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AXIS Syndicate 1686
Syndicate Annual Reports and Accounts
for the year ended 31 December 2021

CONTENTS

DIRECTORS AND ADMINISTRATION

MANAGING AGENT	AXIS Managing Agency Limited	
DIRECTORS	Stephen Cane (Chairman)* Tadeusz Dziurman* Mark Gregory Tim Hennessy Fintan Mullarkey James Mollett Alistair Robson Elanor Hardwick* Tom Rivers (resigned 31 July 2021) Seema Bradbury (appointed 19 November 2021) Ann Haugh (appointed 19 January 2022)	*** Independent Non-Executive**
SECRETARY	Kelly Lawrence 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	RBC Dexia Investor Services 155 Wellington Street W Toronto, Ontario M5V 3K7 Canada

ACTIVE UNDERWRITER'S REPORT

Syndicate 1686 (the "Syndicate") is a Lloyd's Syndicate of AXIS Capital Holdings Limited ("ACHL"), the Bermuda based holding company for the AXIS group of companies ("AXIS"). The Syndicate is managed by AXIS Managing Agency Limited ("AMAL"). ACHL is the Syndicate's sole capital provider with 100% ownership of AXIS Corporate Capital UK Limited ("ACCUKL") and AXIS Corporate Capital UK II Limited ("ACCUKIIL") through other, wholly owned, legal entities. The Syndicate commenced underwriting for contracts incepting from 1 January 2014 onwards.

For the Financial year ended December 2021, the Syndicate achieved gross premiums written of USD 1.47bn, representing growth of 17% over 2020. This growth was in part driven by the Reinsurance to Close of Syndicate 2007 into Syndicate 1686 and more significantly by positive rate change on renewal contracts across most classes of business. The Syndicate maintains a broad and diversified portfolio of business, with over 25 individual classes of business and no single class of business comprises more than 18% of total gross premiums written.

Financial year 2021 represented a significant year of progress towards our long-term goal of delivering sustainable top quartile underwriting performance. In 2021 the Syndicate produced an underwriting profit of USD 65.9m (2020: loss of USD 100.3m). The Syndicate's Net Combined Ratio for the year is 92.7%, which is a 21.5pt improvement over 2020 despite the (re)insurance industry suffering one of the costliest years of losses arising from natural catastrophes on record. Encouragingly, underlying performance which is measured excluding the impact of losses arising from COVID-19 and natural catastrophes, improved across all aspects of the combined ratio against 2020 following actions taken to reposition our portfolios and reduce our expense ratio in recent years.

The upward trend in rate movement continued throughout 2021, building on the positive rate change delivered in 2018, 2019 and 2020. Overall rate change for the Syndicate was 16.9% against a plan of 12.5%, with all major product lines delivering positive rate change and improved price adequacy for the year. Despite positive market conditions, the (re)insurance industry continues to face significant risks arising from the COVID-19 pandemic, more frequent and intense natural catastrophes around the globe, and the rising cost of inflation.

We are pleased that the hard work of colleagues and our performance management efforts are bearing fruit. I remain confident that with the actions taken to reposition our portfolios, continued improvement in market conditions, selected growth in attractive classes of business and investments in our talent, data and analytics, the Syndicate is on track to deliver sustained profitable underwriting performance in 2022 and beyond.

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 2021.

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 13 and 14.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

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

The Syndicate predominately writes marine, property, terrorism, professional lines, casualty, accident and health, political risk and reinsurance.

Following Syndicate 2007 being placed into run-off, all new and renewing AXIS Lloyd's sourced business was transacted through Syndicate 1686 from 2019 onwards. In January 2021 the 2018 year of account of Syndicate 2007 and Syndicate 6129 closed by way of a reinsurance to close transaction ("RITC") into the 2019 year of account of Syndicate 1686.

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

	2021	**2020**
	USD '000	**USD '000**
Aviation	190	(105)
Marine	242,711	195,691
Property	347,870	406,411
Terrorism	35,450	34,996
Professional Lines	419,248	287,443
Casualty	64,525	37,980
Accident & Health	51,755	31,065
Political Risk	106,579	73,608
Reinsurance	176,679	187,588
Broker Facilities	28,049	1,475
	1,473,056	1,256,152

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

	2021	**2020**	**Change**
	USD '000	**USD '000**	**%**
Gross written premium	1,473,056	1,256,152	17.3%
Net earned premium	1,075,885	846,247	27.1%
Net technical profit or (loss) (excluding investment return transferred from non-technical account)	78,564	(119,938)	165.5%
Net combined ratio (excluding investment income and FX impact)	92.7%	114.2%	

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS (continued)

The forecast return on capacity at 31 December 2021 for the three years of account is as follows:

	2021 YOA Open	2020 YOA Open	2019 YOA Closed
Capacity (USD '000)	1,353,363	1,353,363	1,353,363
Forecast (USD '000)	73,062	60,682	(82,210)
Return on capacity %	5.40%	4.48%	(6.07)%

COVID-19

As a result of COVID-19 the AXIS Group has successfully implemented business continuity plans to ensure that it will continue to operate effectively and fulfil its regulatory obligations, ensuring the safety and well-being of its employees, the continued support of and engagement with its clients and service providers. The robust nature of its remote working tools, and the positive engagement of all stakeholders has allowed AXIS to continue to trade effectively in all relevant markets. AXIS have robust governance structures and processes in place, which support the on-going monitoring of its solvency and liquidity position based on the latest available information.

Net reserves for losses and loss expenses related to the COVID-19 pandemic represents the Syndicate's best estimate of losses and loss expenses that have been incurred at 31 December 2021. The determination of net reserves is based on the Syndicate's ground-up assessment of coverage from individual contracts and treaties across all lines of business and includes a review of modelling analyses and market information, where appropriate. In addition, the Syndicate's reserving considers information received from clients, brokers and loss adjusters and includes the outcome of recent court judgments, including the UK Supreme Court ruling on 15 January 2021.

