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AXIS Syndicate 2007
Syndicate Annual Report and Accounts
31 December 2019

CONTENTS

DIRECTORS AND ADMINISTRATION

MANAGING AGENT	AXIS Managing Agency Ltd	
DIRECTORS	Stephen Cane (Chairman)* Adam Cragg (resigned 22 March 2019) Tadeusz Dziurman* Mark Gregory Tim Hennessy Kenneth Kwok (resigned 25 March 2019) Geraldine Lawlor (resigned 29 Feb 2020)* Fintan Mullarkey Tom Rivers Alistair Robson	*** Independent Non-Executive**
SECRETARY	Mark Rowe 52 Lime Street London EC3M 7AF United Kingdom	
MANAGING AGENT'S REGISTERED OFFICE	52 Lime Street London EC3M 7AF 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 Barclays Bank PLC 1 Churchill Place London, E14 5RB	RBC Dexia Investor Services 155 Wellington Street W Toronto, Ontario M5V 3K7 Canada

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").

Following the acquisition of Novae Group Plc by the AXIS Group in 2017 the Syndicate was placed into run-off, effective January 2019. Until 31st December 2018 the Syndicate wrote (re)insurance across marine, energy, property and specialty lines with a focus on credit and political as well as cyber insurance. From 1st January 2019 onwards business has been written through Syndicate 1686.

For financial year end December 2019, the Syndicate achieved gross written premiums of GBP 194.4m representing an 79.5% reduction from 2018 (GBP 946.0m). This reduction was the result of the renewal of all ongoing business into AXIS Syndicate 1686 as AMAL streamlined its platform use at Lloyd's. The written premium arises from 2018 and prior underwriting years, in particular under the delegated underwriting portfolios.

The Syndicate produced a profit of GBP 8.3m (2018: loss of GBP 87.5m).

Alistair Robson
Active Underwriter
Date:

The directors of the managing agent, AMAL, present their annual report for the Syndicate for the year ended 31 December 2019.

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.

Until 31st December 2018 the Syndicate wrote (re)insurance across marine, energy, property and specialty lines with a focus on credit and political as well as cyber insurance. The Syndicate also wrote business through its Service Company, AXIS Underwriting Limited (formerly Novae Underwriting Limited). From 1st January 2019 business was written through Syndicate 1686.

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

	2019	2018
	GBP '000	GBP '000
Property	80,748	466,425
Third Party Liability	53,152	130,265
Credit	20,225	104,732
Marine	16,819	94,176
Reinsurance	8,304	77,700
Transport	8,110	26,390
Energy	6,032	21,066
Accident & Health	1,294	18,703
Motor	(251)	6,506
	194,433	**945,963**

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

	2019	2018	Change
	GBP '000	GBP '000	%
Gross written premium	194,433	945,963	(79.4)
Net earned premium	357,119	636,488	(43.9)
Net technical profit/(loss) (excluding investment return transferred from non-technical account)	(1,008)	(99,920)	99.0
Combined ratio (excluding investment income & FX impact)	100.3%	115.7%	

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS (continued)

The forecast return on capacity at 31 December 2019 for the two years of account is as follows:

	2018 YOA Open	2017 YOA Closed
Capacity (GBP '000)	800,000	800,000
Forecast (GBP '000)	(110,185)	(84,996)
Return on capacity %	(13.8)%	(10.6)%

FUTURE DEVELOPMENTS

As a result of the Syndicate being placed into run-off, effective January 2019, the intention is for the 2018 year of account to reinsure-to-close (RITC) into Syndicate 1686 at 31 December 2020.

Syndicate 2007 will collect the 2017 year of account loss from AXIS Corporate Capital UK II Limited ("ACCUKIIL") in 2020.

Lloyd's is proposing to transfer all non-life business written by the Lloyd's market from 1993 that is expected to be impacted by Brexit related changes to trading rights. This will be transferred to Lloyd's Brussels and undertaken via an insurance business transfer under Part VII of the UK's Financial Services and Markets Act 2000. This project is progressing in line with expectations and the Managing Agency will be part of this mechanism to ensure that it can continue to serve its clients.

