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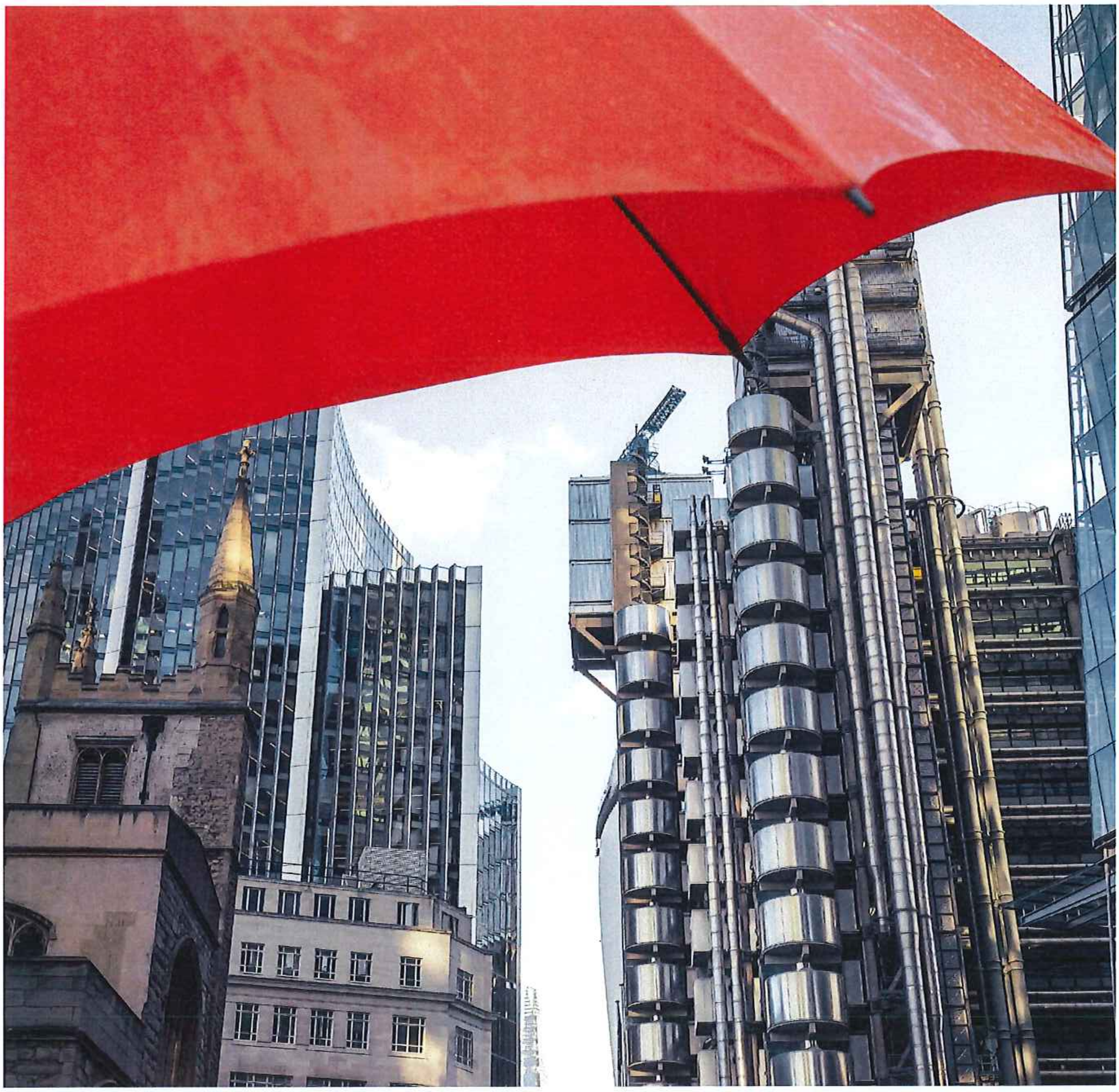

TRAVELERS

Syndicate 5000

ANNUAL ACCOUNTS AS AT DECEMBER 2016

CONTENTS

	Page
Directors and Administration	1
Strategic Report of the Directors of the Managing Agent	2
Report of the Directors of the Managing Agent	6
Statement of Managing Agent's Responsibilities	7
Independent Auditor's report to the Members of Syndicate 5000	8
Statement of Profit and Loss Account: Technical account – General business	9
Statement of Profit and Loss Account: Non-technical account	10
Statement of Comprehensive Income	10
Balance Sheet	11
Statement of Changes in Members' Balances	12
Statement of Cash Flows	13
Notes to the Financial Statements	14

DIRECTORS AND ADMINISTRATION

Managing Agent

Travelers Syndicate Management Limited

Directors

Sir J Carter (Independent Non-Executive Director)
A G Coughlan (Independent Non-Executive Director)
G S Dibb (Independent Non-Executive Director)
S G Eccles
P H Eddy (Non-Executive Director)
S M Genden (Non-Executive Director)
M J Gent
G J McKean (Independent Non-Executive Director)
K C Smith (Chairman)
M L Wilson

Company secretary

J M Abramson

Managing agent's registered office

Exchequer Court, 33 St. Mary Axe, London EC3A 8AG

Managing agent's registered number

3207530

SYNDICATE:

Active underwriter

S G Eccles

Bankers

Citibank N.A.
Royal Bank of Canada
National Westminster Bank Plc

Investment manager

The Travelers Indemnity Company

Registered auditor

KPMG LLP,
Chartered Accountants, Statutory Auditor,
15 Canada Square, London, E14 5GL

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of Travelers Syndicate Management Limited present their Strategic Report for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of Syndicate 5000 (the Syndicate) during the year continued to be the transaction of insurance in its chosen direct and predominantly non-liability classes, namely:

- Accident and Special Risks
- Aviation
- Global Construction
- Global Property
- Marine (including Energy)
- Power & Utilities (including Renewable Energy)
- Professional Risks (including Financial Institutions and Professional Indemnity insurance for major law firms)

The Global Construction and Renewable Energy underwriting teams joined the Syndicate in 2015.