Climate Change

The AXIS Group remains focused on addressing the impact of climate change. AXIS has initiated a Climate Change Working Group, which includes Syndicate representation via AMAL, to ensure that the potential risks from climate change are identified and then managed in line with the standard risk management framework. A plan is also in place to ensure that the exposure to the Syndicate is systematically assessed and well monitored as appropriate.

Further details on AXIS' energy and carbon reduction initiative has been documented in the Corporate Citizenship section of the AXIS Capital Holdings Annual Report.

Part VII Transfer

On 30 December 2020, the Syndicate transferred its EEA non-life insurance policies primarily written up to 2019 to Lloyd’s Insurance Company S.A. (‘Lloyd’s Brussels’) pursuant to Part VII of the Financial Services and Markets Act 2000. The value of the net liabilities transferred was USD 122.5m for Syndicate 1686 and Syndicate 2007 combined. The Syndicate transferred cash on 4 January 2021 of the same amount to Lloyd’s Brussels. Lloyd’s Brussels subsequently reinsured the same liabilities back to the Syndicate on the same day. The reinsurance premium received was of the same amount of USD 122.5m. There was no gain or loss arising on either transaction. The movements in respect of business sourced via Lloyd's Brussels is reported in the reinsurance portion of the segmental analysis in Note 3.

Reinsurance to Close

With effect from 1 January 2021, the 2018 year of account of Syndicate 2007 and Syndicate 6129 closed by way of an RITC into the 2019 year of account of Syndicate 1686 thus concluding the business of both Syndicate 6129 and Syndicate 2007. The financial impact of this transaction is nil. The impact on technical provisions is highlighted in Note 4.

FUTURE DEVELOPMENTS

Both AXIS Corporate Capital UK Limited and AXIS Corporate Capital UK II Limited participated on the 2020 and 2021 years of account of Syndicate 1686 and will continue to participate on the 2022 year of account.

The Syndicate will collect the 2019 year of account loss from ACCUKL and ACCUKIIL in June 2022.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Insurance risk

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

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

Within Insurance Risk, the Syndicate recognises the following further sub categories of this risk:

1. Natural Peril Catastrophe Risk, including Climate Change impacts;
2. Man-made Catastrophe Risk;
3. Reserving Risk;
4. Claims Handling Risk

For further details on these risks refer to 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 such as brokers and coverholders. 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.

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 such as following a catastrophic event. 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 flexible 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 loss as a result of inadequate processes, system failures, human error or external events, including but not limited to direct or indirect financial loss, reputational damage, customer dissatisfaction and legal and regulatory penalties. Transaction type operational risks are managed through the application of process controls throughout the business which are reviewed on a regular basis. In testing these controls, the Syndicate undertakes regular underwriting and claim peer audits, supplemented by the work of our internal audit team. 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 Syndicate also considers Regulatory Risk, defined as the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Managing Agency is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Agency has a compliance officer who monitors business activity and regulatory developments and assesses any effects on the Agency. The Syndicate has no appetite for failing to treat customers fairly. The Syndicate manages and monitors its conduct risk through a suite of risk indicators and reporting metrics as part of its documented conduct risk framework.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Brexit

The UK and the EU agreed a Brexit Withdrawal Agreement whereby the UK officially left the EU on 31 January 2020. The agreement provided a transition period that lasted until 31 December 2020. On 24 December 2020 the EU and UK agreed on the terms of the EU-UK Trade and Cooperation Agreement, which governs the new relationship between the UK and EU. The Agreement came into effect on 1 January 2021.

Following the UK's exit from the European Union, Lloyd's have remained committed to doing business with their European partners. From 1 January 2019 Lloyd’s have written EEA risks through Lloyd's Brussels, an EU subsidiary, to ensure continued access to EU business via this platform. The Syndicate completed its Part VII transfer on 30 December 2020 ensuring that all insurance and reinsurance policies can continue to be serviced by the Lloyd’s market.

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 considers the following areas to be those where critical accounting judgements have been used.

Reinsurance to Close

With effect from 1 January 2021, the RITC process resulted in the transfer of Syndicate 2007 and Syndicate 6129's assets and liabilities into the 2019 year of account of Syndicate 1686. The RITC was accounted for as a balance sheet claims portfolio transfer with no entries recorded in the statement of comprehensive income. Prior to the RITC, both Syndicate 2007 and 6129 were managed by the same capital providers and managing agency as Syndicate 1686. The net liabilities transferred were arrived at through the standard close procedures and controls. Additional work took place to verify the completeness and accuracy of balance sheet balances. All syndicates were subject to a reserving and Actuarial review process, consistent with that detailed below under insurance contract technical provisions. As such, the ceding syndicates went through a thorough review and sign-off as part of business as usual prior to being reinsured to close into Syndicate 1686.

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.

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 on 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).

Estimates of premiums

Written premiums are recorded in accordance with the terms of the underlying policies and earned over the policy period. Estimated premium income in respect of facility contracts includes an estimate of the underlying business attaching to each facility at the statement of financial position date. Of the total gross written premiums of USD 1,473m, 47.5% (2020: USD 1,256m, 48.3%) is written under delegated authorities where premiums are declared in to the Syndicate in arrears thus requiring an estimate of any material undeclared premium be made.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(continued)

The main assumption underlying these estimates is that past premium development can be used to project future premium development. The directors consider whether the estimates of future premium are fairly stated on the basis of the information available currently to them. However, the ultimate receivable will vary as a result of subsequent information or events and this may result in significant adjustments.

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:

Tom Rivers	Resigned	31 July 2021
Seema Bradbury	Appointed	19 November 2021
Ann Haugh	Appointed	19 January 2022

GOING CONCERN

As noted in Note 16: Provision of capital by members, the Syndicate's Economic Capital Assessment (ECA) is supported by Funds at Lloyd's (FAL) primarily provided by affiliate companies, AXIS Specialty Limited (ASL) and ACCUKIIL own funds. 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 during the year under review. Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditors will be deemed reappointed and Deloitte LLP will therefore continue in office.

SYNDICATE ANNUAL GENERAL MEETING

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year. Objections to this proposal or the intention to reappoint the auditor for a further 12 months can be made by Syndicate members within 21 days of the issue of these financial statements.

