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Axis Syndicate 1686
Syndicate Annual Report and Accounts
31 December 2016

CONTENTS

DIRECTORS AND ADMINISTRATION

MANAGING AGENT	Asta Managing Agency Ltd	
DIRECTORS	T A Riddell (Chariman)* C V Barley L Harfitt A J Hubbard* D J G Hunt M D Mohn* D F C Murphy* S P A Norton J W Ramage* K Shah* J M Tighe	*** Non-Executive Directors**
SECRETARY	C Chow 5th Floor Camomile Court 23 Camomile Streeet London EC3A 7LL United Kingdom	
MANAGING AGENT'S REGISTERED OFFICE	5th Floor Camomile Court 23 Camomile Street London EC3A 7LL United Kingdom	
MANAGING AGENT'S REGISTERED NUMBER	1918744	
ACTIVE UNDERWRITER	A M Robson	
AUDITORS	Deloitte LLP Hill House 1 Little New Street London EC4A 3TR United Kingdom	
PRINCIPAL BANKERS	Citibank NA Citigroup Centre 33 Canada Square Canary Wharf London, E14 5LB United Kingdom RBC Dexia Investor Services Royal Bank Plaza 200 Bay Street Toronto, Ontario Canada, M5J 2J5	

AXIS SYNDICATE 1686

ACTIVE UNDERWRITER'S REPORT

AXIS Syndicate 1686 (the "Syndicate") is the dedicated Lloyd's Syndicate of AXIS Capital Holdings Limited ("ACHL"), the Bermuda-based holding company for the AXIS group of companies ("AXIS"). The Syndicate is currently managed by Asta Managing Agency ("Asta") on a 'turnkey' basis with anticipated handover to a new AXIS managing agency on the 1 June 2017 subject to regulatory approval. ACHL is the Syndicate's sole capital provider with 100% ownership of AXIS Corporate Capital UK Limited, through other, wholly owned, legal entities. The Syndicate commenced underwriting for contracts incepting from 1 January, 2014 onwards.

Since inception, a portfolio of existing business written within other AXIS affiliate entities has been renewed, in fixed proportions which vary by class, into the Syndicate, with a focus on specialist classes including marine, energy, aviation, terrorism, property, casualty and professional indemnity. Where appropriate these fixed percentages were increased for 2016 in favour of the Syndicate. Risk exposures on this existing portfolio are well understood by AXIS, and appropriate mitigating measures are in place to reduce exposures to acceptable levels, and meet Lloyd's guidelines and the Syndicate's business plan. Naturally underwriters were also able to access additional business which was either new to AXIS or to the market in general.

The Syndicate plans always foresaw the inclusion of other AXIS group business and with the implementation of the new China Risk Oriented Solvency System (C-ROSS) the Syndicate successfully joined Lloyd's China in 2016, writing a USD 28.2m portfolio of treaty risks, the majority of which transferred in from other AXIS underwriting platforms.

Brokers' continued commoditisation of business by means of quota-share or facility arrangements led the Syndicate to investigate a number of such arrangements and participate on a small number after extensive due diligence. Such facilities essentially track market trends within product classes that are largely already key to wider Syndicate and AXIS strategies.

The Syndicate achieved 72% (2015: 94%) of planned 2016 gross premium written driven by slower than expected implementation of these new broker facilities. When the facilities mentioned above are excluded this increases to 92% of planned gross premium written. Increased preference for Syndicate paper amongst clients, multi-year policies and strong traction against our strategic property initiatives have driven the result, offset by traditional Energy classes (where market conditions remained competitive), Renewable Energy (where much of the business is sourced from non-Lloyd's brokers) and Excess Casualty (which entered run-off in late 2015).

Gross premium written for the 2016 was therefore USD 291.2m, an increase of USD 111.2m on the prior year. Overall, the Syndicate retains a balanced portfolio, with no single line of business making up more than 15% of total premium.

Rate change for the year was worse than anticipated overall, with significant outliers, both in absolute terms and relative to plan, being Aviation (where the market failed to react to losses), Onshore and Offshore Energy (where over-capacity continues to push rates lower than expected), and Property (where over-capacity and benign loss experience combined to continue soft market conditions).

The Syndicate produced a loss of USD 1.1m (2015: loss USD 32.7m). This primarily resulted from a shortfall in top-line income against plan coupled with the higher operating costs during the initial turnkey and new entrant phase.

A. M. Robson
Active Underwriter
21 March 2017

The Syndicate's managing agent is a company registered in England and Wales. The directors of the managing agent present their report for the year ended 31 December 2016.

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").

RESULTS

The results of the Syndicate are set out on pages 9 and 10.

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 commenced underwriting in 2014.

