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AXIS Syndicate 1686
Syndicate Annual Reports and Accounts
for the year ended 31 December 2023

CONTENTS

DIRECTORS AND ADMINISTRATION

MANAGING AGENT	AXIS Managing Agency Limited	
DIRECTORS	Stephen Cane (Chairman)* Tadeusz Dziurman* Mark Gregory Fintan Mullarkey James Mollett Alistair Robson Elanor Hardwick* Seema Bradbury (resigned 19 May 2023) Ann Haugh John Owen (appointed 13 February 2024) Axel Theis* (appointed 8 February 2024)	*** Independent Non-Executive**
COMPANY SECRETARY	Kelly Lawrence	
MANAGING AGENT'S REGISTERED OFFICE	52 Lime Street London EC3M 7AF United Kingdom	
MANAGING AGENT'S REGISTERED NUMBER	08702952	
ACTIVE UNDERWRITER	Toby Read	
SOLICITORS	Willkie Farr & Gallagher (UK) LLP 27th Floor, Citypoint 1 Ropemaker Street London EC2Y 9AW United Kingdom	
AUDITOR	Deloitte LLP 2 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 31 December 2023, the Syndicate achieved gross premiums written of USD 1,760.0m, representing growth of 12% over 2022. This growth was driven by positive rate change on renewal contracts across most classes of business and strong new business particularly in Property, Construction, Credit and Political Risks. The Syndicate maintains a broad and diversified portfolio of business, with over 25 individual classes of business, including a re-entry during 2023 to the Aviation Insurance class. The Syndicate maintains leadership positions in a number of classes including Marine, Cyber, Professional Lines and Political Risks.

Financial year 2023 reaffirmed the significant progress made towards the Syndicate's long-term goal of sustainable top quartile underwriting performance at Lloyd's. In 2023 the Syndicate produced an underwriting profit of USD 153.0m (2022: profit of USD 105.7m). The Syndicate's Net Combined Ratio for the year is 87.5%, which is a 2.5pt improvement over 2022. This performance is despite significant global challenges with the (re)insurance industry affected by macroeconomic impacts of high inflation and volatile interest rates, continuing geopolitical turmoil in Russia/Ukraine and the Israel/Hamas conflict and another year of above average losses arising from natural catastrophes. The Syndicate's underlying performance, which is measured excluding the impact of losses arising from natural catastrophes, has remained robust, further evidencing the success of its multi-year performance improvement plan and repositioning of the portfolio.

The upward trend in rate movement continued throughout 2023, building on the cumulative positive rate change delivered each year since 2018. Overall rate change for the Syndicate was 4.5% against a plan of 5.3%, with all major product lines delivering positive rate change for the year. Lower than planned rate increases in the Cyber portfolio was the main driver for the small miss to the Syndicate's overall rate change plan. After many years of increased rate, the Syndicate portfolio is considered to be price adequate with the focus on disciplined cycle management to ensure rate change keeps up with loss trend as we head into 2024.

The hard work of colleagues and the ongoing performance management of the Syndicate has resulted in a sustained improvement in the Syndicate's net combined ratio. I remain confident that with the actions taken to reposition our portfolios, continued focus on underwriting excellence, 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 into 2024 and beyond.

Toby Read
Active Underwriter
Date: 26 February 2024

The directors of the Managing Agent, AMAL, present their annual report for the Syndicate for the year ended 31 December 2023.

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.

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

	2023 USD '000	2022 USD '000
Marine and Aviation	341,347	285,624
Property	391,878	309,406
Terrorism	49,707	42,740
Professional Lines	473,358	475,602
Casualty	112,857	78,051
Accident & Health	84,290	66,916
Political Risk	148,638	117,882
Reinsurance	117,430	158,508
Broker Facilities	40,486	32,731
	1,759,991	1,567,460

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

	2023 USD '000	2022 USD '000	Change %
Gross written premium	1,759,991	1,567,460	12.3 %
Net written premium	1,345,052	1,113,679	20.8 %
Net earned premium	1,224,391	1,062,204	15.3 %
Other technical income, net of reinsurance	316	0	100.0 %
Net claims	(574,832)	(501,268)	14.7 %
Acquisition costs	(356,526)	(327,049)	9.0 %
Operating costs	(140,318)	(128,196)	9.5 %
Net technical result (excl. investment return)	**153,031**	**105,691**	44.8 %
Net loss ratio	46.9 %	47.2 %	
Net acquisition ratio	29.1 %	30.8 %	
Net expense ratio	11.5 %	12.0 %	
Combined ratio	**87.5 %**	**90.0 %**	

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS (continued)

In 2022, the Syndicate completed a loss portfolio reinsurance contract ("LPR") with another Lloyd's syndicate. Under the agreement, the Syndicate was indemnified against potential adverse development in respect of net liabilities, providing the Syndicate with protection in several professional lines insurance portfolios, predominantly relating to 2019 and prior years of account. The 2022 comparatives in the income statement therefore include USD 59.7m of reinsurance premium for the LPR and USD 59.7m of reinsurance recoveries in net claims. The combined ratio of 90.0% includes the impact of the LPR. Excluding the effect of the LPR the combined ratio would be 90.3%. The net claims ratio reduced by 2.6% from 49.8% to 47.2% as a result of the LPR with the net acquisition and expense ratios increasing by 1.7% and 0.6% respectively.