On behalf of the Board

Kelly Lawrence
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 1686 (the 'syndicate'):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its profit 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 statement of comprehensive income;
- the statement of changes in members' balances;
- the statement of financial position;
- the statement of cash flows; and
- the related notes 1 to 24.

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

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

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the 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
In auditing the financial statements, we have concluded that the managing agent's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue in operations for a period of at least twelve months from when the syndicate financial statements are authorised for issue.

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report.

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. The managing agent is responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement themselves. 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 this regard.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the syndicate and its control environment, and reviewed the syndicate's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and compliance about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the syndicate operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (no.8 of 2005); and
- do not have a direct effect on the financial statements but compliance with whichmay be fundamental to the syndicate's ability to operate or to avoid a material penalty. These included the requirements of Solvency II.

We discussed among the audit engagement team, including relevant internal specialists such as actuarial and IT specialists, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Estimated premium income on delegated authority business requires significant management judgement and therefore there is potential for management bias through manipulation of core assumptions. In response to this risk we performed the following:
  - Tested relevant controls around the top side accrual estimation process;
  - Assessed the appropriateness of the methodology and challenge the assumptions used by management in the process; and
  - Performed substantive tests of the underlying data management used as the basis of the estimation.
- Valuation of certain technical provisions classes, including long tail classes, incorporates assumptions and methodologies requiring significant management judgement and therefore there is potential for management bias. In response to these risks we performed the following:
  - Engaged our actuarial specialists to:
    - Assess the appropriateness of the methodology and assumptions used by the syndicate's actuarial function;
    - Carry out an independent reserve estimations for selected classes of business; and
    - Perform benchmarking analysis for the development patterns for selected classes of business.
  - Tested relevant controls around the data, models and assumptions used to determine the syndicate's reserves.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with Lloyd's.

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
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
3 March 2022

STATEMENT OF COMPREHENSIVE INCOME: TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Notes	Financial Year ended 31 December 2021 USD '000	Financial Year ended 31 December 2020 USD '000
Gross written premiums	3	1,473,056	1,256,152
Outward reinsurance premiums		(332,897)	(378,242)
Net written premium		**1,140,159**	**877,910**
Change in the gross provision for unearned premiums	4	(80,815)	(39,529)
Change in the provision for unearned premiums – reinsurers' share	4	16,541	7,866
Change in the net provision for unearned premiums		**(64,274)**	**(31,663)**
Earned premiums, net of reinsurance		**1,075,885**	**846,247**
Allocated investment return transferred from the non-technical account		(12,663)	19,629
		1,063,222	**865,876**
Claims paid			
Gross amount		(768,504)	(445,896)
Reinsurers' share		336,178	164,625
Net claims paid		**(432,326)**	**(281,271)**
Change in provision for claims			
Gross amount	4	(63,267)	(414,611)
Reinsurers' share	4	(64,112)	104,369
Change in net provision for claims		**(127,379)**	**(310,242)**
Claims incurred, net of reinsurance		**(559,705)**	**(591,513)**
Net operating expenses	5	(437,616)	(374,672)
Balance on the technical account - general business		**65,901**	**(100,309)**

AXIS SYNDICATE 1686
STATEMENT OF COMPREHENSIVE INCOME: NON - TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Notes	Financial Year ended 31 December 2021 USD '000	Financial Year ended 31 December 2020 USD '000
Balance transferred from the technical account - general business		65,901	(100,309)
Investment (expense)/ income	8	(12,663)	19,629
Allocated investment return transferred to the technical account		12,663	(19,629)
		65,901	**(100,309)**
Foreign exchange gains/(losses)		9,032	(3,520)
PROFIT / (LOSS) FOR THE FINANCIAL YEAR		**74,933**	**(103,829)**

All amounts arise from continuing activities.

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

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

STATEMENT OF CHANGES IN MEMBERS' BALANCES

	Financial Year ended 31 December 2021 USD '000	Financial Year ended 31 December 2020 USD '000
As at the beginning of the year	(210,237)	(202,268)
Profit / (loss) for the financial year	74,933	(103,829)
2017 year of account cash call	—	96,130
2018 year of account cash call	36,512	—
Member expenses	270	(270)
As at the end of the year	**(98,522)**	**(210,237)**

The cash calls were received from the corporate member ACCUKL to fund the losses of the 2017 and 2018 years of account.

	Notes	2021 USD '000	2020 USD '000 Restated
ASSETS			
Investments			
Other financial investments	9	1,328,178	590,076
Deposits with ceding undertakings	9	10,913	—
		1,339,091	**590,076**
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	165,414	130,164
Claims outstanding	4	767,051	399,461
		932,465	**529,625**
Debtors			
Debtors arising out of direct insurance operations	10	402,377	311,000
Debtors arising out of reinsurance operations	11	302,279	169,449
Other debtors		—	644
		704,656	**481,093**
Other assets			
Cash at bank and in hand	12	22,808	20,721
		22,808	**20,721**
Prepayments and accrued income			
Accrued interest		3,721	2,000
Deferred acquisition costs	4	162,691	138,019
Other prepayments and accrued income		8,389	6,783
		174,801	**146,802**
TOTAL ASSETS		**3,173,821**	**1,768,317**

	Notes	2021 USD '000	2020 USD '000
MEMBERS' BALANCE			
Capital and reserves			
Members' balance		(98,522)	(210,237)
LIABILITIES			
Technical provisions			
Provision for unearned premiums	4	729,437	597,304
Gross claims outstanding	4	2,167,158	1,173,605
		2,896,595	**1,770,909**
Creditors			
Creditors arising out of direct insurance operations	13	26,852	20,941
Creditors arising out of reinsurance operations	14	281,886	114,375
Other creditors	15	39,751	51,947
		348,489	**187,263**
Accruals and deferred income		27,259	20,382
TOTAL LIABILITIES AND MEMBERS' BALANCE		**3,173,821**	**1,768,317**

The annual report and accounts were approved by the Board of AXIS Managing Agency Limited on 1 March 2022 and signed on its behalf by:

James Mollett
Finance Director
3 March 2022

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Notes	2021 USD'000	2020 USD'000
Profit / (loss) for the financial year		74,933	(103,829)
Adjustments for:			
Increase in gross technical provisions		1,125,685	495,749
(Increase) in reinsurers' share of technical provisions		(402,840)	(119,213)
(Increase) in debtors		(223,508)	(76,853)
(Decrease)/Increase in creditors		161,170	(38,500)
Movement in other assets/liabilities		(77,435)	(50,478)
Investment return		12,663	(19,629)
Foreign exchange impact		6,154	(7,019)
Net cash inflow from operating activities		**676,822**	**80,228**
Cash flow from investing activities			
Purchase of equity and debt instruments		(1,458,581)	(624,454)
Sale of equity and debt instruments		851,706	362,846
Investment income received		392	40,688
Lloyd's Insurance Company settlement accounts relating to Part VII		(10,912)	—
Net cash outflow from investing activities		**(617,395)**	**(220,920)**
Cash flow from financing activities			
Cash call received from corporate member		36,512	96,130
Loan payable to group companies		—	9,000
Net cash inflow from financing activities		**36,512**	**105,130**
Net increase/(decrease) in cash and cash equivalents		**95,939**	**(35,562)**
Cash and cash equivalents at beginning of the year		82,213	110,057
Effect of exchange rates on cash and cash equivalents		(6,167)	7,718
Cash and Cash equivalents at end of year		**171,985**	**82,213**

1. BASIS OF PREPARATION

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

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

The directors regard AXIS Capital Holdings Limited, a company incorporated in Bermuda, as the ultimate parent of Syndicate 1686.

Restatement of 2020 figures
In the 2020 financial statements deposits with credit institutions and accrued interest were presented as other assets. In 2021 these have been aligned with Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies. As such, deposits with credit institutions has been disclosed within other financial investments and accrued interest has been presented under prepayments and accrued income. The other assets note has resultantly been removed. The 2020 comparatives have been aligned with the 2021 disclosure. This restatement is a reclassification only and impacts the statement of financial position, Note 9 and Note 12. The values have not changed.

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 4-8. As noted in Note 20, the Syndicate's ECA is supported by FAL primarily provided by ACCUKL and ACCUKIIL. There is no material uncertainty regarding the Syndicate's ability to meet its liabilities as they fall due. Furthermore, following the implementation of business continuity plans, COVID-19 has not materially impacted the ability of the Syndicate to operate as required. 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.

Part VII transfer
On 30 December 2020, the Members of the Syndicate, as comprised for each of the relevant years of account between 2014 and April 2019 (or October 2020 in the case of German reinsurance), transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

From 31 December 2020 onwards, results relating to these risks are reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Brussels. Please refer to Note 3.

Reinsurance To Close
The final underwriting year of Syndicate 2007 and Syndicate 6129 closed by way of RITC with effect from 1 January 2021. This transaction entails the transfer of responsibility for the discharging of Syndicate 2007 and Syndicate 6129 liabilities, and the right to any income due to the ceding Syndicates, to the 2019 year of account of Syndicate 1686 in return for an RITC premium. The RITC was accounted for as a balance sheet claims portfolio transfer with no entries recorded in the statement of comprehensive income.

The net liabilities transferred from Syndicate 2007 corresponds to the 31 December 2020 balance sheet arrived at through the standard close procedures and controls. There was no loading of reserves prior to RITC and the transaction was entered into on the basis that neither the member(s) of Syndicate 2007 nor Syndicate 1686 profit from it. The final underwriting year of Syndicate 2007 closed in a loss position and this was settled through the cash call from the corporate member in June 2021.

Special purpose Syndicate 6129 reinsured to close into Syndicate 1686 concurrently alongside Syndicate 2007, the host syndicate. Syndicate 6129's liabilities were eliminated against reinsurance assets from the Syndicate 2007 balance sheet. There was no impact to the total gross liabilities of Syndicate 1686. The RITC premium was settled by the member through the cash call which was paid into Syndicate 1686 during June 2021. The cash call represents the 36 month closing loss position of the Syndicate.

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. 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 Comprehensive Income: 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.

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

2. SUMMARY OF ACCOUNTING POLICIES (continued)

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. A provision is established for any deficiency 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 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: the quoted (unadjusted) prices in active markets for identical assets or liabilities that the Syndicate can access at the measurement date

- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

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

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

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%, 2020: 19%) deducted from Syndicate investment income is recoverable by Managing Agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

2. SUMMARY OF ACCOUNTING POLICIES (continued)

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

Pension

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

Syndicate operating expenses

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

In 2021, the Managing Agent charged a Managing Agent fee of 0.025% (2020: 0.025%) of Syndicate capacity.

Critical accounting

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. Further information can be found on page 7 of the Managing Agent's report.

3. SEGMENTAL ANALYSIS

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

	Gross Premiums written 2021 USD'000	Gross Premiums earned 2021 USD'000	Gross Claims incurred 2021 USD'000	Net Operating expenses 2021 USD'000	Reinsurance balance 2021 USD'000	Total 2021 USD'000
Direct insurance:						
Accident and health	41,189	37,897	(19,047)	(17,892)	(1,098)	(140)
Marine	63,168	59,438	(49,659)	(16,419)	1,661	(4,979)
Aviation	148	312	1,182	(105)	(1,118)	271
Transport	52,320	46,451	(19,205)	(16,276)	(3,292)	7,678
Energy marine	22,277	21,870	(7,385)	(5,273)	(4,398)	4,814
Energy non marine	8,864	7,779	(3,016)	(721)	(1,668)	2,374
Fire & other damage to property	348,366	368,143	(155,402)	(139,212)	(31,264)	42,265
Third party liability	472,628	415,031	(312,196)	(131,231)	13,184	(15,212)
Pecuniary loss	39,571	36,594	(11,816)	(10,573)	(5,223)	8,982
Total direct insurance	**1,048,531**	**993,515**	**(576,544)**	**(337,702)**	**(33,216)**	**46,053**
Reinsurance	424,525	398,726	(255,227)	(99,914)	(11,074)	32,511
Total	**1,473,056**	**1,392,241**	**(831,771)**	**(437,616)**	**(44,290)**	**78,564**