The Syndicate predominately writes energy, property, marine, aviation, professional indemnity and terrorism in the United Kingdom and credit, property, and agriculture crop in China.

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

	2016 USD '000	2015 USD '000
Aviation	25,402	12,865
Aviation War	72	452
Energy Onshore	19,065	20,816
Renewable Energy Onshore	5,676	5,368
Excess Casualty	33	593
London MGA	34,290	14,245
Marine Hull	2,020	2,320
Marine Liability	4,502	4,507
Marine Cargo	28,631	21,746
Marine War	1,710	1,002
Property	26,139	23,734
Terrorism	9,538	8,503
UK PI	39,672	33,039
Renewable Energy Offshore	3,396	7,708
China Reinsurance	28,166	—
Broker Facility	42,571	—
Offshore Energy Gulf of Mexico Wind	589	1,066
Offshore Energy Excluding Gulf of Mexico Wind	19,738	22,007
	291,210	**179,971**

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

	2016 USD '000	2015 USD '000	Change %
Gross written premiums	291,210	179,971	61.8
Net earned premium	130,841	89,310	46.5
Net technical loss	(4,277)	(29,561)	(85.5)
Combined ratio	103.30%	133.10%	

The forecast return on capacity at 31 December 2016 for the three open years of account is as follows;

	2014 YOA Open	2015 YOA Open	2016 YOA Open
Capacity (USD '000)	146,810	135,884	257,126
Forecast (USD '000)	(18,004)	(16,818)	(11,597)
Return on capacity %	(12.26)%	(12.38)%	(4.51)%

FUTURE DEVELOPMENTS

In 2017 the Syndicate plans to continue to transact in the current classes of general direct insurance and reinsurance business. The trading environment is expected to remain competitive however if opportunities arise to write new classes of business, these will be investigated at the appropriate time. In January 2017, the Syndicate announced the launch of AXIS Specialty Underwriters Inc ("AXIS Miami") which will serve as a coverholder for the Latin America and Caribbean region. AXIS Miami will provide direct and reinsurance coverage focused on energy and property classes.

Commencing in 2014, the Syndicate and AXIS Specialty Europe SE entered into a co-insurance agreement where any risk presented to either Company for certain classes of business are co-insured. The co-insurance is based on a predefined division by class of business up to the maximum Syndicate's gross line and is subject to a number of exemptions set out in the agreement. The use of default split lines is expected to be discontinued from 2017, with the exception of the Energy Offshore line of business.

The Syndicate will collect the 2014 year of account loss from the AXIS Corporate Capital UK Limited in 2017.

AXIS group proposes to establish its own managing agency with effect from 1 June 2017, subject to regulatory approval.

The capacity for the 2017 year of account is USD 415m (2016: USD 257m).

PRINCIPAL RISKS AND UNCERTAINTIES

The Syndicate sets risk appetite annually, which is approved by the Agency as part of the Syndicate's business planning and Solvency Capital Requirement ('SCR') process. The Agency Risk Committee meets quarterly to oversee the risk management framework. The Syndicate Board reviews the risk profile and monitors performance against risk appetite using a series of key risk indicators. The principal risk and uncertainties facing the Syndicate are as follows:

Insurance Risk

Insurance risk includes the risk that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Syndicate Board manages insurance risk through the approved business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate Board then monitors performance against the business plan throughout the year. Reserve adequacy is monitored through quarterly review by the Syndicate actuary and the Reserving Committee. It is also reviewed by an independent firm of actuaries annually.

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 Syndicate Board's policy is that the Syndicate will only reinsure with approved reinsurers, supported by collateralisation, where required. The Agency 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 impacting the Syndicate relates to fluctuations in interest rates or exchange rates. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's 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 Syndicate Board, a sub-committee of the Agency Board.

Liquidity Risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk the Syndicate Board reviews cash flow projections regularly. The Syndicate also has two facility agreements in place with AXIS affiliates to ensure that it can respond to any shortfalls in working capital liquidity and shortfalls arising from large losses respectively.

Operational Risk
This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. The Agency seeks to manage this risk through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

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 manages a team of three that monitor 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.

GROUP / STRATEGIC
This is the risk of contagion that arises from being associated with key stakeholders and the impact that activities and events that occur within other connected or third parties has on the business.

Strategic risk covers the risks faced by the Syndicate due to changes in underlying strategy of the business or that of its key stakeholders (including strategic conflicts of interest).

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:

Y Bourman	Resigned	12 February 2016
G M J Erulin	Resigned	31 March 2016
C V Barley	Appointed	27 April 2016
M D Mohn	Appointed	16 May 2016
K Shah	Appointed	1 October 2016

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 auditor in connection with the auditor's report, of which the auditor is unaware. Having made enquiries of fellow directors of the Agency and the Syndicate's Auditor, 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 auditor is aware of that information.