The forecast return on capacity at 31 December 2023 for the three years of account is as follows:

	2023 YOA Open	**2022 YOA Open**	**2021 YOA Closed**
Capacity (USD '000)	1,659,221	1,403,957	1,276,324
Forecast result (USD '000)	245,016	45,687	91,337
Return on capacity %	14.8%	3.3%	7.2%

Exposure to the Russia-Ukraine war

The Russia-Ukraine war, and its related impacts, are a risk to which the Syndicate is exposed from an underwriting and reserving perspective. The Syndicate continues to track the situation closely, performing stress and scenario testing on existing underwriting exposures. A range of economic impacts and external pressures across individual product lines have been considered.

The Syndicate has low and containable exposures to potential losses resulting from war, acts of terrorism, political unrest and geopolitical instability in many regions of the world, including but not limited to, events related to the Russian-Ukraine war. For the foreseeable future, the Syndicate is generally looking to minimize exposure to Russian business or insureds with material Russian interests. AMAL has seen additional sanctions work as a result of the event, there has been no adverse effect on its operating capability and the ability to operate as required.

Climate Change

AXIS remains focused on addressing the impact of climate change. AXIS has a Climate Change Working Group, which includes AMAL representation, to ensure that the potential risks from climate change are identified and then managed as part of the Enterprise risk management framework. Additionally AXIS has developed a plan to ensure that the exposures in its managed syndicate are systematically assessed and monitored as appropriate, reviewing its underwriting strategy and potential impact in light of climate related risks as detailed in note 16 on page 28.

AXIS continues to assess and understand its impact as a company and as a business on the climate. AXIS' policy limiting thermal coal and oil sands underwriting and investment came into effect on 1 January 2020. Further details on the group wide energy and carbon reduction initiative have been documented in the Corporate Citizenship section of the AXIS Capital Holdings annual report which can be obtained from the AXIS website.

The Managing Agent is required to address the energy reporting requirements in relation to streamlined energy and carbon reporting. These reporting requirements for AMAL are consolidated within the streamlined energy and carbon reporting section of the AXIS Specialty UK Holdings Limited annual accounts.

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.

FUTURE DEVELOPMENTS

Both ACCUKL ad ACCUKIIL participated on the 2020, 2021, 2022 and 2023 years of account of Syndicate 1686 and will continue to participate on the 2024 year of account.

The Syndicate will distribute profits in respect of the 2021 year of account to ACCUKL and ACCUKIIL in June 2024.

AMAL is working with Lloyd's to establish a new Syndicate dedicated to providing capacity for new energy projects which play a role in supporting the transition to net zero. Energy Transition Syndicate 2050 will provide a single access point to specialist insurance solutions for cross-class risks over the lifecycle of projects and activities associated with replacing or displacing fossil fuels through lower-carbon alternatives and supporting energy resilience during the transition phase. AXIS Energy Transition Syndicate 2050 will begin underwriting on 1 April 2024.

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 Managing Agent 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
5. Pricing 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. Credit risk arising from insureds and intermediaries is managed through controls over debtor balances and ageing.

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 Managing Agent 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 Managing Agent aims to ensure that the Syndicate maintains adequate liquidity to meet its liquidity needs under both normal and stressed conditions such as following a catastrophic event. The Managing Agent 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. AXIS Specialty Finance Plc provides a credit facility to the Syndicate to ensure that it can meet liquidity requirements even under extreme circumstances.

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, legal and regulatory penalties or impacts from third parties including coverholders or third-party administrators (TPA). 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, AXIS undertakes regular underwriting and claim peer audits, supplemented by the work of the 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.

The Managing Agent also considers regulatory risk. Regulatory risk represents the risk arising from failure to comply with legal, statutory or regulatory obligations, including applicable laws, rules, and codes of conduct applicable to business activities. The Managing Agent is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) and Lloyd’s. Lloyd’s requirements include those imposed on the Lloyd’s market by overseas regulators, particularly in respect of US situs business.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Operational risk (continued)

The Managing Agent has a Compliance Officer who monitors business activity and regulatory developments and assesses any effects on the Syndicate. 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.

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 judgements, estimates and assumptions have had the most significant effect on the amounts recognised in the annual accounts.

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. Shorter tailed lines for example property are more volatile and experience indication is generally adopted for all underwriting years including the current year, with more weight given to experience based methods. In contrast for the longer tailed lines, the initial expected loss ratio is generally recommended for the most recent underwriting years unless there has been materially outsized loss experience compared to expectations greater than the normal volatility that would be associated with the early stage of development. In these cases, weighting an experience-based indication is an option or using a blend of case handler method and the loss ratio.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of each claim 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 1,760.0m, 42.2% (2022: USD 1,567.5m, 45.0%) 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.

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.

Profit commissions

Insurance profit commissions are made up of accruals on open market and delegated portfolios. Included in the Syndicate’s profit commission accrual balance is an estimation of profit commission payable. The calculation uses an estimate for the future profitability of the delegated agreements based on the expected loss ratio of the contracts. The expected loss ratio can vary over time and as such, commission payable may vary as the contracts develop.

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.

