 988.6m). Notwithstanding the positive rate change of 3.2% on an underwriting year basis, the reduction reflects portfolio optimisation efforts in response to continued challenging conditions in several classes of business including International Property Binders, Hull and Cargo. These reductions were balanced with growth in target sectors such as Cyber and Technology.

2018 saw sustained positive rate movement in business lines affected by the loss events of 2017, particularly Cargo, but were below expectations in US Property Catastrophe Reinsurance. Momentum built in the likes of Hull and Construction as the year progressed. The final quarter showed promising signs of the industry responding to a second year of heavy catastrophe related losses which again topped USD 100bn in the aggregate. These events weighed heavily on performance of the Syndicate as they did for many others, particularly in the US Property Binders class.

In 2018, the Syndicate produced an overall loss of GBP 87.5m (2017: loss of GBP 18.6m). This primarily resulted from the high frequency of catastrophe events experienced in the year, specifically hurricanes Michael and Florence, as well as another year of devastating California Wildfires, but also an increase in frequency of large individual losses.

In October 2017 AXIS completed the acquisition of Novae Group PLC including Lloyd's Syndicate 2007. The business of Syndicate 2007 will be underwritten through Syndicate 1686 for the year 2019 onwards.



Alistair Robson
Active Underwriter

Date: 21 MARCH 2019

MANAGING AGENT'S REPORT

The directors of the managing agent, AMAL, present their annual report for the Syndicate for the year ended 31 December 2018.

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

RESULTS

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

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

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

The Syndicate writes (re)insurance across marine, energy, property and specialty lines with a focus on credit and political as well as cyber insurance. The Syndicate also writes business through its Service Company, AXIS Underwriting Limited (formerly Novae Underwriting Limited).

In January 2018 the Syndicate entered into a reinsurance-to-close ("RITC") with Enstar's Starstone Syndicate 2008 in respect of all earned 2015 and prior business. The financial impact of this transaction is reflected in the Statement of Profit and Loss at 31 December 2017. The assets and liabilities were transferred to Syndicate 2008 with effect from 1 January 2018, and are therefore included in the Statement of Financial Position 2017 comparative number. The impact on technical provisions is highlighted in note 4.

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

	2018	2017
	GBP '000	GBP '000
Property	466,425	430,364
Third Party Liability	130,265	166,839
Credit	104,732	85,104
Marine	94,176	98,088
Reinsurance	77,700	129,638
Transport	26,390	33,890
Energy	21,066	30,571
Accident & Health	18,703	14,234
Motor	6,506	(137)
	945,963	988,591

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

	2018	2017	Change
	GBP '000	GBP '000	%
Gross written premium	945,963	988,591	(4.3)
Net earned premium	636,488	697,925	(8.8)
Net technical loss (excluding investment return transferred from non-technical account)	<u>(99,920)</u>	<u>(33,843)</u>	<u>(195.2)</u>
Combined ratio (excluding investment income & FX impact)	115.7%	104.8%	

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS (continued)

The forecast return on capacity at 31 December 2018 for the three years of account is as follows;

	2018	2017	2016
	YOA	YOA	YOA
	Open	Open	Closed
Capacity (GBP '000)	800,000	800,000	700,000
Forecast (GBP '000)	(49,340)	(98,593)	(76,523)
Return on capacity %	(6.2)%	(12.3)%	(10.9)%

FUTURE DEVELOPMENTS

Effective 1 January 2019, the Syndicate was placed into run-off. All AXIS Lloyd's sourced business will thereafter transact through Syndicate 1686. The Syndicate will continue to be managed by AMAL but will no longer be accepting business from 1 January 2019 onwards.

Syndicate 2007 will collect the 2016 year of account loss from NCUL in 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Underwriting risk

Underwriting risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities transferred to the Syndicate through the underwriting process. Underwriting risk is managed through rigorous protocols, including peer review and underwriting guidelines, which provide a framework for consistent pricing and risk analysis while ensuring alignment to the risk appetite. The approved business plan sets out targets for volumes, pricing, line sizes and retention by class of business.

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

Reserving Risk

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

Credit risk

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

Market risk

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

MANAGING AGENT'S REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Liquidity risk

Liquidity risk is the risk that the Syndicate may not have sufficient financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The Syndicate aims to ensure it maintains adequate liquidity to meet its liquidity needs under both normal and stressed conditions. The Syndicate manages liquidity through risk limits which define the minimum percentage of the Syndicate's cash and investments to mature within a defined time frame. The Syndicate also has a facility agreement in place with an AXIS affiliate for its working capital requirements.

Operational risk

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

Regulatory risk

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

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

The UK plans to exit the EU on 29 March 2019. Lloyd's remains committed to doing business with their European partners once the UK leaves the European Union and started underwriting EEA risks on 1 January 2019 through their Brussels subsidiary. The Syndicate will not be participating on the Lloyd's Brussels platform as it will be in run off.