EVENTS SINCE FINANCIAL YEAR END
There have been no significant events affecting the Company since the financial year end.

AUDITOR
The managing agent intends to reappoint Deloitte LLP as the Syndicate's auditor.

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 25 April 2017.

On behalf of the Board

C Chow
Company Secretary
21 March 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is 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 and applicable law) including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. 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 notes to the Syndicate 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 managing agent is 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. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1686

We have audited the syndicate annual financial statements for the year ended 31 December 2016 which comprise the Income Statement, Statement of Changes in Members' Balances, Statement of Financial Position and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

Respective responsibilities of the managing agent and the auditor
As explained more fully in the Statement of Managing Agent's Responsibilities, the managing agent is responsible for the preparation of syndicate annual financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual financial statements
An audit involves obtaining evidence about the amounts and disclosures in the annual financial statements sufficient to give reasonable assurance that the annual financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the annual financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate annual financial statements
In our opinion the annual financial statements:

- give a true and fair view of the syndicate's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008
In our opinion the information given in the Managing Agent's Report for the financial year in which the annual financial statements are prepared is consistent with the annual financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, 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.

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

21 March 2017

AXIS SYNDICATE 1686
INCOME STATEMENT: TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Notes	Financial Year ended 31 December 2016 USD '000	Financial Year ended 31 December 2015 USD '000
Gross premiums written	3	291,210	179,971
Outward reinsurance premiums		(120,817)	(78,897)
Net premium written		**170,393**	**101,074**
Change in the gross provision for unearned premiums	4	(56,607)	(19,414)
Change in the provision for unearned premiums – reinsurers' share	4	17,055	7,650
Change in the net provision for unearned premiums		**(39,552)**	**(11,764)**
Earned premiums, net of reinsurance		**130,841**	**89,310**
Allocated investment return transferred from the non-technical account		240	60
		131,081	**89,370**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(80,715)	(41,269)
Reinsurers' share		34,797	18,911
Net claims paid		**(45,918)**	**(22,358)**
Change in provision for claims			
Gross amount	4	(46,084)	(122,028)
Reinsurers' share	4	17,703	66,732
Change in net provision for claims		**(28,381)**	**(55,296)**
Claims incurred, net of reinsurance		**(74,299)**	**(77,654)**
Net operating expenses	5	(60,819)	(41,217)
Balance on the technical account - general business		**(4,037)**	**(29,501)**

AXIS SYNDICATE 1686
INCOME STATEMENT: NON - TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Notes	Financial Year ended 31 December 2016 USD '000	Financial Year ended 31 December 2015 USD '000
Balance on the technical account - general business		(4,037)	(29,501)
Investment income	8	240	60
Allocated investment return transferred to the technical account		(240)	(60)
		(4,037)	**(29,501)**
Foreign exchange gains/(losses)		2,969	(3,185)
LOSS FOR THE FINANCIAL YEAR		**(1,068)**	**(32,686)**

All amounts arise from continuing activities.

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

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

STATEMENT OF CHANGES IN MEMBERS' BALANCES

	Financial Year ended 31 December 2016 USD '000	Financial Year ended 31 December 2015 USD '000
As at 1 January	(53,079)	(20,393)
Loss for the financial year	(1,068)	(32,686)
As at 31 December	**(54,147)**	**(53,079)**

AXIS SYNDICATE 1686

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

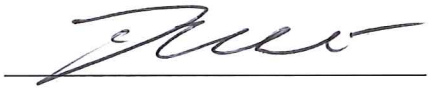
	Notes	2016 USD '000	2015 USD '000
ASSETS			
Investments			
Financial investments	9	45,861	31,091
		45,861	**31,091**
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	48,639	31,919
Claims outstanding	4	97,537	81,932
		146,176	**113,851**
Debtors			
Debtors arising out of direct insurance operations	10	97,958	35,374
Debtors arising out of reinsurance operations	11	32,868	26,884
Other debtors		—	62
		130,826	**62,320**
Cash and other assets			
Cash at bank		31,106	27,688
Other assets	12	7,510	2,926
		38,616	**30,614**
Prepayments and accrued income			
Deferred acquisition costs	4	28,549	14,605
Other prepayments and accrued income		1,361	1,034
		29,910	**15,639**
TOTAL ASSETS		**391,389**	**253,515**