PRINCIPAL RISKS

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

Underwriting risk

Underwriting risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities transferred to the Syndicate through the underwriting process. Underwriting risk is managed through rigorous protocols, including peer review and underwriting guidelines, which provide a framework for consistent pricing and risk analysis while ensuring alignment to the Syndicate's 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.

Within underwriting risk, the Syndicate recognises the following further sub categories of this risk

1. Natural Peril Catastrophe Risk
2. Man-made Catastrophe Risk
3. Reserving Risk
4. Claims Handling Risk

These risks are further detailed in note 16.

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 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.

PRINCIPAL RISKS (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, in addition to undertaking stress testing to ensure that the Syndicate would be able to withstand extreme loss events and still remain liquid. The Syndicate also has a facility agreement in place with an AXIS Group affiliate for its working capital and stressed liquidity 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 managing agent 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.

Within Operational risk, the managing agent also considers Regulatory risk, defined as is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The managing agent 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 managing agent has a compliance officer who monitors business activity and regulatory developments and assesses any effects on the agent.

The managing agent has no appetite for failing to treat customers fairly. The managing agent 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 and the EU have agreed a Brexit Withdrawal Agreement where the UK officially left the EU on 31st January 2020. The agreement provides a transition period that will last until at least 31 December 2020. During the transaction period the UK will remain within the European Single Market. In practice, therefore, there will be no change in the AXIS business model and the services provided to clients and brokers will remain unaffected.

As per the agreement the length of the transition period can be extended up to 31 December 2022 and the UK and the EU will make a decision by 1 July 2020 on whether such and extension will materialise. AXIS has established a Brexit working group that is monitoring any relevant developments.

Lloyd's remains committed to doing business with their European partners as the UK leaves the European Union and started underwriting EEA risks on 1 January 2019 through their Brussels subsidiary. As it is in run off the Syndicate has not be participated on the Lloyd's Brussels platform.

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

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. Management have not identified any critical accounting judgements. Key sources of estimation uncertainty are as follows.

Insurance contract technical provisions
Estimates need to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not reported (IBNR), at the reporting date. A variety of actuarial methods are utilised in estimating the ultimate costs of claims and claims expenses, including the Expected Loss Ratio, Bornhuetter-Ferguson and Chain Ladder methods.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Insurance contract technical provisions (continued)

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of each claims notified but not settled by the statement of financial position date. The IBNR provision and related handling costs are considered for each class of business by using a range of standard actuarial techniques and include an implicit allowance for claims which are incurred but not reported as well as deteriorations of claims currently incurred. The methods used, and the estimates made, are reviewed regularly.

The two main critical assumptions with regards to claims provisions are 1) it is assumed unless there is information to the contrary past development is a reasonable predictor of future claims development and 2) the rating and other models used are fair reflections of the underlying business.The directors consider the provisions for gross claims and related reinsurance recoveries are fairly stated based in the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Further information is provided in note 16 (c)

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	Resigned	22 March 2019
Kenneth Kwok	Resigned	25 March 2019
Geraldine Lawlor	Resigned	29 February 2020

GOING CONCERN

As described in in Note 16: Provision of capital by members, the Syndicate's Economic Capital Assessment (ECA) is supported by Funds at Lloyd's (FAL) provided by ACCUKIIL. 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.

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.

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 within 21 days of the issue of these financial statements.

On behalf of the Board

Mark Rowe
Company Secretary
Date:

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 annual 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 of Syndicate 2007 (the 'syndicate'):
- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 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 23.

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

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

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the Financial Reporting Council's (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.

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 managing agent's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the managing agent's report has 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 (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
05 March 2020