For a more detailed analysis of the insurance and financial risks faced by the Syndicate and how these risks are managed refer to note 17.

DIRECTORS

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

Adam Cragg	Appointed	2 February 2018
Daniel Draper	Resigned	26 April 2018
Tom Rivers	Appointed	26 April 2018
Jane Warren	Resigned	16 March 2018

GOING CONCERN

As noted in Note 17: Provision of capital by members, the Syndicate's Economic Capital Assessment (ECA) is supported by Funds at Lloyd's (FAL) provided by Novae Corporate Underwriting Limited ("NCUL"). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities. The managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses as required.

The directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements. Further details regarding the adoption of the going concern basis can be found in note 1.

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

MANAGING AGENT'S REPORT

EVENTS SINCE FINANCIAL YEAR END

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

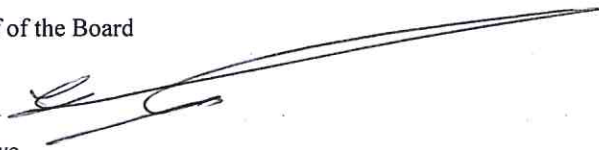
INDEPENDENT AUDITORS

Deloitte LLP acted as the Syndicate's auditors from the appointment date of 21 June 2018. Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditors will be deemed reappointed and Deloitte LLP will therefore continue in office.

SYNDICATE ANNUAL GENERAL MEETING

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the managing agent does not propose holding an annual meeting this year. Objections to this proposal or the intention to reappoint the auditor for a further 12 months can be made by Syndicate members before 12 April 2019.

On behalf of the Board



Mark Rowe
Company Secretary

Date: 21 MARCH 2019

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

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

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

- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Syndicate annual accounts; and
- prepare the Syndicate accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

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

Report on the audit of the syndicate annual financial statements

Opinion

In our opinion the syndicate annual financial statements:

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

We have audited the syndicate annual financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in members' balances;
- the cash flow statement;
- the related notes 1 to 24.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

In connection with our audit of the syndicate annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 2007

Responsibilities of managing agent

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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



Andrew Downes
 For and on behalf of Deloitte LLP
 Senior Statutory Auditor
 London, United Kingdom
 21 March 2019

AXIS SYNDICATE 2007
STATEMENT OF COMPREHENSIVE INCOME: TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Notes	Financial Year ended 31 December 2018 GBP '000	Financial Year ended 31 December 2017 GBP '000
Gross written premiums	3	945,963	988,591
Outward reinsurance premiums		(313,610)	(329,507)
Net written premium		<u>632,353</u>	<u>659,084</u>
Change in the gross provision for unearned premiums	4	(10,312)	9,393
Change in the provision for unearned premiums – reinsurers’ share	4	14,447	29,448
Change in the net provision for unearned premiums		<u>4,135</u>	<u>38,841</u>
Earned premiums, net of reinsurance		636,488	697,925
Allocated investment return transferred from the non-technical account		4,403	20,711
		<u>640,891</u>	<u>718,636</u>
Claims paid			
Gross amount		(480,746)	(538,703)
Reinsurers’ share		184,802	111,152
Net claims paid		<u>(295,944)</u>	<u>(427,551)</u>
Change in provision for claims			
Gross amount	4	(179,578)	(226,683)
Reinsurers’ share	4	66,403	263,248
Change in net provision for claims		<u>(113,175)</u>	<u>36,565</u>
Claims incurred, net of reinsurance		(409,119)	(390,986)
Net operating expenses	5	(327,289)	(340,782)
Balance on the technical account - general business		<u><u>(95,517)</u></u>	<u><u>(13,132)</u></u>

AXIS SYNDICATE 2007
STATEMENT OF COMPREHENSIVE INCOME: NON - TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Notes	Financial Year ended 31 December 2018 GBP '000	Financial Year ended 31 December 2017 GBP '000
Balance transferred from the technical account - general business		(95,517)	(13,132)
Investment income	8	4,403	20,711
Allocated investment return transferred to the technical account		<u>(4,403)</u>	<u>(20,711)</u>
		(95,517)	(13,132)
Foreign exchange gains/(losses)		8,037	(5,515)
LOSS FOR THE FINANCIAL YEAR		<u>(87,480)</u>	<u>(18,647)</u>
Other comprehensive income - Exchange differences on translation		(18,373)	—
TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR		<u>(105,853)</u>	<u>(18,647)</u>

All amounts arise from continuing activities.