3. SEGMENTAL ANALYSIS (continued)

	Gross Premiums written 2020 USD'000	Gross Premiums earned 2020 USD'000	Gross Claims incurred 2020 USD'000	Net Operating expenses 2020 USD'000	Reinsurance balance 2020 USD'000	Total 2020 USD'000
Direct insurance:						
Accident and health	24,961	20,592	(7,199)	(8,975)	(1,272)	3,146
Marine	56,042	57,619	(33,034)	(18,304)	(6,471)	(190)
Aviation	56	748	(27,001)	(159)	27,001	589
Transport	41,139	37,450	(11,393)	(13,979)	(3,746)	8,332
Energy marine	15,589	15,077	(3,228)	(5,976)	(4,736)	1,137
Energy non marine	7,131	5,973	(4,884)	(902)	(643)	(456)
Fire & other damage to property	386,664	414,414	(337,000)	(152,069)	(37,198)	(111,853)
Third party liability	325,947	292,335	(182,568)	(88,298)	(25,849)	(4,380)
Pecuniary loss	20,408	18,403	(14,824)	(5,876)	(978)	(3,275)
Total direct insurance	**877,937**	**862,611**	**(621,131)**	**(294,538)**	**(53,892)**	**(106,950)**
Reinsurance	378,215	354,013	(239,376)	(80,134)	(47,491)	(12,988)
Total	**1,256,152**	**1,216,624**	**(860,507)**	**(374,672)**	**(101,383)**	**(119,938)**

The 2021 gross written premium by underwriting location was: London USD 1,472.3m (2020: USD 1,246.8m) and China USD 0.8m (2020: USD 9.4m).

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 2021	597,304	(130,164)	467,140
Movement in provision	80,815	(16,541)	64,274
Effect of RITC	71,568	(20,319)	51,249
Foreign exchange	(20,250)	1,610	(18,640)
As at 31 December 2021	**729,437**	**(165,414)**	**564,023**
As at 1 January 2020	547,775	(121,101)	426,674
Movement in provision	39,529	(7,866)	31,663
Foreign exchange	10,000	(1,197)	8,803
As at 31 December 2020	**597,304**	**(130,164)**	**467,140**

4. INSURANCE ASSETS AND LIABILITIES (continued)

	Gross provisions USD'000	Reinsurance assets USD'000	Net USD'000
Provision for claims outstanding			
As at 1 January 2021	1,173,605	(399,461)	774,144
Effect of RITC	903,214	(431,096)	472,118
Movement in provision	63,267	64,112	127,379
Foreign exchange	27,072	(606)	26,466
As at 31 December 2021	**2,167,158**	**(767,051)**	**1,400,107**
As at 1 January 2020	727,385	(289,311)	438,074
Movement in provision	414,611	(104,369)	310,242
Foreign exchange	31,609	(5,781)	25,828
As at 31 December 2020	**1,173,605**	**(399,461)**	**774,144**

	Gross provisions USD'000	Reinsurance assets USD'000	Net USD'000
Provision for claims outstanding			
Claims notified	927,431	(358,216)	569,215
Claims incurred but not reported	1,239,727	(408,835)	830,892
As at 31 December 2021	**2,167,158**	**(767,051)**	**1,400,107**
Claims notified	453,009	(171,512)	281,497
Claims incurred but not reported	720,596	(227,949)	492,647
As at 31 December 2020	**1,173,605**	**(399,461)**	**774,144**

The Syndicate has applied a similar approach at the current year end to that applied at the previous year end in establishing the technical provisions for claims outstanding reserves and the reinsurers' share thereof. Included within net outstanding claims of USD 1,400.1m (2020: USD 774.1m) is a decrease in outstanding claims relating to 2020 and prior years of account of USD 397.3m (2020: decrease in outstanding claims relating to 2019 and prior years of account USD 145.2m).

	Gross assets USD'000	Reinsurance liabilities USD'000	Net USD'000
Deferred acquisition costs			
As at 1 January 2021	138,019	(19,181)	118,838
Change in deferred acquisition costs	16,058	(5,330)	10,728
Effect of RITC	13,162	—	13,162
Foreign exchange	(4,548)	322	(4,226)
As at 31 December 2021	**162,691**	**(24,189)**	**138,502**
As at 1 January 2020	131,300	(16,496)	114,804
Change in deferred acquisition costs	4,863	(2,463)	2,400
Foreign exchange	1,856	(222)	1,634
As at 31 December 2020	**138,019**	**(19,181)**	**118,838**

5. NET OPERATING EXPENSES

	2021 USD'000	2020 USD'000
Acquisition costs	(374,613)	(322,640)
Change in deferred acquisitions costs	16,058	4,863
Administration expenses	(118,401)	(105,882)
Operating expenses	**(476,956)**	**(423,659)**
Reinsurance commissions	39,340	48,987
Net operating expenses	**(437,616)**	**(374,672)**

Members' standard personal expenses amounting to USD 10.0m (2020: USD 9.5m) 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

	2021 USD'000	2020 USD'000
Audit of the Syndicate annual accounts	768	441
Other services pursuant to Regulations and Lloyd's Byelaws	115	114
	883	**555**

Fees payable to Deloitte LLP for the audit of the annual accounts of AXIS Managing Agency Limited are USD 13.5k (2020: USD 13.5k). Fees payable for audit-related assurance services provided to the managing agent are USD 6.8k (2020: 6.8k). There were no other fees payable for the provision of other non-audit services.

7. INFORMATION REGARDING DIRECTORS

The directors of the Managing Agency are employed by related Group Companies. The directors received total remuneration of USD 5.6m (2020: USD 6.0m) from related Group Companies during the year. It is not practicable to allocate this between their services as executives of Group Companies and their services as directors of AMAL.