AXIS SYNDICATE 2007
STATEMENT OF COMPREHENSIVE INCOME: TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Notes	Financial Year ended 31 December 2019 GBP '000	Financial Year ended 31 December 2018 GBP '000
Gross written premiums	3	194,433	945,963
Outward reinsurance premiums		(95,015)	(313,610)
Net written premium		**99,418**	**632,353**
Change in the gross provision for unearned premiums	4	348,110	(10,312)
Change in the provision for unearned premiums – reinsurers' share	4	(90,409)	14,447
Change in the net provision for unearned premiums		**257,701**	**4,135**
Earned premiums, net of reinsurance		**357,119**	**636,488**
Allocated investment return transferred from the non-technical account		16,152	4,403
		373,271	**640,891**
Claims paid			
Gross amount		(511,327)	(480,746)
Reinsurers' share		253,941	184,802
Net claims paid		**(257,386)**	**(295,944)**
Change in provision for claims			
Gross amount	4	149,793	(179,578)
Reinsurers' share	4	(96,387)	66,403
Change in net provision for claims		**53,406**	**(113,175)**
Claims incurred, net of reinsurance		**(203,980)**	**(409,119)**
Net operating expenses	5	(154,147)	(327,289)
Balance on the technical account - general business		**15,144**	**(95,517)**

STATEMENT OF COMPREHENSIVE INCOME: NON - TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Notes	Financial Year ended 31 December 2019 GBP '000	Financial Year ended 31 December 2018 GBP '000
Balance transferred from the technical account - general business		15,144	(95,517)
Investment income	8	16,152	4,403
Allocated investment return transferred to the technical account		(16,152)	(4,403)
		15,144	**(95,517)**
Foreign exchange (losses)/gains		(6,837)	8,037
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		**8,307**	**(87,480)**
Other comprehensive income - Exchange differences on translation		10,162	(18,373)
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE FINANCIAL YEAR		**18,469**	**(105,853)**

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 2019 GBP '000	Financial Year ended 31 December 2018 GBP '000
As at 1 January	(286,253)	(52,258)
Profit/(Loss) for the financial year	8,307	(87,480)
Other Comprehensive Income	10,162	(18,373)
Loss collection /(Distribution Profit)	76,523	(127,944)
Member expenses	365	(198)
As at 31 December	**(190,896)**	**(286,253)**

The distribution profit/loss collection represents the amount paid to/from, the corporate member, ACCUKIIL, in respect of the 2015 and 2016 years of account.

	Notes	2019 GBP '000	2018 GBP '000
ASSETS			
Investments			
Financial investments	9	280,751	346,024
		280,751	**346,024**
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	29,907	123,064
Claims outstanding	4	323,856	441,365
		353,763	**564,429**
Debtors			
Debtors arising out of direct insurance operations	10	27,120	209,281
Debtors arising out of reinsurance operations	11	239,592	92,220
		266,712	**301,501**
Cash and other assets			
Cash at bank		6,897	22,865
		6,897	**22,865**
Prepayments and accrued income			
Deferred acquisition costs	4	23,116	125,970
Other prepayments and accrued income		5,015	11,889
		28,131	**137,859**
TOTAL ASSETS		**936,254**	**1,372,678**

	Notes	2019 GBP '000	2018 GBP '000
MEMBERS' BALANCE			
Capital and reserves			
Members' balance		(190,896)	(286,253)
LIABILITIES			
Technical provisions			
Provision for unearned premiums	4	104,838	461,353
Gross claims outstanding	4	781,830	965,311
		886,668	**1,426,664**
Creditors			
Creditors arising out of direct insurance operations	13	—	1,574
Creditors arising out of reinsurance operations	14	129,433	135,618
Other creditors	15	107,796	83,061
		237,229	**220,253**
Accruals and deferred income		3,253	12,014
TOTAL LIABILITIES AND MEMBERS' BALANCE		**936,254**	**1,372,678**

The annual report and accounts were approved by the Board of AXIS Managing Agency Limited on 27 February 2020 and signed on its behalf by:

Tim Hennessy
Finance Director
Date:

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Notes	2019 GBP'000	2018 GBP'000
Profit/(Loss) for the financial year		**8,307**	**(87,480)**
Adjustments for:			
(Decrease) in net technical provisions		(329,330)	(469,578)
Decrease in debtors		144,517	17,016
(Decrease) in creditors		(8,998)	(51,551)
Movement in other assets/liabilities		—	1,376
Investment return		(16,152)	(4,403)
Foreign exchange on financial assets and liabilities		27,844	(56,825)
Net cash inflow from operating activities		**(173,812)**	**(651,445)**
Cash flow from investing activities:			
Purchase of equity and debt instruments		(228,941)	(319,085)
Sale of equity and debt instruments		281,783	937,812
Investment income received		9,940	4,566
Net cash inflow from investing activities		**62,782**	**623,293**
Cash flow from financing activities:			
Transfer (to)/from members in respect of underwriting participations		76,159	(127,944)
Non-standard personal expenses		364	(198)
Loan payable to group companies		17,214	68,153
Net cash (used in) financing activities		**93,737**	**(59,989)**
Net (decrease) in cash and cash equivalents		(17,292)	(88,141)
Opening cash and cash equivalents		30,380	117,463
Effect of exchange rates on cash and cash equivalents		(823)	1,058
Closing cash and cash equivalents	**12**	**12,264**	**30,380**