GOING CONCERN
As detailed in note 20: Funds at Lloyd's, 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 if 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 auditor in connection with the auditor's report, of which the auditor 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 auditor 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 AUDITOR
Deloitte LLP acted as the Syndicate's auditor 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 auditor 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: 26 February 2024

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 AXIS Syndicate 1686 (the 'syndicate'):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2023 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; technical account – General Business
- the statement of comprehensive income; non-technical account – General Business
- the statement of financial position;
- the statement of changes in members' balances;
- the statement of cash flows;
- the statement of accounting policies; 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 Syndicate Annual Reports and Accounts (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 statement of managing agent's responsibilities, 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 frameworks 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 which may 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:

- Valuation of IBNR for certain technical provisions classes, including long tail classes, incorporates assumptions and methodologies requiring significant management judgement and therefore there is potential for management bias. There is also a risk of overriding controls by making late adjustments to the technical provisions. 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.

    - Tested the integrity of the data used in the actuarial calculations by agreeing it to the underlying syndicate records.

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
- 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.

Kirstie Hanley
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 February 2024

AXIS SYNDICATE 1686
STATEMENT OF COMPREHENSIVE INCOME: TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

	Notes	Financial year ended 31 December 2023 USD '000	Financial year ended 31 December 2022 USD '000
Gross premiums written	3	1,759,991	1,567,460
Outward reinsurance premiums		(414,939)	(453,781)
Net written premium		1,345,052	1,113,679
Change in the gross provision for unearned premiums	4	(171,454)	(92,454)
Change in the provision for unearned premiums, reinsurers' share	4	50,793	40,979
Change in the net provision for unearned premiums		(120,661)	(51,475)
Earned premiums, net of reinsurance		1,224,391	1,062,204
Allocated investment return transferred from the non-technical account		103,334	(97,180)
Other technical income, net of reinsurance		316	0
		1,328,041	965,024
Claims paid			
Gross amount		(668,316)	(746,801)
Reinsurers' share		211,881	305,857
Net claims paid		(456,435)	(440,944)
Change in the provision for claims			
Gross amount	4	(106,052)	(19,262)
Reinsurers' share	4	(12,345)	(41,062)
Change in net provision for claims		(118,397)	(60,324)
Claims incurred, net of reinsurance		(574,832)	(501,268)
Net operating expenses	5	(496,844)	(455,245)
Balance on the technical account for general business		256,365	8,511

	Notes	Financial year ended 31 December 2023 USD '000	Financial year ended 31 December 2022 USD '000
Balance on the general technical account		256,365	8,511
Investment income / (expense)	8	(19,913)	(36,134)
Unrealised gains on investments	8	64,234	25,491
Investment expenses and charges	8	58,618	28,474
Unrealised (losses) on investments	8	395	(115,011)
Allocated investment return transferred to the technical account		(103,334)	97,180
		256,365	8,511
Foreign exchange (losses)/ gains		(18,198)	35,955
PROFIT FOR THE FINANCIAL YEAR		238,167	44,466

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 2023 USD '000	Financial year ended 31 December 2022 USD '000
As at the beginning of the year	28,154	(98,522)
Profit / (loss) for the financial year	238,167	44,466
2019 year of account cash call	—	82,210
2020 year of account profit distribution	(165,650)	—
Member expenses	(3,381)	—
As at the end of the year	**97,290**	**28,154**

The cash call was received from the ACCUKL and ACCUKIIL to fund the 2019 year of account loss. The 2020 year of account profit was distributed from the Syndicate to ACCUKL and ACCUKIIL.

	Notes	2023 USD '000	2022 USD '000
ASSETS			
Investments			
Other financial investments	9	1,831,513	1,604,185
Despoits with ceding undertakings	9	4,389	2,979
		1,835,902	1,607,164
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	257,742	205,235
Claims outstanding	4	715,248	715,669
		972,990	920,904
Debtors			
Debtors arising out of direct insurance operations	10	550,508	419,841
Debtors arising out of reinsurance operations	11	271,798	320,222
Other debtors		—	—
		822,306	740,063
Other assets			
Cash at bank and in hand	12	21,672	13,608
		21,672	13,608
Prepayments and accrued income			
Accrued interest and rent		11,424	9,767
Deferred acquisition costs	4	216,189	174,261
Other prepayments and accrued income		12,486	11,362
		240,099	195,390
TOTAL ASSETS		**3,892,969**	**3,477,129**

	Notes	2023 USD '000	2022 USD '000
MEMBERS' BALANCE			
Capital and reserves			
Members' balance		97,290	28,154
LIABILITIES			
Technical provisions			
Provision for unearned premiums	4	1,005,032	818,943
Claims outstanding	4	2,262,518	2,113,637
		3,267,550	**2,932,580**
Creditors			
Creditors arising out of direct insurance operations	13	49,591	40,763
Creditors arising out of reinsurance operations	14	387,884	384,444
Other creditors	15	44,848	53,089
		482,323	**478,296**
Accruals and deferred income		45,806	38,099
TOTAL LIABILITIES AND MEMBERS' BALANCE		**3,892,969**	**3,477,129**

The annual report and accounts were approved by the Board of AXIS Managing Agency Limited on 26 February 2024 and signed on its behalf by:

James Mollett
Finance Director
26 February 2024

	2023	2022
	USD'000	USD'000
Profit for the financial year	238,167	44,466
Adjustments for:		
Increase in gross technical provisions	334,970	35,985
(Increase) / decrease in reinsurers' share of technical provisions	(52,085)	11,561
(Increase) / decrease in debtors	(82,243)	(35,463)
(Decrease) / increase in creditors	4,026	129,865
Movement in other assets/liabilities	(78,673)	(26,898)
Investment return	(103,334)	97,180
Foreign exchange impact	(7,237)	13,018
Net cash flow from operating activities	**253,591**	**269,714**
Cash flow from investing activities		
Purchase of equity and debt instruments	(1,212,122)	(1,236,071)
Sale of equity and debt instruments	1,150,454	782,949
Investment income received	67,278	18,891
Lloyd's Insurance Company settlement accounts relating to Part VII	(1,410)	7,933
Net cash flow from investing activities	**4,200**	**(426,298)**
Cash flow from financing activities		
Profit distribution (paid to) / loss collected from corporate members	(165,650)	82,210
Net cash flow from financing activities	**(165,650)**	**82,210**
Net increase / (decrease) in cash and cash equivalents	**92,141**	**(74,374)**
Cash and cash equivalents at beginning of the year	84,593	171,985
Effect of exchange rates on cash and cash equivalents	3,857	(13,018)
Cash and Cash equivalents at end of year	**180,591**	**84,593**
Cash at bank and in hand	21,672	13,608
Short term deposits with credit institutions	158,919	70,985
Cash and cash equivalents at end of year	**180,591**	**84,593**

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.

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 detailed in note 20, the Syndicate's ECA is supported by FAL primarily provided by affiliate companies, ASL and ACCUKIIL own funds. There is no material uncertainty regarding the Syndicate's ability to meet its liabilities as they fall due. The directors believe that the Syndicate is well positioned to manage its business risks successfully in the current economic environment. The directors have continued to review the business plans, liquidity and operational resilience of the Syndicate. 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.

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 in 2021 as a balance sheet claims portfolio transfer with no entries recorded in the statement of comprehensive income.

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.

2. SUMMARY OF ACCOUNTING POLICIES (continued)

Premiums and acquisition costs (continued)
Under FRS 103, unearned premiums and deferred acquisition costs are monetary assets. These are therefore valued at the closing exchange rate at the balance sheet date 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, the only exception to this being the loss portfolio reinsurance agreement, entered into on 1 December 2022, which was fully expensed in the 2022 period as it related to existing losses. 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. Loss occurring contracts cover all claims that occur during the life of the reinsurance contract. 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.

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

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.

The key areas of uncertainty which require the use of estimates and judgements are the calculation of claims provisions and estimates of premium as detailed on page 7 within the Managing Agent's report and on page 29 within the reserving risk section of note 16.

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 IBNR. These amounts are reduced for estimated amounts of salvage and subrogation recoveries.

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

At each reporting date, liability adequacy tests are performed at a year of account level and reviewed to ensure the adequacy of the liabilities from insurance and reinsurance contracts net of deferred acquisition costs. In performing these tests, current best estimates are used of future contractual cash flows, claims handling and administrative expenses as well as investment

2. SUMMARY OF ACCOUNTING POLICIES (continued)

income from the assets backing such liabilities. This analysis is performed for AXIS as a whole and looks at insurance and reinsurance by class of business and entity to determine whether there is a deficiency. 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. Investment management and other related expenses are shown separately to the net change in fair value. 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 Syndicate trading income. In addition, all UK basic rate income tax (currently at 25%, 2022: 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 the US Dollar (USD).

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

2. SUMMARY OF ACCOUNTING POLICIES (continued)

Pension
The staff utilised by the Syndicate are employed by an affiliate entity which operates 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 2023, the Managing Agent charged a Managing Agent fee of 0.025% (2022: 0.025%) of Syndicate capacity.

3. SEGMENTAL ANALYSIS

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

	Gross Premiums Written 2023 USD'000	Gross Premiums Earned 2023 USD'000	Gross Claims Incurred 2023 USD'000	Net Operating Expenses 2023 USD'000	Reinsurance Balance 2023 USD'000	Total 2023 USD'000
Direct insurance:						
Accident and health	75,605	76,060	(47,190)	(31,463)	(692)	(3,285)
Marine	118,760	110,592	(62,307)	(44,780)	(528)	2,977
Aviation	15,609	5,142	(8,262)	(1,840)	2,968	(1,992)
Transport	79,174	73,561	(28,724)	(26,894)	(3,522)	14,421
Energy marine	19,125	20,471	(13,710)	(5,235)	(4,499)	(2,973)
Energy non marine	16,632	13,758	(8,678)	(2,507)	(1,553)	1,020
Fire & other damage to property	380,911	319,773	(150,732)	(104,494)	(36,853)	27,694
Third party liability	561,962	525,992	(271,404)	(163,115)	(56,085)	35,388
Pecuniary loss	49,533	38,446	(15,864)	(10,093)	(8,437)	4,052
Total direct insurance	**1,317,311**	**1,183,795**	**(606,871)**	**(390,421)**	**(109,201)**	**77,302**
Reinsurance	442,680	404,742	(167,497)	(106,423)	(55,409)	75,413
Total	**1,759,991**	**1,588,537**	**(774,368)**	**(496,844)**	**(164,610)**	**152,715**