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

STATEMENT OF CHANGES IN MEMBERS' BALANCES

	Financial Year ended 31 December 2018 GBP '000	Financial Year ended 31 December 2017 GBP '000
As at 1 January	(52,258)	(3,419)
(Loss) for the financial year	(87,480)	(18,647)
Other Comprehensive Income	(18,373)	—
Distribution Profit	(127,944)	(30,480)
Member expenses	(198)	288
As at 31 December	<u>(286,253)</u>	<u>(52,258)</u>

The distribution profit represents the amount paid to the corporate member, NCUL, in respect of the 2015 and 2014 years of account.

AXIS SYNDICATE 2007

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 GBP '000	2017 GBP '000
ASSETS			
Investments			
Financial investments	9	346,024	1,008,939
		<u>346,024</u>	<u>1,008,939</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	123,064	108,487
Claims outstanding	4	441,365	574,620
		<u>564,429</u>	<u>683,107</u>
Debtors			
Debtors arising out of direct insurance operations	10	209,281	248,436
Debtors arising out of reinsurance operations	11	92,220	69,866
		<u>301,501</u>	<u>318,302</u>
Cash and other assets			
Cash at bank		22,865	28,529
Other assets	12	—	1,376
		<u>22,865</u>	<u>29,905</u>
Prepayments and accrued income			
Deferred acquisition costs	4	125,970	118,154
Other prepayments and accrued income		11,889	19,919
		<u>137,859</u>	<u>138,073</u>
TOTAL ASSETS		<u><u>1,372,678</u></u>	<u><u>2,178,326</u></u>

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 GBP '000	2017 GBP '000
MEMBERS' BALANCE			
Capital and reserves			
Members' balance		(286,253)	(52,258)
LIABILITIES			
Technical provisions			
Provision for unearned premiums	4	461,353	452,952
Gross claims outstanding	4	965,311	1,561,969
		<u>1,426,664</u>	<u>2,014,921</u>
Creditors			
Creditors arising out of direct insurance operations	14	1,574	5,585
Creditors arising out of reinsurance operations	15	135,618	188,388
Other creditors	16	83,061	10,401
		<u>220,253</u>	<u>204,374</u>
Accruals and deferred income		12,014	11,289
TOTAL LIABILITIES AND MEMBERS' BALANCE		<u><u>1,372,678</u></u>	<u><u>2,178,326</u></u>

The annual report and accounts were approved by the Board of AXIS Managing Agency Limited on 21 March 2019 and signed on its behalf by:

Tim Hennessy
Finance Director

Date: 21 MARCH 2019

AXIS SYNDICATE 2007

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Notes	2018 GBP'000	2017 GBP'000
Loss for the financial year		(87,480)	(18,647)
<i>Adjustments for:</i>			
(Decrease) in net technical provisions		(469,578)	(128,878)
Decrease in debtors		17,016	63,211
(Decrease)/ Increase in creditors		(51,551)	52,277
Movement in other assets/liabilities		1,376	—
Investment return		(4,403)	(20,711)
Foreign exchange on financial assets and liabilities		(56,825)	38,495
Net cash inflow from operating activities		(651,445)	(14,253)
<i>Cash flow from investing activities:</i>			
Purchase of equity and debt instruments		(319,085)	(677,452)
Sale of equity and debt instruments		937,812	708,756
Investment income received		4,566	15,928
Net cash inflow from investing activities		623,293	47,232
<i>Cash flow from financing activities:</i>			
Transfer to members in respect of underwriting participations		(127,944)	(30,480)
Non-standard personal expenses		(198)	289
Loan payable to group companies		68,153	—
Net cash (used in) financing activities		(59,989)	(30,191)
Net (decrease) / increase in cash and cash equivalents		(88,141)	2,788
Opening cash and cash equivalents		117,463	115,234
Effect of exchange rates on cash and cash equivalents		1,057	(559)
Closing cash and cash equivalents	13	30,379	117,463

AXIS SYNDICATE 2007
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

1. BASIS OF PREPARATION

Statement of Compliance

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

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

Going concern

The Syndicate's business activities, performance and position along with the objectives, policies and processes for managing its principal risks and uncertainties are set out in the Managing Agent's Report on pages 4-7. As noted in Note 17, the Syndicate's ECA is supported by FAL primarily provided by NCUL. There is no material uncertainty regarding the Syndicate's ability to meet its liabilities as they fall due. As such, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2. SUMMARY OF ACCOUNTING POLICIES

Technical result

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

Premiums and acquisition costs

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

Acquisition costs vary with and are directly related to the acquisition of insurance contracts and consist primarily of fees and commissions paid to brokers. 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.

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

Reinsurance

In the normal course of business, the Syndicate purchases reinsurance protection to limit its ultimate losses from catastrophic events and to reduce its loss aggregation risk. Reinsurance premiums ceded are expensed over the reinsurance coverage period. Unearned reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of the contracts in force. The Syndicate also participates in a number of Group-purchased global reinsurance treaties for certain risks. The premiums paid to our reinsurers (i.e. outward reinsurance premiums) are expensed over the coverage period. The reinsurers' share of provision for unearned premiums represents the portion of premiums ceded applicable to the unexpired term of the contract in force.