The active underwriter received remuneration of USD 0.9m (2020: USD 1.1m) 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

	2021 USD'000	2020 USD'000
Interest and similar income		
Fair value through profit or loss designated upon initial recognition	6,693	6,350
Investment expenses	(712)	(249)
Total	**5,981**	**6,101**
Other income from investments		
Net gains on realisation of investments	8,105	3,844
Unrealised gains on investments	—	11,173
Net losses on realisation of investments	(4,926)	(1,489)
Unrealised losses on investments	(21,823)	—
Total investment income	**(12,663)**	**19,629**

9. INVESTMENTS

	2021	
	Carrying value	**Purchase price**
	USD'000	**USD'000**
Shares and other variable yield securities & units in unit trusts	149,177	149,762
Debt securities & other fixed income securities	1,003,888	1,016,374
Deposits with credit institutions	175,113	—
Deposits with ceding undertakings	10,913	—
	1,339,091	**1,166,136**

	2020	
	Carrying value	**Purchase price**
	USD'000	**USD'000**
	Restated	
Shares and other variable yield securities & units in unit trusts	61,492	61,489
Debt securities & other fixed income securities	409,786	409,763
Deposits with credit institutions	118,798	—
Deposits with ceding undertakings	—	—
	590,076	**471,252**

Amounts included within shares and other variable securities include Collective Investment Schemes/Unit Trusts where funds are invested in a single entity which invests in other underlying investments. These are treated as cash instruments with the carrying value and purchase price being the same. The restatement of deposits with credit institutions is detailed in note 1. As at 31 December 2020 the USD 0.1m was disclosed as other assets and has been reclassified to investments to align with presentation as at 31 December 2021.

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy. The table excludes deposits with ceding undertakings which are valued as level 3.

	Level 1	**Level 2**	**Level 3**	**Total**
	USD'000	**USD'000**	**USD'000**	**USD'000**
As at 31 December 2021				
Shares and other variable yield securities and units in unit trusts	—	128,310	20,867	149,177
Debt securities & other fixed income securities	—	1,003,888	—	1,003,888
Deposits with credit institutions	27,805	147,308	—	175,113
Total	**27,805**	**1,279,506**	**20,867**	**1,328,178**

	Level 1	**Level 2**	**Level 3**	**Total**
	USD'000	**USD'000**	**USD'000**	**USD'000**
As at 31 December 2020				
Shares and other variable yield securities and units in unit trusts	—	39,678	21,814	61,492
Debt securities & other fixed income securities	—	409,786	—	409,786
Deposits with credit institutions	19,001	99,797	—	118,798
Total	**19,001**	**549,261**	**21,814**	**590,076**

9. INVESTMENTS (continued)

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

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

Included in the Level 3 category are financial instruments measured at fair value. The loan to Lloyd's Central fund has been classified as a Level 3 asset stated at fair value. The fair valuation for the loan is derived based on a valuation model provided by Lloyd's.

10. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2021 USD'000	2020 USD'000
Due within one year	402,377	311,000
Due after one year	—	—
	402,377	**311,000**

11. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2021 USD'000	2020 USD'000
Due within one year	302,073	169,075
Due after one year	206	374
	302,279	**169,449**

12. CASH AT BANK AND IN HAND

	2021 USD'000	2020 USD'000 Restated
Cash at bank and in hand	22,808	20,721
Total cash at bank and in hand	**22,808**	**20,721**

Only financial investments 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 at bank and in hand. The restatement of 2020 figures is detailed in note 1. As at 31 December 2020, cash at bank and in hand included financial investments which have been reclassified to investments to align with presentation as at 31 December 2021.

13. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2021	2020
	USD'000	USD'000
Due within one year	26,852	20,941
	26,852	**20,941**

14. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2021	2020
	USD'000	USD'000
Due within one year	281,886	114,375
	281,886	**114,375**

15. OTHER CREDITORS

	2021	2020
	USD'000	USD'000
Amounts payable to group companies	39,751	42,947
Loans payable to group companies	—	9,000
	39,751	**51,947**

At 31 December 2021, the Syndicate had a USD 390.0m (2020: USD 160.0m) flexible facility agreement with AXIS Specialty Finance Plc for its working capital requirements. There is a nil outstanding loan balance (2020: USD 9.0m) as at 31 December 2021. All loans drawn and outstanding under the facility are repayable on demand.

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 which performs 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, license and ratings objectives.

16. RISK MANAGEMENT (continued)

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

Capital framework at Lloyd's (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.

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, license and ratings objectives. The capital uplift applied for 2022 is 35% (2021: 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) 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 primarily provided by ACCUKL and 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 including marine & political risks, renewable energy, property, professional & casualty, cyber and accident and health classes of insurance business and the professional, property, marine and aviation classes of reinsurance 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. There have been no breaches of the Syndicate’s natural catastrophe risk limit during the year.

The Syndicate is potentially exposed to physical risks from climate change, primarily through our underwriting of property (re)insurance covering weather-related perils. Climate change may expose the Syndicate to an increased frequency and / or severity of weather losses. There is a risk that the Syndicate pricing of these perils or the management of the associated aggregations does not appropriately allow for changes in climate. Over the longer term, climate change may have an impact on the economic viability of these lines of business if suitable adjustment in price and coverage cannot be achieved. The Syndicate may also be exposed to losses stemming from climate-related litigation in liability lines, should the insured face such litigation. AXIS Group has in place a Climate Change Working Group, which includes AMAL representation, to ensure that the potential risks from climate change are identified and then managed. Additionally, AMAL also has in place a Climate Change Risk Appetite Statement to ensure that associated risks are managed in line with the Syndicate's standard risk management framework. The Syndicate will continue to assess all climate change related threats and opportunities, reviewing and adjusting existing risk appetites to ensure they remain appropriate, reflecting the most recent scientific consensus and the Company’s strategic agenda on climate change.

16. RISK MANAGEMENT (continued)

c) Insurance risk management (continued)

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 judgment and expertise. Limits are set and monitored in respect of key accumulations from man-made perils.