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 ACCUKIIL. 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 22.

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 judgement 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 judgement 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 judgement 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%, 2018: 19.0%) 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.

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.

3. SEGMENTAL ANALYSIS

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

	Gross Premiums written 2019 GBP'000	Gross Premiums earned 2019 GBP'000	Gross Claims incurred 2019 GBP'000	Net Operating expenses 2019 GBP'000	Reinsurance Balance 2019 GBP'000	Total 2019 GBP'000
Direct insurance:						
Accident and health	6,032	13,065	(7,778)	(5,008)	(35)	244
Marine, aviation and transport	25,123	69,906	(62,038)	(19,530)	11,901	239
Fire and other damage	80,497	262,819	(164,393)	(83,498)	(25,688)	(10,760)
Third party liability	53,152	109,798	(37,572)	(30,815)	(29,732)	11,679
Motor (other classes)	1,294	3,940	(2,405)	(1,114)	(782)	(361)
Credit and suretyship	20,225	58,428	(30,161)	(12,705)	(737)	14,825
Total direct insurance	**186,323**	**517,956**	**(304,347)**	**(152,670)**	**(45,073)**	**15,866**
Reinsurance	8,110	24,587	(57,186)	(1,477)	17,203	(16,873)
Total	**194,433**	**542,543**	**(361,533)**	**(154,147)**	**(27,870)**	**(1,007)**

	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
Direct insurance:						
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)**

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

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 2019	461,353	(123,064)	338,289
Movement in provision	(348,110)	90,409	(257,701)
Foreign exchange	(8,405)	2,748	(5,657)
As at 31 December 2019	**104,838**	**(29,907)**	**74,931**
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	**461,353**	**(123,064)**	**338,289**

	Gross provisions GBP'000	Reinsurance assets GBP'000	Net GBP'000
Provision for claims outstanding			
As at 1 January 2019	965,311	(441,365)	523,946
Movement in provision	(149,793)	96,387	(53,406)
Foreign exchange	(33,688)	21,122	(12,566)
As at 31 December 2019	**781,830**	**(323,856)**	**457,974**
As at 1 January 2018	1,561,969	(574,620)	987,349
Movement in provision	179,578	(66,403)	113,175
Effect of RITC	(819,917)	224,963	(594,954)
Foreign exchange	43,681	(25,305)	18,376
As at 31 December 2018	**965,311**	**(441,365)**	**523,946**

	Gross provisions GBP'000	Reinsurance assets GBP'000	Net GBP'000
Provision for claims outstanding			
Claims notified	422,530	(164,055)	258,475
Claims incurred but not reported	359,300	(159,801)	199,499
As at 31 December 2019	**781,830**	**(323,856)**	**457,974**
Claims notified	394,956	(146,270)	248,686
Claims incurred but not reported	570,355	(295,095)	275,260
As at 31 December 2018	**965,311**	**(441,365)**	**523,946**

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 2019	125,970	(11,433)	114,537
Change in deferred acquisition costs	(100,896)	8,508	(92,388)
Foreign exchange	(1,958)	231	(1,727)
As at 31 December 2019	**23,116**	**(2,694)**	**20,422**
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	**125,970**	**(11,433)**	**114,537**

In January 2018 the Syndicate entered in a reinsurance-to-close ("RITC") with Enstar's Starstone Syndicate 2008 in respect of all earned 2015 and prior business. The assets and liabilties were transferred with effect from 1 January 2018 and the impact of technical provisions is highlighted above.