Outstanding reinsurance commitments relating to subsequent instalments are disclosed in note 23.

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2. SUMMARY OF ACCOUNTING POLICIES (continued)

Reinsurance (continued)

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

Reinsurance commission

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

Claims incurred

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

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

At each reporting 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 administrative 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).

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

Financial Instruments

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

Financial assets are measured at fair value with fair value changes recognised immediately in the profit and loss account. For this purpose listed investments are stated at bid-market value and deposits with credit institutions and overseas deposits are stated at 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 uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

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

2. SUMMARY OF ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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

Realised and unrealised gains and losses arising from changes in the fair value of investments are presented in the Statement of Profit and Loss in the period in which they arise. Investment income includes interest income on fixed income securities

and dividend income on equity securities. Dividend and interest income is recognised when earned. The net change in fair value also includes investment management and other related expenses. These expenses are recognised when incurred.

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

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

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

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 19.0%, 2017: 19.25%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

Foreign Exchange

The Syndicate's functional currency is US Dollars (USD) and presentational currency is Great British Pounds (GBP).

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

Pension

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

Syndicate Operating Expenses

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

In 2018, the managing agent charged a further management fee of 0.75% of Syndicate capacity.

Critical accounting estimates and judgments

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

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3. SEGMENTAL ANALYSIS

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

	Gross Premiums written 2018 GBP'000	Gross Premiums earned 2018 GBP'000	Gross Claims incurred 2018 GBP'000	Net Operating expenses 2018 GBP'000	Reinsurance Balance 2018 GBP'000	Total 2018 GBP'000
<i>Direct insurance:</i>						
Accident and health	18,703	17,046	(8,114)	(7,582)	(1,759)	(409)
Marine, aviation and transport	120,565	136,553	(104,712)	(47,011)	(3,984)	(19,154)
Fire and other damage	487,492	473,662	(374,355)	(193,100)	15,863	(77,930)
Third party liability	130,265	139,286	(68,791)	(40,819)	(27,114)	2,562
Motor (other classes)	6,506	6,518	(6,430)	(2,065)	(835)	(2,812)
Credit and suretyship	104,732	71,204	(31,852)	(26,403)	(7,948)	5,001
Total direct insurance	868,263	844,269	(594,254)	(316,980)	(25,777)	(92,742)
Reinsurance	77,700	91,382	(66,070)	(10,309)	(22,181)	(7,178)
Total	945,963	935,651	(660,324)	(327,289)	(47,958)	(99,920)

	Gross Premiums written 2017 GBP'000	Gross Premiums earned 2017 GBP'000	Gross Claims incurred 2017 GBP'000	Net Operating expenses 2017 GBP'000	Reinsurance Balance 2017 GBP'000	Total 2017 GBP'000
<i>Direct insurance:</i>						
Accident and health	14,234	13,724	(12,155)	(5,470)	1,207	(2,694)
Marine, aviation and transport	162,549	169,666	(138,125)	(59,668)	14,497	(13,630)
Fire and other damage	430,364	425,373	(377,427)	(166,438)	73,725	(44,767)
Third party liability	166,839	169,729	(93,487)	(55,907)	(9,762)	10,573
Motor (other classes)	(137)	(137)	923	(51)	1,757	2,492
Credit and suretyship	85,104	70,037	(22,575)	(21,376)	(11,699)	14,387
Total direct insurance	858,953	848,392	(642,846)	(308,910)	69,725	(33,639)
Reinsurance	129,638	149,592	(122,540)	(31,872)	4,616	(204)
Total	988,591	997,984	(765,386)	(340,782)	74,341	(33,843)

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

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4. INSURANCE ASSETS AND LIABILITIES

Technical provisions

	Gross provisions GBP'000	Reinsurance assets GBP'000	Net GBP'000
Provision for unearned premiums			
As at 1 January 2018	452,952	(108,487)	344,465
Movement in provision	10,312	(14,447)	(4,135)
Effect of RITC	(22,101)	6,368	(15,733)
Foreign exchange	20,190	(6,498)	13,692
As at 31 December 2018	<u>461,353</u>	<u>(123,064)</u>	<u>338,289</u>
As at 1 January 2017	487,736	(79,906)	407,830
Movement in provision	(9,393)	(29,448)	(38,841)
Foreign exchange	(25,391)	867	(24,524)
As at 31 December 2017	<u>452,952</u>	<u>(108,487)</u>	<u>344,465</u>
Provision for claims outstanding			
As at 1 January 2018	1,561,969	(574,620)	987,349
Effect of RITC	(819,917)	224,963	(594,954)
Movement in provision	179,578	(66,403)	113,175
Foreign exchange	43,681	(25,305)	18,376
As at 31 December 2018	<u>965,311</u>	<u>(441,365)</u>	<u>523,946</u>
As at 1 January 2017	1,394,724	(336,291)	1,058,433
Movement in provision	226,683	(263,248)	(36,565)
Foreign exchange	(59,438)	24,919	(34,519)
As at 31 December 2017	<u>1,561,969</u>	<u>(574,620)</u>	<u>987,349</u>
Provision for claims outstanding			
Claims notified	394,956	(146,270)	248,686
Claims incurred but not reported	570,355	(295,095)	275,260
As at 31 December 2018	<u>965,311</u>	<u>(441,365)</u>	<u>523,946</u>
Claims notified	931,707	(250,093)	681,614
Claims incurred but not reported	630,262	(324,527)	305,735
As at 31 December 2017	<u>1,561,969</u>	<u>(574,620)</u>	<u>987,349</u>