3. SEGMENTAL ANALYSIS (continued)

	Gross Premiums Written 2022 USD'000	Gross Premiums Earned 2022 USD'000	Gross Claims Incurred 2022 USD'000	Net Operating Expenses 2022 USD'000	Reinsurance Balance 2022 USD'000	Total 2022 USD'000
Direct insurance:						
Accident and health	61,105	59,246	(31,997)	(22,185)	(1,829)	3,235
Marine	88,862	83,509	(41,330)	(27,261)	(9,452)	5,466
Aviation	(438)	(438)	(42,392)	255	40,826	(1,749)
Transport	69,373	64,321	(23,946)	(23,418)	(2,848)	14,109
Energy marine	21,506	21,795	(11,586)	(7,100)	(4,352)	(1,243)
Energy non marine	9,262	9,185	(4,475)	(1,514)	(1,502)	1,694
Fire & other damage to property	314,627	297,379	(127,933)	(112,171)	(46,418)	10,857
Third party liability	539,543	515,136	(239,551)	(158,793)	(77,268)	39,524
Pecuniary loss	46,098	31,450	(19,246)	(6,511)	1,885	7,578
Total direct insurance	**1,149,938**	**1,081,583**	**(542,456)**	**(358,698)**	**(100,958)**	**79,471**
Reinsurance	417,522	393,423	(223,607)	(96,547)	(47,049)	26,220
Total	**1,567,460**	**1,475,006**	**(766,063)**	**(455,245)**	**(148,007)**	**105,691**

The Syndicate paid USD 307.8m (2022: USD 318.2m) of commissions in respect of direct insurance business. This includes acquisitions, renewals, collections service companies and portfolio management commissions.

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 2023	818,943	(205,235)	613,708
Movement in provision	171,454	(50,793)	120,661
Foreign exchange	14,635	(1,714)	12,921
As at 31 December 2023	**1,005,032**	**(257,742)**	**747,290**
As at 1 January 2022	729,437	(165,414)	564,023
Movement in provision	92,454	(40,979)	51,475
Foreign exchange	(2,948)	1,158	(1,790)
As at 31 December 2022	**818,943**	**(205,235)**	**613,708**

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 2023	2,113,637	(715,669)	1,397,968
Movement in provision	106,052	12,345	118,397
Foreign exchange	42,829	(11,924)	30,905
As at 31 December 2023	**2,262,518**	**(715,248)**	**1,547,270**
As at 1 January 2022	2,167,158	(767,051)	1,400,107
Movement in provision	19,262	41,062	60,324
Foreign exchange	(72,783)	10,320	(62,463)
As at 31 December 2022	**2,113,637**	**(715,669)**	**1,397,968**

	Gross provisions USD'000	Reinsurance assets USD'000	Net USD'000
Provision for claims outstanding			
Claims notified	847,046	(275,408)	571,638
Claims incurred but not reported	1,415,472	(439,840)	975,632
As at 31 December 2023	**2,262,518**	**(715,248)**	**1,547,270**
Claims notified	864,900	(300,772)	564,128
Claims incurred but not reported	1,248,737	(414,897)	833,840
As at 31 December 2022	**2,113,637**	**(715,669)**	**1,397,968**

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 claims notified of USD 1,547.3m (2022: USD 1,398.0m) is a decrease in claims notified relating to 2022 and prior years of account of USD 54.6m (2022: decrease in claims notified relating to 2021 and prior years of account of USD 229.9m).

	Gross assets USD'000	Reinsurance liabilities USD'000	Net USD'000
Deferred acquisition costs			
As at 1 January 2023	174,261	(30,807)	143,454
Change in deferred acquisition costs	38,273	(10,055)	28,218
Foreign exchange	3,655	(249)	3,406
As at 31 December 2023	**216,189**	**(41,111)**	**175,078**
As at 1 January 2022	162,691	(24,189)	138,502
Change in deferred acquisition costs	12,422	(6,767)	5,655
Foreign exchange	(852)	149	(703)
As at 31 December 2022	**174,261**	**(30,807)**	**143,454**

5. NET OPERATING EXPENSES

	2023 USD'000	2022 USD'000
Acquisition costs	(448,759)	(384,134)
Change in deferred acquisition costs	38,273	12,422
Administration expenses	(140,318)	(128,196)
Operating expenses	**(550,804)**	**(499,908)**
Reinsurance commissions and profit participation	53,960	44,663
Net operating expenses	**(496,844)**	**(455,245)**

Members' standard personal expenses amounting to USD 12.0m (2022: USD 11.0m) are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, Central Fund contributions and Managing Agent's fees.

Included in administrative expenses are salary costs for services to the Syndicate provided by employees of AXIS group companies. These are not separately identifiable.

6. AUDITOR'S REMUNERATION

	2023 USD'000	2022 USD'000
Audit of the Syndicate annual accounts	671	718
Other services pursuant to Regulations and Lloyd's Byelaws	108	105
	779	**823**

Fees payable to Deloitte LLP for the audit of the annual accounts of AXIS Managing Agency Limited are USD 31.9k (2022: USD 12.4k). Fees payable for audit-related assurance services provided to the Managing Agent are USD 15.7k (2022: 6.2k). 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 7.3m (2022: USD 6.8m) 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 remuneration reported is based on the allocation of service as active underwriter as a proportion of service to other AXIS entities. The current active underwriter received remuneration of USD 0.6m (2022: USD 0.2m from date of appointment, 1 May 2022). The previous active underwriter received remuneration of USD 0.3m in 2022 up to the resignation date of 1 May 2022.