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	2016 USD '000	2015 USD '000
MEMBERS' BALANCE			
Capital and reserves			
Members' balance		(54,147)	(53,079)
LIABILITIES			
Technical provisions			
Provision for unearned premiums	4	151,824	96,762
Gross claims outstanding	4	203,187	161,292
		355,011	**258,054**
Creditors			
Creditors arising out of direct insurance operations	13	16,231	1,311
Creditors arising out of reinsurance operations	14	41,274	27,626
Other creditors	15	23,110	13,857
		80,615	**42,794**
Accruals and deferred acquisition costs		9,910	5,746
TOTAL LIABILITIES AND MEMBERS' BALANCE		**391,389**	**253,515**

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

The annual report and accounts were approved by the Board of Directors on 15 March 2017 and signed on its behalf by:



D J G Hunt
Director
21 March 2017

1. BASIS OF PREPARATION

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

The annual report and accounts are prepared under the historical cost convention except for certain financial instruments which are measured at fair value. The annual report and accounts are prepared in USD which is the functional and presentational currency of the Syndicate and rounded to the nearest USD'000.

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

The annual report and accounts are presented in thousands of US Dollars (USD '000) unless otherwise stated.

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 and premium taxes. Deferred acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. If deferred amounts are estimated to be unrecoverable, they are expensed.

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

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. Prepaid reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of the contracts in force.

The Syndicate also participates in a number of group purchased global reinsurance treaties for certain risks. The premiums paid to our reinsurers (i.e. outward reinsurance premiums) are expensed over the coverage period The reinsurers' share of provision for unearned premiums represents the portion of premiums ceded applicable to the unexpired term of the contract in force. Outstanding reinsurance commitments relating to subsequent instalments are disclosed in note 22.

Reinsurance recoverables are presented net of a reserve for uncollectible reinsurance. Risk attaching contracts cover claims that relate to underlying policies written during the terms of such contracts. The method for determining the reinsurance recoverable on unpaid losses and loss expenses involves actuarial estimates and assumptions. Unpaid losses and loss expenses include an amount determined from individual case estimates and loss reports, and an amount based on past

2. SUMMARY OF ACCOUNTING POLICIES (continued)

experience, for losses incurred but not reported. Based on reinsurance coverage, the Syndicate determines the amount of recoverables for unpaid losses and loss expenses.

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF ACCOUNTING POLICIES (continued)

Investments (continued)
Realized and unrealized gains and losses arising from changes in the fair value of investments are presented in the income statement 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.

Allocation of investment return transferred from the non-technical to the technical account
Investment income is initially recorded in the non-technical income statement.

A transfer is made from the non-technical account 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 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any other overseas tax payable by members on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'Other Debtors'.

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

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

Profit Commission
Profit commission is charged by the managing agent at a rate of 5% of profit subject to the operation of a deficit clause. Such commission does not become payable until after the appropriate year of account closes (normally at 36 months).

Pension
The managing agent operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Syndicate Operating Expenses
Where expenses are incurred by the managing agent or on behalf of the managing agent on the administration of managed Syndicates, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the managing agent and managed Syndicates are apportioned between the managing agent and the Syndicates depending on the amount of work performed, resources used and volume of business transacted.

3. SEGMENTAL ANALYSIS

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

	Gross Premiums written 2016 USD'000	Gross Premiums earned 2016 USD'000	Gross Claims incurred 2016 USD	Net Operating expenses 2016 USD	Reinsurance Balance 2016 USD	Total 2016 USD'000
Direct insurance:						
Accident and health	43	11	(8)	(6)	1	(2)
Marine	3,661	3,773	(1,986)	(1,090)	746	1,443
Aviation	21,469	10,959	(6,120)	(3,384)	1,132	2,587
Transport	10,201	7,239	(3,283)	(1,887)	(2,437)	(368)
Energy marine	10,466	10,872	(5,918)	(2,130)	(5,441)	(2,617)
Energy non marine	7,920	7,165	(677)	(1,702)	(2,723)	2,063
Fire & other damage to property	68,588	58,546	(29,511)	(13,049)	(10,386)	5,600
Third party liability	42,109	34,815	(24,891)	(8,914)	2,373	3,383
Pecuniary loss	119	65	(10)	(19)	(48)	(12)
Total direct insurance	**164,576**	**133,445**	**(72,404)**	**(32,181)**	**(16,783)**	**12,077**
Reinsurance:	126,634	101,158	(54,395)	(28,638)	(34,479)	(16,354)
Total	**291,210**	**234,603**	**(126,799)**	**(60,819)**	**(51,262)**	**(4,277)**