5. NET OPERATING EXPENSES

	2019 GBP'000	2018 GBP'000
Acquisition costs	(59,402)	(268,504)
Change in deferred acquisitions costs	(100,896)	7,048
Administration expenses	(15,999)	(95,803)
Operating expenses	**(176,297)**	**(357,259)**
Reinsurance commissions	22,150	29,970
Net operating expenses	**(154,147)**	**(327,289)**

Members' standard personal expenses amounting to GBP 6.7m (2018: GBP 16.4m) 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

	2019 GBP'000	2018 GBP'000
Audit of the Syndicate annual accounts	147	310
Other services pursuant to Regulations and Lloyd's Byelaws	130	130
	277	**440**

7. INFORMATION REGARDING DIRECTORS

The directors of the managing agency are executives of the related Group Companies. The directors received total remuneration of GBP 4.3m (2018: GBP 4.5m) 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 0.1m (2018: GBP 0.2m) during the year based on the allocation of his service as active underwriter as a proportion of his service to other AXIS Group entities.

8. INVESTMENT RETURN

	2019 GBP'000	2018 GBP'000
Net gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	16,152	4,403
Total investment income	**16,152**	**4,403**

9. FINANCIAL INSTRUMENTS

	2019	
	Carrying value GBP'000	Purchase price GBP'000
- Shares and other variable yield securities & units in unit trusts	2,811	2,811
- Debt securities & other fixed income securities	227,272	225,014
- Participation in investment pools	2,454	2,454
- Overseas deposits	48,214	48,214
	280,751	**278,493**

	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
	346,024	**347,397**

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 2019				
- Shares and other variable yield securities & units in unit trusts	—	2,811	—	2,811
- Debt securities & other fixed income securities	96	227,176	—	227,272
- Participation in investment pools	2,454	—	—	2,454
- Overseas deposits	14,600	33,614	—	48,214
Total	**17,150**	**263,601**	**—**	**280,751**

9. FINANCIAL INVESTMENTS (continued)

	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	—	256,133
- Participation in investment pools	4,365	—	—	4,365
- Overseas deposits	—	82,662	—	82,662
Total	25,439	320,585	—	346,024

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

	2019 GBP'000	2018 GBP'000
Due within one year	26,961	209,080
Due after one year	159	201
	27,120	**209,281**

11. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2019 GBP'000	2018 GBP'000
Due within one year	166,386	92,181
Due after one year	73,206	39
	239,592	**92,220**

12. CASH AND CASH EQUIVALENTS

	2019 GBP'000	2018 GBP'000
Cash at bank and in hand	6,897	22,774
Deposits with credit institutions	5,367	7,606
Total Cash and cash equivalents	**12,264**	**30,380**

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.

13. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2019 GBP'000	2018 GBP'000
Due within one year	—	1,574
	—	**1,574**

14. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2019 GBP'000	2018 GBP'000
Due within one year	94,165	152,537
Due after one year	35,268	(16,919)
	129,433	**135,618**

15. OTHER CREDITORS

	2019 GBP'000	2018 GBP'000
Amounts payable to group companies	22,429	14,908
Loans payable to group companies	85,367	68,153
	107,796	**83,061**

At 31 December 2019, the Syndicate had a GBP 173.4m (2018: GBP182.5m) flexible facility agreement with AXIS Specialty Finance Plc for its working capital requirements. The total value of the outstanding loan as at 31 December 2019 is GBP 85.4m (2018: GBP 68.2m).

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 2019 was GBP 2.4m (2018: GBP 115K).

16. RISK MANAGEMENT

a) **Governance framework**
The risk and financial management framework aims to balance the risk to members' capital from events that might otherwise prevent the Syndicate from meeting its policyholder obligations, with 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. AMAL 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.

16. RISK MANAGEMENT (continued)

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

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.

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 ACCUKIIL.

c) **Insurance risk management**

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities transferred to the Syndicate through the underwriting process.

The insurance risk category encompasses underwriting risks in all lines of business.

The following sections set the key sub categories of Insurance Risk recognised by the Syndicate and how they are managed:

Natural Peril 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. Whilst there have been some breaches of the Syndicate’s natural catastrophe risk limit during the year, this is as a result of its run-off status, and the timing of business transferring into Syndicate 1686.