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NOTES TO THE FINANCIAL STATEMENTS
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4. INSURANCE ASSETS AND LIABILITIES (continued)

Technical provisions (continued)

	Gross assets GBP'000	Reinsurance liabilities GBP'000	Net GBP'000
Deferred acquisition costs			
As at 1 January 2018	118,154	(8,344)	109,810
Change in deferred acquisition costs	7,048	(2,811)	4,237
Effect of RITC	(4,236)	296	(3,940)
Foreign exchange	5,004	(574)	4,430
As at 31 December 2018	<u>125,970</u>	<u>(11,433)</u>	<u>114,537</u>
As at 1 January 2017	132,568	(5,571)	126,997
Change in deferred acquisition costs	1,527	(3,237)	(1,710)
Foreign exchange	(15,941)	464	(15,477)
As at 31 December 2017	<u>118,154</u>	<u>(8,344)</u>	<u>109,810</u>

5. NET OPERATING EXPENSES

	2018 GBP'000	2017 GBP'000
Acquisition costs	(268,504)	(262,199)
Change in deferred acquisitions costs	7,048	(1,888)
Administration expenses	(95,803)	(92,935)
Operating expenses	<u>(357,259)</u>	<u>(357,022)</u>
Reinsurance commissions	29,970	16,240
Net operating expenses	<u>(327,289)</u>	<u>(340,782)</u>

Members' standard personal expenses amounting to GBP 16.4m (2017: GBP 11.4m) are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, Central Fund contributions and managing agent's fees.

6. AUDITOR'S REMUNERATION

	2018 GBP'000	2017 GBP'000
Audit of the Syndicate annual accounts	310	420
Other services pursuant to Regulations and Lloyd's Byelaws	130	46
	<u>440</u>	<u>466</u>

7. INFORMATION REGARDING DIRECTORS

The directors of the managing agency are executives of the related Group Companies. The directors received total remuneration of GBP 4.5m (2017: GBP 6.5m) from related Group Companies during the year. It is not practicable to allocate this between their services as executives of Group Companies and their services as directors of AMAL.

The active underwriter received remuneration of GBP 0.2m (2017: GBP 0.3m) during the year based on the allocation of his service as active underwriter as a proportion of his service to other AXIS Group entities.

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8. INVESTMENT RETURN

	2018 GBP'000	2017 GBP'000
Net gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	4,403	20,711
Total investment income	<u>4,403</u>	<u>20,711</u>

9. FINANCIAL INSTRUMENTS

	2018	
	Carrying value GBP'000	Purchase price GBP'000
- Shares and other variable yield securities & units in unit trusts	2,864	2,864
- Debt securities & other fixed income securities	256,133	257,506
- Participation in investment pools	4,365	4,365
- Overseas deposits	82,662	82,662
	<u>346,024</u>	<u>347,397</u>
	2017	
	Carrying value GBP'000	Purchase price GBP'000
- Shares and other variable yield securities & units in unit trusts	28,775	22,937
- Debt securities & other fixed income securities	750,911	754,443
- Participation in investment pools	82,672	82,672
- Overseas deposits	146,581	146,581
	<u>1,008,939</u>	<u>1,006,633</u>

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

	Level 1 GBP'000	Level 2 GBP'000	Level 3 GBP'000	Total GBP'000
As at 31 December 2018				
- Shares and other variable yield securities & units in unit trusts	2,864	—	—	2,864
- Debt securities & other fixed income securities	18,210	237,923	—	256,134
- Participation in investment pools	4,365	—	—	4,365
- Overseas deposits	91	82,662	—	82,753
Total	<u>25,530</u>	<u>320,585</u>	<u>—</u>	<u>346,115</u>
	Level 1 GBP'000	Level 2 GBP'000	Level 3 GBP'000	Total GBP'000
As at 31 December 2017				
- Shares and other variable yield securities & units in unit trusts	5,822	22,953	—	28,775
- Debt securities & other fixed income securities	15,389	735,522	—	750,911
- Participation in investment pools	82,672	—	—	82,672
- Overseas deposits	25,694	120,979	—	146,673
Total	<u>129,577</u>	<u>879,454</u>	<u>—</u>	<u>1,009,031</u>