	Gross Premiums written 2015 USD'000	Gross Premiums earned 2015 USD'000	Gross Claims incurred 2015 USD	Net Operating expenses 2015 USD	Reinsurance Balance 2015 USD	Total 2015 USD'000
Direct insurance:						
Accident and health	4	2	(1)	—	—	1
Marine	2,315	2,201	(1,128)	(691)	(45)	337
Aviation	9,462	6,805	(4,692)	(1,953)	(276)	(116)
Transport	7,348	7,082	(2,030)	(2,556)	(1,868)	628
Energy marine	9,946	10,398	(12,712)	(2,556)	541	(4,329)
Energy non marine	5,671	5,547	(4,886)	(796)	(2,200)	(2,335)
Fire & other damage to property	46,688	42,985	(22,935)	(13,195)	(7,741)	(886)
Third party liability	30,498	22,086	(5,716)	(5,855)	(6,307)	4,208
Pecuniary loss	12	14	(25)	(5)	(31)	(47)
Total direct insurance	**111,944**	**97,120**	**(54,125)**	**(27,607)**	**(17,927)**	**(2,539)**
Reinsurance:	68,027	63,437	(109,172)	(13,610)	32,322	(27,022)
Total	**179,971**	**160,557**	**(163,297)**	**(41,217)**	**14,395**	**(29,561)**

The 2016 gross written premium by underwriting location was: London USD 263m and China USD 28.2m. In 2015 all business was underwritten in London.

Commissions on direct insurance gross premiums earned during 2016 were USD 25.5m (2015: USD 24.3m).

4. INSURANCE ASSETS AND LIABILITIES

Technical provisions

	Gross provisions USD'000	Reinsurance assets USD'000	Net USD'000
Provision for unearned premiums			
As at 1 January 2016	96,762	(31,919)	64,843
Movement in provision	56,607	(17,055)	39,552
Foreign exchange and other	(1,545)	335	(1,210)
As at 31 December 2016	**151,824**	**(48,639)**	**103,185**
As at 1 January 2015	76,690	(24,680)	52,010
Movement in provision	19,414	(7,650)	11,764
Foreign exchange and other	658	411	1,069
As at at 31 December 2015	**96,762**	**(31,919)**	**64,843**

	Gross provisions USD'000	Reinsurance assets USD'000	Net USD'000
Provision for claims outstanding			
As at 1 January 2016	161,292	(81,932)	79,360
Movement in provision	46,084	(17,703)	28,381
Foreign exchange and other	(4,189)	2,098	(2,091)
As at 31 December 2016	**203,187**	**(97,537)**	**105,650**
As at 1 January 2015	40,561	(15,712)	24,849
Movement in provision	122,028	(66,732)	55,296
Foreign exchange and other	(1,297)	512	(785)
As at 31 December 2015	**161,292**	**(81,932)**	**79,360**

	Gross provisions USD'000	Reinsurance assets USD'000	Net USD'000
Provision for claims outstanding			
Claims notified	101,142	(52,310)	48,832
Claims incurred but not reported	102,045	(45,227)	56,818
As at 31 December 2016	**203,187**	**(97,537)**	**105,650**
Claims notified	100,505	(57,539)	42,966
Claims incurred but not reported	60,787	(24,393)	36,394
As at 31 December 2015	**161,292**	**(81,932)**	**79,360**

4. INSURANCE ASSETS AND LIABILITIES (continued)

Technical provisions (continued)

	Gross assets USD'000	Reinsurance liabilities USD'000	Net USD'000
Deferred acquisition costs			
As at 1 January 2016	14,605	(4,667)	9,938
Change in deferred acquisition costs	14,400	(4,675)	9,725
Effect of movements in exchange rates	(456)	78	(378)
As at 31 December 2016	**28,549**	**(9,264)**	**19,285**
As at 1 January 2015	10,914	(2,692)	8,222
Change in deferred acquisition costs	3,556	(2,049)	1,507
Effect of movements in exchange rates	135	74	209
As at 31 December 2015	**14,605**	**(4,667)**	**9,938**

5. Net Operating Expenses

	2016 USD'000	2015 USD'000
Acquisition costs	(62,557)	(26,707)
Change in deferred acquisitions costs	14,400	3,556
Administration expenses	(32,426)	(26,038)
Operating expenses	**(80,583)**	**(49,189)**
Reinsurance commissions	19,764	7,972
Net operating expenses	**(60,819)**	**(41,217)**

Members' standard personal expenses amounting to USD 6.6m (2015: USD 5.5m) 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

	2016 USD'000	2015 USD'000
Audit of the Syndicate annual accounts	119	118
Other services pursuant to Regulations and Lloyd's Byelaws	64	54
	183	**172**

7. EMOLUMENTS OF THE DIRECTORS OF ASTA MANAGING AGENCY Ltd

The aggregate emoluments of the Directors and staff of the managing agency are met by Asta managing agency Ltd and are disclosed within the annual report and accounts of that company, with the exception of J. M. Tighe, S.P.A. Norton, D.J.G. Hunt and L Harfitt. J.M. Tighe and S.P.A Norton's remuneration is disclosed in the annual report and accounts of Asta Capital Ltd and the remuneration of D.J.G. Hunt and L Harfitt is disclosed in the annual report and accounts of Asta Insurance Markets Ltd and were all charged in the accounts of Asta Managing Agency Ltd.