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, aeroplane crashes, cyber risks or terrorism. For these risks vendor models (where available) are used with bespoke modelling, scenario analysis, underwriting judgement and expertise. Limits are set and monitored in respect of key accumulations from man-made perils.

16. RISK MANAGEMENT (continued)

c) **Insurance risk management (continued)**

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

Claims Handling risk
In accepting risk, we are committing to the payment of claims and therefore these risks must be understood and controlled. Our claim teams include a diverse group of experienced professionals, including claims adjusters and legal professionals. We also use approved external service providers, such as independent adjusters and appraisers, surveyors, accountants, investigators and specialist legal firms, as appropriate.

We maintain claims handling guidelines and claims reporting control and escalation procedures in our claims departments. Large claims matters are reviewed during claims meetings.

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 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.

	2019	**2018**
	GBP'000	**GBP'000**
Gross outstanding claims		
Five percent increase	39,092	48,266
Five percent decrease	(39,092)	(48,266)
Net outstanding claims		
Five percent increase	22,899	26,197
Five percent decrease	(22,899)	(26,197)

16. 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	238,770	405,751	344,971
One year later	626,871	698,602	669,255
Two years later	662,063	728,511	
Three years later	640,512		
Less cumulative gross paid	(464,133)	(472,175)	(320,140)
Liability for gross outstanding claims	176,379	256,336	349,115
Total Gross outstanding claims all years			**781,830**

Underwriting Year	**2016**	**2017**	**2018**
	GBP'000	**GBP'000**	**GBP'000**
Estimate of cumulative net claims incurred:			
At end of underwriting year	180,639	184,790	170,559
One year later	391,087	392,622	362,535
Two years later	466,544	399,788	
Three years later	468,555		
Less cumulative net paid	(343,276)	(253,109)	(176,519)
Liability for net outstanding claims	125,279	146,679	186,016
Total Net outstanding claims all years			**457,974**

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.

16. RISK MANAGEMENT (continued)

d) **Financial risk**

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

i) Credit risk

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 key areas of exposure to credit risk for the Syndicate are from its reinsurance program and amounts due from policyholders and intermediaries.

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

It should be noted that credit risk in relation to the Syndicate's investment portfolio is addressed under the market risk framework, along with the other risks relating to the investment portfolio. The Syndicate's investment policy prevents material investment in other counterparties (e.g. reinsurers) to avoid concentrations of risk.

Risk from the underwriting of credit (re)insurance products is addressed through the underwriting risk framework described previously. Checks are in place to limit any concentrations of risk between (re)insurance, investments and other counterparty exposures.

The following sections discuss specific components of credit risk.

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 AXIS 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.

16. RISK MANAGEMENT (continued)

d) Financial risk (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.

2019		**GBP'000**		
	Neither past due or Impaired	**Past due**	**Impaired**	**Total**
Shares and other variable yield securities	2,811	—	—	2,811
Debt securities	227,272	—	—	227,272
Participation in investment pools	2,454	—	—	2,454
Overseas deposits	48,214	—	—	48,214
Reinsurers share of claims outstanding	323,856	—	—	323,856
Debtors arising out of direct insurance operations	27,120	—	—	27,120
Debtors arising out of direct reinsurance operations	233,245	6,348	—	239,593
Other debtors	58,037	—	—	58,037
Cash at bank and in hand	6,897	—	—	6,897
Total	**929,906**	**6,348**	**—**	**936,254**

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**

16. RISK MANAGEMENT (continued)

d) Financial risk (continued)

ii) Liquidity risk

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2019 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.

2019				**GBP'000**			
					BBB	**Not**	
	AAA	**AA**	**A**	**BBB**	**or less**	**Rated**	**Total**
Shares and other variable yield securities	—		2,736	—	—	75	2,811
Debt securities	24,550	135,872	56,534	4,704	—	5,612	227,272
Participation in investment pools	—	30	2,392	—	—	32	2,454
Overseas deposits as investments	24,740	5,271	4,909	2,389	1,571	9,334	48,214
Reinsurers' share of claims outstanding	—	77,250	225,307	—	—	21,299	323,856
Reinsurance debtors	—	12,975	203,067	—	—	3,907	219,949
Cash at bank and in hand	—	—	6,897	—	—	—	6,897
Total	**49,290**	**231,398**	**501,842**	**7,093**	**1,571**	**40,259**	**831,453**

2018				**GBP'000**			
					BBB	**Not**	
	AAA	**AA**	**A**	**BBB**	**or less**	**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**

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.