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, the Syndicate is committing to the payment of claims and therefore these risks must be understood and controlled. The Claims teams include a diverse group of experienced professionals, including claims adjusters and legal professionals. The Syndicate also use approved external service providers, such as independent adjusters and appraisers, surveyors, accountants, investigators and specialist legal firms, as appropriate. The Syndicate maintain claims handling guidelines and claims reporting control and escalation procedures in the 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.

	2021	**2020**
	USD'000	**USD'000**
Gross outstanding claims		
Five percent increase	108,358	58,680
Five percent decrease	(108,358)	(58,680)
Net outstanding claims		
Five percent increase	70,005	38,707
Five percent decrease	(70,005)	(38,707)

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	2014	2015	2016	2017	2018	2019	2020	2021
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Estimate of cumulative gross claims incurred:								
At end of underwriting year	41,829	50,779	394,297	714,556	702,053	327,896	314,747	331,648
One year later	151,783	97,342	1,060,193	1,285,084	1,349,401	851,258	711,504	
Two years later	151,886	122,465	1,124,309	1,345,950	1,594,488	853,999		
Three years later	148,474	118,170	1,110,116	1,382,452	1,612,609			
Four years later	143,519	109,502	1,125,373	1,442,470				
Five years later	140,298	112,877	1,154,069					
Six years later	138,157	107,814						
Seven years later	139,165							
Less cumulative gross paid	129,501	94,413	945,606	1,105,496	1,172,121	462,267	241,823	34,893
Liability for gross outstanding claims	9,664	13,402	208,463	336,974	440,487	391,732	469,681	296,755
Total gross outstanding claims all years								**2,167,158**

Underwriting Year	2014	2015	2016	2017	2018	2019	2020	2021
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Estimate of cumulative net claims incurred:								
At end of underwriting year	25,859	34,251	285,100	371,121	388,401	246,766	219,288	258,851
One year later	67,467	65,216	675,302	768,905	748,617	637,435	499,265	
Two years later	66,250	75,083	781,985	785,743	808,867	621,719		
Three years later	65,085	70,961	774,137	792,420	840,307			
Four years later	62,752	67,853	779,803	806,935				
Five years later	61,262	71,680	800,550					
Six years later	63,281	68,152						
Seven years later	64,133							
Less cumulative net paid	56,024	60,590	650,983	609,595	627,257	361,020	164,171	30,166
Liability for net outstanding claims	8,110	7,562	149,567	197,340	213,050	260,699	335,094	228,685
Total net outstanding claims all years								**1,400,107**

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 translated 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.

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 above. 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 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 Syndicate. There are policies and standards in place to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions.

The tables overleaf 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.

16. RISK MANAGEMENT (continued)

d) Financial risk (continued)

i) Credit risk (continued)

2021	USD'000			
	Neither past due or Impaired	Past due	Impaired	Total
Shares and other variable yield securities	149,177	—	—	149,177
Debt securities & other fixed income securities	1,003,888	—	—	1,003,888
Deposits with credit institutions	175,113	—	—	175,113
Reinsurers share of claims outstanding	767,051	—	—	767,051
Debtors arising out of direct insurance operations	340,943	61,435	—	402,378
Debtors arising out of reinsurance operations	188,896	7,932	—	196,828
Other debtors	445,665	—	—	445,665
Cash at bank and in hand	22,808	—	—	22,808
Deposits with ceding undertakings	10,913	—	—	10,913
Total	**3,104,454**	**69,367**	**—**	**3,173,821**

2020	USD'000			
	Neither past due or Impaired Restated	Past due	Impaired	Total
Shares and other variable yield securities	61,492	—	—	61,492
Debt securities & other fixed income securities	409,786	—	—	409,786
Deposits with credit institutions	118,798	—	—	118,798
Reinsurers share of claims outstanding	399,461	—	—	399,461
Debtors arising out of direct insurance operations	218,771	92,229	—	311,000
Debtors arising out of reinsurance operations	64,602	753	—	65,355
Other debtors	381,704	—	—	381,704
Cash at bank and in hand	20,721	—	—	20,721
Deposits with ceding undertakings	—	—	—	—
Total	**1,675,335**	**92,982**	**—**	**1,768,317**

The restatement of deposits with credit institutions is detailed in note 1. As at 31 December 2020 this was disclosed as overseas deposits and has been reclassified as deposits with credit institutions to align with presentation as at 31 December 2021.

16. RISK MANAGEMENT (continued)

d) Financial risk (continued)

i) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2021 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.

2021				**USD'000**			
	AAA	**AA**	**A**	**BBB**	**Less than BBB**	**Not rated**	**Total**
Shares and other variable yield securities	—	—	128,310	—	—	20,867	149,177
Debt securities & other fixed income securities	168,313	548,765	144,132	125,205	—	17,473	1,003,888
Deposits with credit institutions	81,510	33,063	15,694	13,308	3,972	27,566	175,113
Reinsurers' share of claims outstanding	—	409,385	320,278	2,417	—	34,971	767,051
Reinsurance debtors	—	65,137	117,045	501	—	6,215	188,898
Cash at bank and in hand	—	—	22,808	—	—	—	22,808
Deposits with ceding undertakings	—	—	10,913	—	—	—	10,913
Total	**249,823**	**1,056,350**	**759,180**	**141,431**	**3,972**	**107,092**	**2,317,848**

2020				**USD'000**			
	AAA Restated	**AA Restated**	**A Restated**	**BBB Restated**	**Less than BBB Restated**	**Not rated Restated**	**Total Restated**
Shares and other variable yield securities	—	—	39,678	—	—	21,815	61,493
Debt securities & other fixed income securities	79,375	197,382	57,402	60,212	—	15,415	409,786
Deposits with credit institutions	28,087	42,221	13,067	13,037	802	21,584	118,798
Reinsurers share of claims outstanding	—	185,851	192,165	1,162	—	20,283	399,461
Debtors arising out of direct insurance operations	—	25,979	28,981	200	—	9,442	64,602
Cash at bank and in hand	—	—	20,721	—	—	—	20,721
Deposits with ceding undertakings	—	—	—	—	—	—	—
Total	**107,462**	**451,433**	**352,014**	**74,611**	**802**	**88,539**	**1,074,861**

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. The restatement of deposits with credit institutions is detailed in note 1. As at 31 December 2020 this was disclosed as overseas deposits and has been reclassified as deposits with credit institutions to align with presentation as at 31 December 2021.