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9. FINANCIAL INVESTMENTS (continued)

Included in the Level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

10. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2018 GBP'000	2017 GBP'000
Due within one year	209,080	247,874
Due after one year	201	562
	<u>209,281</u>	<u>248,436</u>

11. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2018 GBP'000	2017 GBP'000
Due within one year	92,181	46,395
Due after one year	39	23,471
	<u>92,220</u>	<u>69,866</u>

12. OTHER ASSETS

Other assets comprised of collateralised letters of credit (2017: GBP 1.4m).

13. CASH AND CASH EQUIVALENTS

	2018 GBP'000	2017 GBP'000
Cash at bank and in hand	22,774	28,437
Deposits with credit institutions	7,606	89,026
Total Cash and cash equivalents	<u>30,380</u>	<u>117,463</u>

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

14. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2018 GBP'000	2017 GBP'000
Due within one year	1,574	5,574
Due after one year	—	11
	<u>1,574</u>	<u>5,585</u>

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15. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2018	2017
	GBP'000	GBP'000
Due within one year	152,537	128,066
Due after one year	(16,919)	60,322
	135,618	188,388

16. OTHER CREDITORS

	2018	2017
	GBP'000	GBP'000
Amounts payable to group companies	14,908	10,401
Loans payable to group companies	68,153	—
	83,061	10,401

At 31 December 2018, the Syndicate had a GBP 182.5m flexible facility agreement with AXIS Specialty UK Holdings Limited for its working capital requirements. The total value of the outstanding loan as at 31 December 2018 is GBP 68.0m (2017: GBP Nil).

All loans drawn and outstanding under the facility are repayable on demand. Interest accrues daily and is payable annually in arrears, interest payable as at 31 December 2018 was GBP 115k (2017: GBP Nil).

17. RISK MANAGEMENT

a) Governance framework

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

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

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

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

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

17. RISK MANAGEMENT (continued)

b) Capital management objectives, policies and approach (continued)

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the members' share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the members' capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2019 is 35% (2018: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

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

c) Insurance risk management

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

Premium risk

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

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

Natural catastrophe risk

Natural catastrophes such as earthquakes, storms and floods represent a challenge for risk management due to their accumulation potential and volatility. In managing natural catastrophe risk, the internal risk tolerance framework for the Syndicate aims to limit the impact to its Regulatory SCR coverage ratio from an aggregation of natural peril catastrophe events. The Board-approved Risk Limit for natural catastrophes sets out the maximum acceptable losses for the Syndicate calibrated to a 1 in 200 year and a 1 in 30 year event. There have been no breaches of the Syndicate's natural catastrophe risk limit during the year.

Man-made catastrophe risk

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

As an example of this approach, an assessment of terrorism risk is based on a mixture of qualitative and quantitative data (e.g. for estimating property damage, business interruption, mortality and morbidity subsequent to an attack of a predefined

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17. RISK MANAGEMENT (continued)

c) Insurance risk management (continued)

Man-made catastrophe risk (continued)

magnitude), which is used to control, limit and manage aggregate terrorism exposure. Commercially available vendor modelling and bespoke modelling tools are used to measure accumulations around potential terrorism accumulation zones on a deterministic and probabilistic basis. The results of modelling are supplemented with underwriting judgment.

Ceded reinsurance risk

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

The AXIS group has a centralised Ceded Reinsurance department which coordinates external treaty reinsurance purchasing across the group and is overseen by the Reinsurance Purchasing Group, in conjunction with the Reinsurance Security Committee. The Syndicate predominantly cedes business with reinsurers rated A- or better by Standard & Poor's and/or AM Best. The Syndicate also benefits from an internal quota share and internal excess of loss agreements with AXIS Specialty Limited ("ASL").

Reserving risk

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

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

AMAL engage a Signing Actuary to provide an annual Statement of Actuarial Opinion ('SAO') on the Syndicate's worldwide technical provisions, both gross and net of reinsurance and for each open year of account.