8. INVESTMENT RETURN

	2023 USD'000	2022 USD'000
Interest and similar income		
Fair value through profit or loss designated upon initial recognition	60,552	29,851
Investment expenses	(1,934)	(1,377)
	58,618	**28,474**
Other income / (expense) from investments		
Net gains on realisation of investments	12,235	2,227
Unrealised gains on investments	64,234	25,491
Net losses on realisation of investments	(32,148)	(38,361)
Unrealised losses on investments	395	(115,011)
Total investment return	**103,334**	**(97,180)**

9. INVESTMENTS

	2023	
	Carrying value USD'000	Purchase price USD'000
Shares and other variable yield securities & units in unit trusts	158,919	160,209
Debt securities & other fixed income securities	1,438,662	1,469,438
Deposits with credit institutions	233,932	233,932
Deposits with ceding undertakings	4,389	4,389
	1,835,902	**1,867,968**

	2022	
	Carrying value USD'000	Purchase price USD'000
Shares and other variable yield securities & units in unit trusts	70,985	72,995
Debt securities & other fixed income securities	1,340,939	1,439,482
Deposits with credit institutions	192,261	192,261
Deposits with ceding undertakings	2,979	2,979
	1,607,164	**1,707,717**

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 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 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
As at 31 December 2023				
Shares and other variable yield securities and units in unit trusts	—	139,978	18,941	158,919
Debt securities & other fixed income securities	—	1,438,662	—	1,438,662
Deposits with credit institutions	48,459	185,473	—	233,932
Total	**48,459**	**1,764,113**	**18,941**	**1,831,513**

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
As at 31 December 2022				
Shares and other variable yield securities and units in unit trusts	—	53,816	17,169	70,985
Debt securities & other fixed income securities	—	1,340,939	—	1,340,939
Deposits with credit institutions	31,704	160,557	—	192,261
Total	**31,704**	**1,555,312**	**17,169**	**1,604,185**

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.

10. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2023 USD'000	2022 USD'000
Due within one year	550,508	419,841
Due after one year	—	—
	550,508	**419,841**

11. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2023 USD'000	2022 USD'000
Due within one year	271,798	320,222
Due after one year	—	—
	271,798	**320,222**

12. CASH AT BANK AND IN HAND

	2023 USD'000	2022 USD'000
Cash at bank and in hand	21,672	13,608
Total cash at bank and in hand	**21,672**	**13,608**

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.

13. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2023 USD'000	2022 USD'000
Due within one year	49,591	40,763
Due after one year	—	—
	49,591	**40,763**

14. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2023 USD'000	2022 USD'000
Due within one year	387,884	384,444
Due after one year	—	—
	387,884	**384,444**

15. OTHER CREDITORS

	2023 USD'000	2022 USD'000
Amounts payable to group companies	44,848	53,089
Loans payable to group companies	—	—
	44,848	**53,089**

At 31 December 2023, the Syndicate had a USD 390.0m (2022: USD 390.0m) flexible facility agreement with AXIS Specialty Finance Plc to ensure that it can meet liquidity requirements even in the most extreme circumstances. The outstanding loan balance is nil as at 31 December 2023 (2022: USD nil). Any loans drawn and outstanding under the facility would be 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 utilises the group risk management function for the Syndicate with a dedicated Chief Risk Officer (CRO) and clear terms of reference from the Managing Agency Board, its committees and sub committees, including the oversight and reporting of agreed service level risk management activities. 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.

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.

16. RISK MANAGEMENT (continued)

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

Capital framework at Lloyd's (continued)

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 2024 is 35% (2023: 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 ASL and ACCUKIIL own funds.

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 capital position 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 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 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 uses approved external service providers, such as independent adjusters and appraisers, surveyors, accountants, investigators and specialist legal firms, as appropriate. The Syndicate maintains 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 including adjusting current and projected inflation rates to reflect prevailing views. 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.

Pricing risk
Premiums for (re)insurance contracts are intended to cover expected claim costs, acquisition costs, operating costs, and an adequate level of profit margin commensurate to the risk being assumed. Premium amount is typically agreed upfront, whereas the claim cost materialises over an extended period, especially for liability lines. Social, economic, and legal environment may evolve differently over that period compared to the original expectation. Additionally, inherent variability in claim counts and amounts could result in higher overall claim costs than expected in a given year. These factors could lead to a shortfall in premiums charged at the time of underwriting the policy. Premium risk can increase in times of heightened uncertainty in claim cost trends and at times when demand-supply imbalance results in competitive pricing.

The Syndicate mitigates premium risk in its portfolio through four main levers. Firstly, a vigilant and cautious approach is taken on claims cost trends, and these assumptions are reviewed regularly and frequently. Secondly, in some of the contracts loss and / or exposure adjustment features that flex premium and / or acquisition costs are included in response to higher than expected exposures and / or claim costs. Thirdly, underwriting action and reinsurance protection are employed to minimise volatility in claims experience by managing aggregation of limits and by maintaining balance between portfolio margin and limits deployed. Most importantly, active cycle management is exercised whereby the Syndicate grows the portfolio at times when pricing is in surplus and shrinks the portfolio at times when pricing is in deficit.

16. RISK MANAGEMENT (continued)

c) Insurance risk management (continued)

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. The risk variable for the analysis below is a five percent increase or decrease in the Syndicate's reserves and the subsequent impact on the members' balance.