No emoluments of the Directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate. The emoluments of the Active Underwriter are borne by an AXIS affiliate and are not separately identifiable from the fee charged by the affiliate to the Syndicate.

No other compensation was payable to key management personnel.

8. INVESTMENT RETURN

	2016 USD'000	2015 USD'000
Net gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	240	60
Total investment income	**240**	**60**

9. FINANCIAL INVESTMENTS

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

	2015	
	Carrying value **USD'000**	**Purchase price** **USD'000**
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	31,091	31,091
	31,091	**31,091**

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

9. FINANCIAL INVESTMENTS (continued)

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

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
As at 31 December 2016				
Shares and other variable yield securities and units in unit trusts	—	45,861	—	45,861
Overseas deposits	1,331	6,179	—	7,510
Total	**1,331**	**52,040**	**—**	**53,371**

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
As at 31 December 2015				
Shares and other variable yield securities and units in unit trusts	—	31,091	—	31,091
Overseas deposits	1,870	1,056	—	2,926
Total	**1,870**	**32,147**	**—**	**34,017**

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

	2016 USD'000	2015 USD'000
Due from intermediaries within one year	97,841	34,570
Due from intermediaries greater than one year	117	804
	97,958	**35,374**

11. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2016 USD'000	2015 USD'000
Due from Intermediaries within one year	32,749	26,782
Due from intermediaries greater than one year	119	102
	32,868	**26,884**

12. OTHER ASSETS

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

13. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2016 USD'000	2015 USD'000
Due to intermediaries within one year	8,129	1,136
Due to intermediaries greater than one year	8,102	175
	16,231	**1,311**

14. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2016 USD'000	2015 USD'000
Due to intermediaries within one year	41,269	27,253
Due to intermediaries greater than one year	5	373
	41,274	**27,626**

15. OTHER CREDITORS

	2016 USD'000	2015 USD'000
Amounts payable to group companies	11,149	6,313
Loans payable to group companies	11,961	7,544
	23,110	**13,857**

The Syndicate has a GBP 10m facility agreement with AXIS Specialty UK Holdings Limited. The purpose of this facility is to fund the working capital requirement of the Syndicate as required. In December 2013 the Syndicate received a loan of GBP 2.0m under this agreement. During 2014, further loans of GBP 1.0m and GBP 4.0m were provided and in December 2014 GBP 2.0m was repaid. In April 2016 an additional loan of GBP 4.5m was provided bringing the total value of the outstanding loan as at 31 December 2016 to GBP 9.5m or USD 12.0m (2015: GBP 5.0m or USD 7.5m). All loans drawn and outstanding under the facility are repayable on demand. Interest accrues daily and is payable annually in arrears, amount payable as at 31 December 2016 was USD 0.3m (2015: USD 0.2m).

16. RISK MANAGEMENT

a) Governance framework

The Syndicate's risk and financial management framework aims to protect the Syndicate's 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.

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

The Syndicate Board 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 Syndicate Board places significant emphasis on the assessment and documentation of risks and controls, including the articulation of the Syndicate's risk appetite.

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

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

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 is 35% (2016: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

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

16. RISK MANAGEMENT (continued)

c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and claims payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual claims paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Syndicate purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Syndicate's net exposure to catastrophe and large losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the gross outstanding claims and are in accordance with the terms of the reinsurance contracts. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

Sub committees of the Syndicate Board oversee the management of reserving risk. The use of standardised internal modelling techniques, as well as benchmarking and the review of claims development are key in mitigating reserving risk.

The purpose of these underwriting, reinsurance and reserving strategies is to limit exposure to catastrophes or large losses based on the Syndicate's risk appetite as decided by the Syndicate Board.

The Syndicate uses both its own and commercially available risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence; changes in market factors such as public attitude to claiming economic conditions as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The outstanding claims are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity to certain assumptions such as legislative changes or uncertainty in the estimation process.

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.