Sensitivity analysis of the reserves for unpaid losses and loss expenses

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

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

	2018	2017
	GBP'000	GBP'000
<u>Gross outstanding claims</u>		
Five percent increase	48,266	78,098
Five percent decrease	(48,266)	(78,098)
<u>Net outstanding claims</u>		
Five percent increase	26,197	49,367
Five percent decrease	(26,197)	(49,367)

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NOTES TO THE FINANCIAL STATEMENTS
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17. RISK MANAGEMENT (continued)

c) Insurance risk management (continued)

Claims development table

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

Underwriting Year	2016	2017	2018
	GBP'000	GBP'000	GBP'000
Estimate of cumulative gross claims incurred:			
At end of underwriting year	246,704	423,843	361,152
One year later	642,640	728,117	
Two years later	672,210		
Three years later			
Less cumulative gross paid	(390,065)	(317,792)	(88,311)
Liability for gross outstanding claims	282,145	410,325	272,841
Total Gross outstanding claims all years			<u>965,311</u>
Underwriting Year	2016	2017	2018
	GBP'000	GBP'000	GBP'000
Estimate of cumulative net claims incurred:			
At end of underwriting year	187,338	191,876	177,848
One year later	452,360	407,124	
Two years later	483,898		
Three years later			
Less cumulative net paid	(306,862)	(188,088)	(49,974)
Liability for net outstanding claims	177,036	219,036	127,874
Total Net outstanding claims all years			<u>523,946</u>

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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17. RISK MANAGEMENT (continued)

d) Financial risk

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

i) Credit risk

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

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

The following sections discuss specific components of credit risk.

Investment portfolio

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 credit ratings of investments are shown in the table on page 30.

Reinsurance recoverable assets

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

Premium receivables

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

AXIS SYNDICATE 2007
NOTES TO THE FINANCIAL STATEMENTS
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17. RISK MANAGEMENT (continued)

i) Credit risk (continued)

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

2018	GBP'000			
	Neither past due or Impaired	Past due	Impaired	Total
Shares and other variable yield securities	2,864	—	—	2,864
Debt securities	256,132	—	—	256,132
Participation in investment pools	4,365	—	—	4,365
Overseas deposits	82,753	—	—	82,753
Reinsurers share of claims outstanding	441,365	—	—	441,365
Debtors arising out of direct insurance operations	209,271	—	—	209,271
Debtors arising out of direct reinsurance operations	49,947	1,865	—	51,812
Other debtors	301,340	—	—	301,340
Cash at bank and in hand	22,774	—	—	22,774
Total	1,370,811	1,865	—	1,372,676

2017	GBP'000			
	Neither past due or Impaired	Past due	Impaired	Total
Shares and other variable yield securities	28,775	—	—	28,775
Debt securities	750,911	—	—	750,911
Participation in investment pools	82,672	—	—	82,672
Overseas deposits	146,673	—	—	146,673
Reinsurers share of claims outstanding	574,620	—	—	574,620
Debtors arising out of direct insurance operations	248,384	—	—	248,384
Debtors arising out of direct reinsurance operations	21,827	267	—	22,094
Other debtors	295,760	—	—	295,760
Cash at bank and in hand	28,437	—	—	28,437
Total	2,178,059	267	—	2,178,326

AXIS SYNDICATE 2007
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

17. RISK MANAGEMENT (continued)

i) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2018 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

2018	GBP'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	—	—	2,864	—	—	—	2,864
Debt securities	21,903	110,279	79,700	19,669	77	24,504	256,132
Participation in investment pools	2	530	3,833	—	—	—	4,365
Overseas deposits as investments	47,288	15,463	6,074	3,676	2,504	7,748	82,753
Reinsurers' share of claims outstanding	—	68,255	345,252	—	—	27,858	441,365
Reinsurance debtors	—	4,153	31,598	—	—	14,196	49,947
Cash at bank and in hand	—	—	22,774	—	—	—	22,774
Total	69,193	198,680	492,095	23,345	2,581	74,306	860,200

2017	GBP'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	—	—	5,822	—	—	22,953	28,775
Debt securities	66,753	252,897	195,191	145,623	21,985	68,462	750,911
Participation in investment pools	—	2,966	79,705	—	—	—	82,671
Overseas deposits as investments	76,797	23,009	13,646	12,725	708	19,788	146,673
Reinsurers' share of claims outstanding	149	142,020	363,884	502	—	68,065	574,620
Reinsurance debtors	6	5,395	13,822	19	—	2,585	21,827
Cash at bank and in hand	—	—	28,437	—	—	—	28,437
Total	143,705	426,287	700,507	158,869	22,693	181,853	1,633,914

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

During the year, no credit exposure limits were exceeded.

**AXIS SYNDICATE 2007
NOTES TO THE FINANCIAL STATEMENTS
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17. RISK MANAGEMENT (continued)

ii) Liquidity risk

Liquidity risk is the risk that there would not be sufficient liquid financial resources to meet obligations when they fall due, or the Syndicate would have to incur excessive costs to do so. As an insurer, the core business generates liquidity primarily through premium and investment income. Exposure to liquidity risk stems mainly from the need to cover potential extreme loss events.

To manage this risk, a range of liquidity policies and measures are in place including maintaining cash and cash equivalents and high quality, liquid investment portfolios to meet expected outflows, as well as those that could result from a range of potential stress events. There are set internal limits on the minimum percentage of the investment portfolio to mature within a defined timeframe.