	2023	2022
	USD'000	USD'000
Gross outstanding claims		
Five percent increase	113,126	105,682
Five percent decrease	(113,126)	(105,682)
Net outstanding claims		
Five percent increase	77,364	69,898
Five percent decrease	(77,364)	(69,898)

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	2022	2023
	USD'000	USD'000	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	382,553	702,902	577,762	327,896	314,747	331,648	323,196	294,543
One year later	151,783	97,342	1,032,027	1,259,699	1,187,833	851,258	711,504	723,113	729,729	
Two years later	151,886	122,465	1,093,591	1,319,860	1,412,708	853,999	747,623	752,000		
Three years later	148,474	118,170	1,080,411	1,356,982	1,474,049	816,334	754,239			
Four years later	143,518	109,502	1,096,333	1,425,956	1,497,722	839,998				
Five years later	140,298	112,877	1,134,141	1,385,498	1,508,172					
Six years later	138,157	107,814	1,135,688	1,391,038						
Seven years later	139,165	106,331	1,173,242							
Eight years later	136,046	111,617								
Nine years later	134,215									
Less cumulative gross paid	130,910	99,918	1,019,737	1,268,359	1,261,679	645,862	485,635	313,082	177,679	23,414
Liability for gross outstanding claims	3,305	11,699	153,505	122,679	246,493	194,136	268,604	438,918	552,050	271,129
Total gross outstanding claims all years										**2,262,518**

16. RISK MANAGEMENT (continued)

c) Insurance risk management (continued)

Underwriting Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	USD'000	USD'000	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	274,451	361,616	293,647	246,766	219,288	258,852	259,053	225,341
One year later	67,467	65,216	657,104	747,511	628,713	637,435	499,265	552,709	571,252	
Two years later	66,250	75,083	754,987	763,216	679,601	621,719	519,974	577,461		
Three years later	65,085	70,961	747,846	770,039	725,919	581,144	524,790			
Four years later	62,752	67,853	753,671	792,246	706,362	596,218				
Five years later	61,262	71,680	782,222	760,087	702,949					
Six years later	63,281	68,152	747,664	762,498						
Seven years later	64,133	66,966	776,838							
Eight year later	57,565	65,291								
Nine year later	54,667									
Less cumulative net paid	54,777	63,985	678,428	653,213	615,851	481,398	333,789	255,834	151,362	21,398
Liability for net outstanding claims	(110)	1,306	98,410	109,285	87,098	114,820	191,001	321,627	419,890	203,943
Total net outstanding claims all years										**1,547,270**

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.

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.

16. RISK MANAGEMENT (continued)

d) Financial risk (continued)

i) Credit risk (continued)

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

2023		**USD'000**		
	Neither past due or Impaired	**Past due**	**Impaired**	**Total**
Shares and other variable yield securities	158,919	—	—	158,919
Debt securities & other fixed income securities	1,438,662	—	—	1,438,662
Deposits with credit institutions	233,932	—	—	233,932
Reinsurers share of claims outstanding	715,248	—	—	715,248
Debtors arising out of direct insurance operations	416,788	133,720	—	550,508
Debtors arising out of reinsurance operations	125,111	23,504	—	148,615
Other debtors	621,024	—	—	621,024
Cash at bank and in hand	21,672	—	—	21,672
Deposits with ceding undertakings	4,389	—	—	4,389
Total	**3,735,745**	**157,224**	**—**	**3,892,969**

2022		**USD'000**		
	Neither past due or Impaired	**Past due**	**Impaired**	**Total**
Shares and other variable yield securities	70,985	—	—	70,985
Debt securities & other fixed income securities	1,340,939	—	—	1,340,939
Deposits with credit institutions	192,261	—	—	192,261
Reinsurers share of claims outstanding	715,669	—	—	715,669
Debtors arising out of direct insurance operations	306,436	113,405	—	419,841
Debtors arising out of reinsurance operations	151,515	28,620	—	180,135
Other debtors	540,712	—	—	540,712
Cash at bank and in hand	13,608	—	—	13,608
Deposits with ceding undertakings	2,979	—	—	2,979
Total	**3,335,104**	**142,025**	**—**	**3,477,129**

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 2023 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.

2023				USD'000			
	AAA	AA	A	BBB	Less than BBB	Not rated	Total
Shares and other variable yield securities	41,680	1,379	96,919	—	—	18,941	158,919
Debt securities & other fixed income securities	226,203	593,182	278,083	203,431	127,034	10,729	1,438,662
Deposits with credit institutions	102,846	32,752	14,472	14,063	7,689	62,110	233,932
Reinsurers' share of claims outstanding	21,314	330,483	305,914	1,202	—	56,335	715,248
Reinsurance debtors	14,285	57,020	48,311	832	—	4,663	125,111
Cash at bank and in hand	—	—	21,672	—	—	—	21,672
Deposits with ceding undertakings	—	—	4,389	—	—	—	4,389
Total	**406,328**	**1,014,816**	**769,760**	**219,528**	**134,723**	**152,778**	**2,697,933**

2022				USD'000			
	AAA	AA	A	BBB	Less than BBB	Not rated	Total
Shares and other variable yield securities	14,876	—	38,940	—	—	17,169	70,985
Debt securities & other fixed income securities	201,056	558,048	259,822	182,207	131,302	8,504	1,340,939
Deposits with credit institutions	141,708	44,769	—	693	4,695	396	192,261
Reinsurers share of claims outstanding	31,103	331,952	337,057	1,413	—	14,144	715,669
Reinsurance debtors	1,102	78,895	65,281	1,621	—	4,616	151,515
Cash at bank and in hand	—	—	13,608	—	—	—	13,608
Deposits with ceding undertakings	—	—	2,979	—	—	—	2,979
Total	**389,845**	**1,013,664**	**717,687**	**185,934**	**135,997**	**44,829**	**2,487,956**

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.