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. The managing agency undertakes stress testing to ensure that the Syndicate would be able to withstand extreme loss events and still remain liquid. In addition, AXIS Specialty Finance Plc provides a credit facility to the Syndicate to ensure that it can continue to meet liquidity requirements even in the most extreme circumstances.

16. RISK MANAGEMENT (continued)

d) Financial risk (continued)

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.

2019			**GBP'000**		
	0-1 year	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
Claims outstanding	311,977	264,484	102,083	103,286	781,830
Creditors	201,961	35,268	—		237,229
Total	**513,938**	**299,752**	**102,083**	**103,286**	**1,019,059**

2018			**GBP'000**		
	0-1 year	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
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**

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. Credit risk associated with investments is also managed in the market risk framework.

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.

16. 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:

2019	GBP'000							
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**OTH**	**Total**
Total Assets	66,732	778,254	22,806	39,016	29,446	—	—	936,254
Total Liabilities	(200,117)	(860,756)	(13,521)	(44,333)	(8,423)	—	—	(1,127,150)
Net Assets	**(133,385)**	**(82,502)**	**9,285**	**(5,317)**	**21,023**	**—**	**—**	**(190,896)**

2018	GBP'000							
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**OTH**	**Total**
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)**

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 ACCUKIIL which includes the funding of underwriting deficits. When each year of account closes, the Syndicate calls on the members to fund losses.

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.

Impact on profit and members' balance	**2019**	**2018**
	GBP'000	**GBP'000**
GBP Weakens		
10% against other currencies	(5,751)	(6,611)
20% against other currencies	(11,502)	(13,223)
GBP Strengthens		
10% against other currencies	5,751	6,611
20% against other currencies	11,502	13,223

e) Interest rate risk

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

	2019	**2018**
	GBP'000	**GBP'000**
Interest rate risk		
Impact of 50 basis point increase on result	(2,401)	(3,615)
Impact of 50 basis point decrease on result	2,401	3,615
Impact of 50 basis point increase on net assets	(2,401)	(3,615)
Impact of 50 basis point decrease on net assets	2,401	3,615

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

17. REINSURANCE ASSETS

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

All of these reinsurance covers provide for recovery of a portion of losses and loss reserves from reinsurers. Under its reinsurance security policy, the Syndicate predominantly cedes business with reinsurers rated A- or better by Standard & Poors and/or AM Best. The Syndicate remains liable to the extent that reinsurers do not meet their obligations under these agreements either due to solvency issues, contractual disputes or some other reason. Included within reinsurance loss recoverable as at 31 December 2019 were amounts of GBP 33.8m (2018: GBP 33.0m) recoverable from a group company. Included within the provision for unearned premiums ceded as at 31 December 2019 is an amount of GBP 1.2m (2018: GBP 4.0) ceded to a group company.

18. RELATED PARTIES

In 2018 a management fee of 2018 GBP 5.5m based on 0.75% of the Syndicate capacity was charged by the managing agent, AMAL. As the Syndicate did not write any business in 2019 no further charges were made by the managing agent for 2019.

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 £91.3m (2018: (£13m)) due to/(from) Syndicate 6129. Included within the reinsurer' share of technical provisions there is a balance of £55.7m (2018: £150m). All of these balances fall due under the terms of the quota share reinsurance contract in place with Syndicate 6129.

19. DISCLOSURE OF INTERESTS

Managing Agent's interest
During 2019, AMAL was the managing agent for AXIS Syndicate 2007. The Financial Statements of the Managing Agent can be obtained by application to the Registered Office (see page 2).

20. FUNDS AT LLOYD'S

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

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 Syndicate liquidity requirements or to settle losses as required.

21. OFF BALANCE SHEET ITEMS

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

22. COMMITTMENTS 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 at 31 December 2019.

23. APPROVAL OF ANNUAL REPORT AND ACCOUNTS

The annual report and accounts were approved by the Board of Directors on 27 February 2020.