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

2018	GBP'000				Total
	0-1 year	1-3 years	3-5 years	More than 5 years	
Claims outstanding	416,901	335,952	110,799	101,659	965,311
Creditors	237,172	(16,919)	—	—	220,253
Total	654,073	319,033	110,799	101,659	1,185,564

2017	GBP'000				Total
	0-1 year	1-3 years	3-5 years	More than 5 years	
Claims outstanding	569,728	551,547	237,310	203,384	1,561,969
Creditors	144,041	60,333	—	—	204,374
Total	713,769	611,880	237,310	203,384	1,766,343

iii) Market risk

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

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

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

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17. RISK MANAGEMENT (continued)

iv) Currency risk

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

2018	GBP'000							Total
	GBP	USD	EUR	CAD	AUD	JPY	OTH	
Total Assets	196,824	1,020,435	30,643	49,502	75,274	—	—	1,372,678
Total Liabilities	(416,960)	(1,078,655)	(37,366)	(61,116)	(64,834)	—	—	(1,658,931)
Net Assets	(220,136)	(58,220)	(6,723)	(11,614)	10,440	—	—	(286,253)

2017	GBP'000							Total
	GBP	USD	EUR	CAD	AUD	JPY	OTH	
Total Assets	449,895	1,322,861	178,876	97,031	121,530	1,486	6,647	2,178,326
Total Liabilities	(612,805)	(1,283,868)	(159,786)	(86,550)	(87,575)	—	—	(2,230,584)
Net Assets	(162,910)	38,993	19,090	10,481	33,955	1,486	6,647	(52,258)

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

At present, the Syndicate does not have sufficient assets to cover its liabilities as it has been loss making. The Syndicate's underwriting capacity is supported by FAL held by NCUL. When a year of account closes, the Syndicate will call on members to fund a loss.

Sensitivity to changes in foreign exchange rates

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

<i>Impact on profit and members' balance</i>	2018 GBP'000	2017 GBP'000
<u>GBP Weakens</u>		
10% against other currencies	(6,611)	10,401
20% against other currencies	(13,223)	20,801
<u>GBP Strengthens</u>		
10% against other currencies	6,611	(10,401)
20% against other currencies	13,223	(20,801)

e) Interest rate risk

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

	2018 GBP'000	2017 GBP'000
<u>Interest rate risk</u>		
Impact of 50 basis point increase on result	(3,615)	12,907
Impact of 50 basis point decrease on result	3,615	(12,907)
Impact of 50 basis point increase on net assets	(3,615)	12,907
Impact of 50 basis point decrease on net assets	3,615	(12,907)

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

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18. REINSURANCE ASSETS

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

All of these reinsurance covers provide for recovery of a portion of losses and loss reserves from reinsurers. Under its reinsurance security policy, the Syndicate predominantly cedes business with reinsurers rated A- or better by Standard & Poors and/or AM Best. The Syndicate remains liable to the extent that reinsurers do not meet their obligations under these agreements either due to solvency issues, contractual disputes or some other reason. Included within reinsurance losses recoverable as at 31 December 2018 were amounts of GBP 33.0m (2017: GBP NIL) recoverable from a group company. Included within the provision for unearned premiums ceded as at 31 December 2018 is an amount of GBP 4.0m (2017: GBP NIL) ceded to a group company.

19. RELATED PARTIES

In 2018, the managing agent, AMAL, charged the Syndicate a management fee of GBP 5.5m (2017: GBP NIL) based on 0.75% of the Syndicate capacity.

Syndicate 6129 was established for the 2016 underwriting year as a Special Purpose Arrangement (SPA). Its principal activity was to underwrite quota share reinsurance of AXIS Syndicate 2007's US Property Facilities Class of Business. This arrangement was renewed for the 2017 and 2018 underwriting years of account but discontinued for 2019. Included within creditors arising out of reinsurance operations there is a balance of £(13m) (2017: £40m) due to/(from) Syndicate 6129. Included within the reinsurer's share of technical provisions there is a balance of £150m (2017: £67m). All of these balances fall due under the terms of the quota share reinsurance contract in place with Syndicate 6129.

20. DISCLOSURE OF INTERESTS

Managing agent's interest

During 2018, AMAL was the managing agent for AXIS Syndicate 2007. The Financial Statements of the managing agency can be obtained by application to the Registered Office (see page 2).

21. FUNDS AT LLOYD'S

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

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

22. OFF BALANCE SHEET ITEMS

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

23. COMMITMENTS AND CONTINGENCIES

Reinsurance purchase commitments

During 2018, the Syndicate participated in a number of group-purchased global reinsurance policies on the Aviation, Marine, Terrorism and Property lines of business. There are no outstanding commitments.

24. APPROVAL OF ANNUAL REPORT AND ACCOUNTS

The annual report and accounts were approved by the Board of Directors on 21 March 2019.