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 liabilities or payment 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 receipts 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 USD 390.0m credit facility (2022: USD 390.0m) to the Syndicate to ensure that it can meet liquidity requirements even in 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.

2023			**USD'000**		
	0-1 year	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
Claims outstanding	901,915	819,594	323,668	217,341	2,262,518
Creditors	482,323	—	—	—	482,323
Total	**1,384,238**	**819,594**	**323,668**	**217,341**	**2,744,841**

2022			**USD'000**		
	0-1 year	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
Claims outstanding	858,291	777,326	287,087	190,933	2,113,637
Creditors	478,296	—	—	—	478,296
Total	**1,336,587**	**777,326**	**287,087**	**190,933**	**2,591,933**

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:

2023				**USD'000**				
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**OTH**	**Total**
Total Assets	402,304	2,682,193	199,311	308,721	190,913	4,814	104,713	3,892,969
Total Liabilities	(511,163)	(2,444,143)	(239,353)	(199,307)	(250,209)	(18,470)	(133,034)	(3,795,679)
Net Assets	**(108,859)**	**238,050**	**(40,042)**	**109,414**	**(59,296)**	**(13,656)**	**(28,321)**	**97,290**

2022				**USD'000**				
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**OTH**	**Total**
Total Assets	288,615	2,647,349	103,606	206,320	150,749	8,691	71,799	3,477,129
Total Liabilities	(449,685)	(2,338,192)	(215,657)	(147,839)	(183,301)	(16,698)	(97,603)	(3,448,975)
Net Assets	**(161,070)**	**309,157**	**(112,051)**	**58,481**	**(32,552)**	**(8,007)**	**(25,804)**	**28,154**

The Syndicate regularly reviews its currency position taking 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.

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 or distributes profits as applicable.

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 Sterling, Canadian Dollar, Euro, Australian Dollar and Japanese Yen simultaneously. The analysis is based on the information at the financial year end.

iv) Currency risk

Impact on profit and members' balance	**2023**	**2022**
	USD'000	**USD'000**
US Dollar Weakens		
10% against other currencies	(11,244)	(25,520)
20% against other currencies	(22,488)	(51,040)
US Dollar Strengthens		
10% against other currencies	11,244	25,520
20% against other currencies	22,488	51,040

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.

	2023	**2022**
	USD'000	**USD'000**
Interest rate risk		
Impact of 50 basis point increase on result	(24,086)	(22,941)
Impact of 50 basis point decrease on result	24,086	22,941
Impact of 50 basis point increase on net assets	(24,086)	(22,941)
Impact of 50 basis point decrease on net assets	24,086	22,941

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. Purchased reinsurance cover generally can be categorised as: 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 2023 were amounts of USD 35.2m (2022: USD 42.1m) recoverable from a group company. Included within the provision for unearned premiums ceded as at 31 December 2023 is an amount of USD 0.3m (2022: USD 0.6m) 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 2023, the Managing Agent, AMAL, charged the Syndicate a management fee of USD 0.4m (2022: USD 0.4m) based on 0.025% (2022: 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 2023, the Syndicate recognised the following amounts in relation to transactions with Harrington Re:

	2023 USD'000	**2022 USD'000**
Outwards reinsurance premiums	(16,256)	(12,614)
Change in the provision for unearned premiums - reinsurers' share	4,231	6,388
Change in the provision for claims - reinsurers' share	3,000	4,813
Acquisition costs	3,254	2,422
Change in deferred acquisition costs	(934)	(1,192)

At 31 December 2023, the following balances were outstanding in relation to transactions with Harrington Re:

	2023 USD'000	**2022 USD'000**
Reinsurers' share of technical provisions	22,466	12,496
Deferred acquisition costs	(2,273)	(1,337)
Creditors arising out of direct insurance operations	(12,293)	(7,536)

18. RELATED PARTIES (continued)

On 22 September 2023, the Syndicate entered into an agreement, with an effective date of 1 January 2023, to retrocede a diversified portfolio of casualty reinsurance business to Monarch Point Re.

During the year ended 31 December 2023, the Syndicate recognised the following amounts in relation to transactions with Monarch Point Re:

	2023 USD'000	2022 USD'000
Outwards reinsurance premiums	(15,877)	—
Change in the provision for unearned premiums - reinsurers' share	13,156	—
Other technical income, net of reinsurance	160	—
Claims paid, reinsurers' share	(254)	—
Change in the provision for claims, reinsurers' share	179	—
Reinsurance commissions	546	—

At 31 December 2023, the following balances were outstanding in relation to transactions with Monarch Point Re:

	2023 USD'000	2022 USD'000
Reinsurers' share of technical provisions	14,044	—
Debtors arising out of reinsurance operations	24	—
Creditors arising out of reinsurance operations	2,141	—

This transaction was conducted at market rates consistent with negotiated arms-length contracts.

19. DISCLOSURE OF INTERESTS

Managing Agent's interest

During 2023 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 2023, 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 2023, the Syndicate has an outstanding reinsurance purchase commitment of USD 7.5m (2022: USD 11.9m).

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 26 February 2024.