16. RISK MANAGEMENT (continued)

d) Financial risk (continued)

ii) Liquidity risk

Liquidity risk is the risk that there would not be sufficient liquid financial resources to meet obligations when they fall due, or the Syndicate would have to incur excessive costs to do so. As an insurer, the core business generates liquidity primarily through premium and investment income. Exposure to liquidity risk stems mainly from the need to cover potential extreme loss events. To manage this risk, a range of liquidity policies and measures are in place including maintaining cash and cash equivalents and high quality, liquid investment portfolios to meet expected outflows, as well as those that could result from a range of potential stress events. The Managing Agency further 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 meet liquidity requirements even in the most extreme circumstances.

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.

2021			**USD'000**		
	0-1 year	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
Claims outstanding	697,403	942,645	291,873	235,237	2,167,158
Creditors	348,489	—	—	—	348,489
Total	**1,045,892**	**942,645**	**291,873**	**235,237**	**2,515,647**

2020			**USD'000**		
	0-1 year	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
Claims outstanding	563,406	401,485	122,537	86,177	1,173,605
Creditors	187,263	—	—	—	187,263
Total	**750,669**	**401,485**	**122,537**	**86,177**	**1,360,868**

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)

d) Financial risk (continued)

iii) Market risk (continued)

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

2021	USD'000							
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**OTH**	**Total**
Total Assets	272,527	2,487,046	114,319	89,518	139,423	9,223	61,765	3,173,821
Total Liabilities	(617,281)	(2,014,922)	(238,080)	(136,604)	(155,267)	(18,434)	(91,755)	(3,272,343)
Net Assets	**(344,754)**	**472,124**	**(123,761)**	**(47,086)**	**(15,844)**	**(9,211)**	**(29,990)**	**(98,522)**

2020	USD'000							
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**OTH**	**Total**
Total Assets	98,384	1,264,502	107,099	52,325	104,710	9,777	131,520	1,768,317
Total Liabilities	(340,679)	(1,166,590)	(174,931)	(88,457)	(101,756)	(15,120)	(91,021)	(1,978,554)
Net Assets	**(242,295)**	**97,912**	**(67,832)**	**(36,132)**	**2,954**	**(5,343)**	**40,499**	**(210,237)**

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 its members – which includes the funding of underwriting deficits. When each year of account closes, the Syndicate calls on 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 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.

iv) Currency risk

Impact on profit and members' balance	**2021**	**2020**
	USD'000	**USD'000**
US Dollar Weakens		
10% against other currencies	(54,066)	(34,983)
20% against other currencies	(108,131)	(69,966)
US Dollar Strengthens		
10% against other currencies	54,066	34,983
20% against other currencies	108,131	69,966

16. RISK MANAGEMENT (continued)

d) Financial risk (continued)

v) Interest rate risk

The syndicate has a limited exposure to interest rate risk.

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

	2021 USD'000	2020 USD'000
Interest rate risk		
Impact of 50 basis point increase on result	(21,174)	(9,146)
Impact of 50 basis point decrease on result	21,174	9,146
Impact of 50 basis point increase on net assets	(21,174)	(9,146)
Impact of 50 basis point decrease on net assets	21,174	9,146

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

17. REINSURANCE ASSETS

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

All of these reinsurance covers provide for recovery of a portion of losses and loss reserves from reinsurers. Under its reinsurance security policy, the Syndicate predominantly cedes business with reinsurers rated A- or better by Standard & Poors and/or AM Best. The Syndicate remains liable to the extent that reinsurers do not meet their obligations under these agreements either due to solvency issues, contractual disputes or some other reason. Included within reinsurance losses recoverable as at 31 December 2021 were amounts of USD 34.3m (2020: USD 43.1m) recoverable from a group company. Included within the provision for unearned premiums ceded as at 31 December 2021 is an amount of USD 0.9m (2020: USD 1.6m) ceded to a group company.

18. RELATED PARTIES

AMAL has operated as the managing agent for the Syndicate since 4 August 2017. Since this date AMAL has been a wholly owned subsidiary of AXIS Specialty UK Holdings Limited. In 2021, the Managing Agent, AMAL, charged the Syndicate a management fee of USD 0.3m (2020: USD 0.3m) based on 0.025% (2020: 0.025%) of the Syndicate's capacity.

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

During the year ended 31 December 2021, the Syndicate recognised the following amounts in relation to transactions with Harrington Re:

	2021 USD'000	2020 USD'000
Outwards reinsurance premiums	(1,894)	(3,807)
Change in the provision for unearned premiums - reinsurers' share	(1,136)	287
Change in the provision for claims - reinsurers' share	(1,467)	110
Acquisition costs	471	716
Change in deferred acquisition costs	192	(51)

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

	2021 USD'000	2020 USD'000
Reinsurers' share of technical provisions	3,592	5,148
Deferred acquisition costs	(146)	(338)
Creditors arising out of direct insurance operations	(259)	(299)

19. DISCLOSURE OF INTERESTS

Managing Agent's interest
During 2021 AMAL was the Managing Agent for AXIS Syndicate 1686. 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 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 rating 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 in respect 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. COMMITMENTS AND CONTINGENCIES

Reinsurance purchase commitments

During 2021, the Syndicate participated in a number of group-purchased global reinsurance policies on the Marine, Terrorism and Property lines of business. Deposit reinsurance premiums are typically contractually due on a quarterly basis in advance. At 31 December 2021, the Syndicate has an outstanding reinsurance purchase commitment of USD 15.1m (2020: USD 24.0m).

23. SUBSEQUENT EVENTS

The Syndicate conducted a review of events subsequent to the balance sheet date through to the date the financial statements were signed and determined that there were no such events requiring recognition or disclosure in the financial statements.

24. APPROVAL OF ANNUAL REPORT AND ACCOUNTS

The annual report and accounts were approved by the Board of Directors on 1 March 2022.