16. RISK MANAGEMENT (continued)

	2016 USD'000	2015 USD'000
Gross outstanding claims		
Five percent increase	10,261	8,145
Five percent decrease	(10,261)	(8,145)
Net outstanding claims		
Five percent increase	5,335	4,008
Five percent decrease	(5,335)	(4,008)

Claims development table

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

Underwriting Year	**2014 USD'000**	**2015 USD'000**	**2016 USD'000**
Estimate of cumulative gross claims incurred:			
At end of underwriting year	41,753	50,779	76,761
One year later	152,975	97,342	
Two years later	151,810		
Less cumulative gross paid	(80,810)	(28,099)	(13,817)
Liability for gross outstanding claims (2014 to 2016)	71,000	69,243	62,944
Total Gross outstanding claims all years			**203,187**

Underwriting Year	**2014 USD'000**	**2015 USD'000**	**2016 USD'000**
Estimate of cumulative net claims incurred:			
At end of underwriting year	25,783	34,251	43,018
One year later	68,401	65,216	
Two years later	66,175		
Less cumulative net paid	(37,367)	(21,275)	(10,117)
Liability for net outstanding claims (2014 to 2016)	28,808	43,941	32,901
Total Net outstanding claims all years			**105,650**

16. RISK MANAGEMENT (continued)

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

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

d) Financial risk

1) Credit risk

Credit risk is the risk that a counterparty will default on its contracted obligations resulting in a financial loss to the Syndicate.

The following policies and procedures are in place to mitigate the exposure to credit risk:

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the rating of the counterparty is downgraded or it does not have a good credit rating, then collateral is arranged to mitigate any risk. This is monitored by the Reinsurance Security Committee, a sub committee of the Syndicate Board.

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 and the use of derivatives.

2016	USD'000			
	Neither past due or Impaired	Past due	Impaired	Total
Shares and other variable yield securities	45,861			45,861
Overseas deposits	7,510			7,510
Reinsurers share of claims outstanding	97,537			97,537
Debtors arising out of direct insurance operations	83,373	14,585		97,958
Debtors arising out of direct reinsurance operations	2,384			2,384
Other debtors	84,445	24,588		109,033
Cash and cash equivalents	31,106			31,106
Total	**352,216**	**39,173**	—	**391,389**

In 2016 Lloyd's required that additional items were included in the table above within 'other debtors' to ensure agreement to the total assets figure reported in the statement of financial position. This includes reinsurers' share of unearned premiums, inwards reinsurance debtors, deferred acquisition costs and other prepayments and accrued income. These are excluded from the 2015 table.

16. RISK MANAGEMENT (continued)

2015	USD'000			
	Neither past due or Impaired	Past due	Impaired	Total
Shares and other variable yield securities	31,091			31,091
Overseas deposits	2,926			2,926
Reinsurers share of claims outstanding	81,932			81,932
Debtors arising out of direct insurance operations	26,847	8,527		35,374
Debtors arising out of direct reinsurance operations	984			984
Other debtors	62			62
Cash and cash equivalents	27,688			27,688
Total	**171,530**	**8,527**	**—**	**180,057**

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2016 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.

2016	USD'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	—	—	45,861	—	—	—	45,861
Overseas deposits as investments	4,171	1,276	788	381	—	894	7,510
Reinsurers' share of claims outstanding	—	—	95,263	—	—	2,273	97,536
Reinsurance debtors	—	—	2,384	—	—	—	2,384
Cash at bank and in hand	—	—	31,106	—	—	—	31,106
Total	**4,171**	**1,276**	**175,402**	**381**	**—**	**3,167**	**184,397**

16. RISK MANAGEMENT (continued)

2015	USD'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	—	—	31,091	—	—	—	31,091
Overseas deposits as investments	1,543	430	379	7	546	21	2,926
Reinsurers' share of claims outstanding	—	2	81,930	—	—	—	81,932
Reinsurance debtors	—	—	984	—	—	—	984
Cash at bank and in hand	—	—	27,688	—	—	—	27,688
Total	**1,543**	**432**	**142,072**	**7**	**546**	**21**	**144,621**

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.

2) Liquidity risk

Liquidity risk is the risk that the Syndicate may not have enough cash and liquid financial resources to meet its obligations as they fall due. The Syndicate tries to reduce this risk by reviewing its expected obligations on a quarterly basis and keeping adequate cash on deposit to meet those obligations.

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

2016	USD'000				
	0-1 year	1-3 years	3-5 years	More than 5 years	Total
Claims outstanding	94,500	80,842	20,730	7,116	203,188
Creditors	72,507	8,108	—	—	80,615
Total	**167,007**	**88,950**	**20,730**	**7,116**	**283,803**

2015	USD'000				
	0-1 year	1-3 years	3-5 years	More than 5 years	Total
Claims outstanding	75,015	64,173	16,455	5,649	161,292
Creditors	42,246	548	—	—	42,794
Total	**117,261**	**64,721**	**16,455**	**5,649**	**204,086**

16. RISK MANAGEMENT (continued)

3) 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.

a) *Currency risk*

Currency risk is the risk that the fair value of future cash flows, assets and liabilities will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is USD and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, GBP and Canadian dollars. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Forward foreign currency contracts are in place to eliminate the currency exposure on individual foreign currency transactions.

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

2016				**USD'000**				
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**OTH**	**Total**
Total Assets	22,999	263,137	29,705	22,823	10,453	13,929	28,343	391,389
Total Liabilities	(49,942)	(297,208)	(28,575)	(13,866)	(9,880)	(17,197)	(28,868)	(445,536)
Net Assets	**(26,943)**	**(34,071)**	**1,130**	**8,957**	**573**	**(3,268)**	**(525)**	**(54,147)**

2015				**USD'000**				
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**OTH**	**Total**
Total Assets	25,753	177,636	14,353	10,145	4,068	15,077	6,483	253,515
Total Liabilities	(42,158)	(211,973)	(17,977)	(6,960)	(4,231)	(17,741)	(5,554)	(306,594)
Net Assets	**(16,405)**	**(34,337)**	**(3,624)**	**3,185**	**(163)**	**(2,664)**	**929**	**(53,079)**

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 obliations and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates.

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

Sensitivity to changes in foreign exchange rates

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

Impact on profit and members' balance	**2016**	**2015**
	USD'000	**USD'000**
US Dollar Weakens		
10% against other currencies	(1,955)	(1,967)
20% against other currencies	(3,910)	(3,934)
US Dollar Strengthens		
10% against other currencies	1,955	1,967
20% against other currencies	3,910	3,934

16. RISK MANAGEMENT (continued)

b) *Interest rate risk*

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate has no significant concentration of interest rate risk.

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

	2016 USD'000	2015 USD'000
Interest rate risk		
Impact of 50 basis point increase on result	303	27
Impact of 50 basis point decrease on result	(152)	(27)
Impact of 50 basis point increase on net assets	303	27
Impact of 50 basis point decrease on net assets	(152)	(27)

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 Company. 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 recoverable as at 31 December 2016 were amounts of USD 26.4m (2015: USD 25.7m) recoverable from a group company. Included within the provision for unearned premiums ceded as at 31 December 2016 is an amount of USD 26.5m (2015: USD 17.6m) ceded to a group company.

18. RELATED PARTIES

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

Asta provides service and support to Syndicate 1686 in its capacity as managing agent.

The below fees were charged during 2016.

	2016 USD'000	2015 USD'000
Managing Agency Fee	2,559	1,972
Service Charges	3,725	4,165
Total	**6,284**	**6,137**

18. RELATED PARTIES (continued)

As at the 31 December 2016 an amount of USD 0.5m was owed to Asta in respect of services provided. There was no profit commission paid to Asta during the year (2015: Nil) or outstanding at 31 December 2016 (2015: Nil).

From time to time, syndicates managed by Asta enter into (re)insurance contracts with one another. All such transactions are subject to Asta's internal controls which ensure that all are compliant with Lloyd's Related Party Byelaw provisions. All transactions are entered into on an arms length basis.

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

During the year ended 31 December 2016, the Syndicate recognised the following amounts in relation to transactions with Harrington Re:

	USD'000
Outwards reinsurance premiums	(440)
Change in the provision for unearned premiums - reinsurers share	319
Change in the provision for claims - reinsurers share	85
Acquisition costs	141
Change in deferred acquisition costs	(102)

At 31 December 2016, the following balances were outstanding in relation to transactions with Harrington Re:

	USD'000
Reinsurers' share of technical provisions	404
Deferred acquisition costs	(102)
Creditors arising out of direct insurance operations	(299)

19. DISCLOSURE OF INTERESTS

Managing agent's interest

During 2016 Asta was the managing agent for eight syndicates and three special purpose arrangements. Syndicate 1686, 1729, 1898, 1910, 2357, 2525, 2786 and 4242 as well as special purpose arrangements 6117, 6123 and 6126 were managed on behalf of third party capital providers.

On 7 February 2017, Syndicate 1910 and special purpose arrangement 6117 migrated to Argo Managing Agency Limited.

On 1 January Asta took on management of Syndicate 2689 and Syndicate 5886.

The agency also provides administrative services to Syndicates and undertakes a number of ancillary roles for clients.

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

20. FUNDS AT LLOYD'S

Every member is required to hold capital at Lloyd's which is held in trust and known as 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.

21. OFF BALANCE SHEET ITEMS

The Syndicate has not been party to an 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 2016, the Syndicate participated in a number of group purchased global reinsurance policies on the Aviation, Marine, Terrorism and Property lines of business. Deposit reinsurance premiums are typically contractually due on a quarterly basis in advance. At 31 December 2016, the Syndicate has an outstanding reinsurance purchase commitment of USD4.4 million (2015: USD2.7 million).

23. APPROVAL OF ANNUAL REPORT AND ACCOUNTS

The annual report and accounts were approved by the Board of Directors on 15 March 2017.