The Syndicate's business is produced through the Lloyd's broker network and written in the subscription market, in either a lead or follow capacity. Opportunities in allied classes of business are being sought continuously.

REVIEW OF THE BUSINESS

The result for the year was a profit of £22.8m (2015: £40.8m) and the combined ratio was 92.6% (2015: 86.2%). The Managing Agent considers this to be a strong result, which reflects the Syndicate's focus on underwriting discipline in very challenging market conditions. The reduction in profit from 2015 reflects higher catastrophe losses, further reductions in premium rates and less favourable development from prior year reserves. Prior year reserve releases in 2016 were £16.1m (2015: £29.8m). The combined ratio excluding prior year development was 98.7% (2015: 96.9%).

Gross written premiums reported for 2016 were £300m, or 5% higher than the prior year of £287m. However, this increase is driven by the favourable impact from the strengthening of the US dollar against Sterling during 2016. Without this favourable impact the Syndicate's GWP would have fallen by approximately £17m, driven by a combination of factors, including the ongoing soft underwriting market (characterised by an increased supply of underwriting capacity in both the London and overseas insurance markets) and an increasing trend amongst brokers to package similar risks together and offer them to a narrower range of underwriters. These negative factors are only partially off-set by the new premium written by the Global Construction and Renewable Energy underwriting teams that joined the Syndicate in late 2015. The favourable impact from foreign exchange arises from the high proportion of gross premiums transacted in US dollars but reported in Sterling in these accounts at a stronger US dollar exchange rate.

Premium rate change across the Syndicate was 4% negative in 2016, the same as for 2015. Renewal retention levels were down slightly from the prior year but new business increased, mainly in the new Global Construction and Renewable Energy business classes.

The Syndicate's capacity for 2017 is £300m, the same as for 2016 and 2015. We will continue to maintain a disciplined approach to underwriting as competition continues to increase.

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT

INVESTMENT REPORT

The Syndicate's investment portfolio is managed by The Travelers Indemnity Company, a subsidiary of The Travelers Companies, Inc.. A summary of the invested assets and returns is as follows:

	2016	*2015*
	£'m	*£'m*
Interest and realised gains and losses	4.2	5.8
Unrealised gains and losses	1.8	(1.4)
Total investment return	6.0	4.4
Cash and investment balance at 1 January	415.8	491.9
Cash and investment balance at 31 December	481.8	415.8

Cash and investments increased over the year by £66m mainly due to the increase in value of the US dollar relative to Sterling. The strength of the US dollar was largely due to the result of the EU referendum which may now threaten the economic recovery in the UK.

The Syndicate's total investment return was £5.9m compared to the prior year return of £4.4m. The US dollar portfolio forms 72% of all invested assets and thus is the main driver of the investment return. The portfolio is predominantly comprised of fixed income assets.

The currency mix of the portfolio as at 31 December was:

	2016	2015
US dollars	72%	82%
Sterling	18%	3%
Euro	6%	9%
Canadian dollars	3%	4%
Other	1%	2%
Total	100%	100%

The credit risk in the portfolio is actively managed. Investment guidelines are designed to mitigate credit risk by ensuring a diversification of holdings and setting average credit rating targets across the whole portfolio.

The stratification of the portfolio's credit quality at 31 December was:

	2016	2015
AAA	52%	51%
AA	30%	28%
A	18%	20%
BBB & below	0%	1%
Total	100%	100%
Average Credit Quality	AA+	AA+

The average duration across the portfolio was 2.17 years at 31 December 2016 (2015: 2.02 years).

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT

INVESTMENT REPORT (continued)

The total investment returns achieved for the major currencies were as follows:

	2016	2015
US dollars	1.3%	1.2%
Sterling	1.9%	1.4%
Euro	0.8%	1.5%
Canadian dollars	0.4%	1.0%

Investment returns are largely driven by prevailing market yields which remain low by historic standards. This applies to all currencies we invest in.

We do not anticipate any changes to our investment strategy in 2017.

RISK REVIEW

Principal Risks and Uncertainties

The Board of Directors of Travelers Syndicate Management Limited has overall responsibility for the establishment and oversight of the Syndicate's Risk Management Framework.

The Board of Directors has established a Board Risk and Remuneration Committee and an Executive Risk Committee responsible for setting the risk appetite and approving it annually as part of the Syndicate's business planning process. The Board Risk and Remuneration Committee meets regularly to provide oversight of key risks and issues and to oversee performance against risk appetite. The Executive Risk Committee meets regularly to review and update key risks and issues arising from the risk register and to monitor performance against risk appetite using a series of metrics.

The principal risks and uncertainties facing the Syndicate are set out below.

Insurance Risk

Insurance risk relates to underwriting and claims management and the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities, and includes catastrophe risk and reserve risk.

The Managing Agent manages insurance risk by setting an appetite annually through the business planning process, which sets down the Syndicate's targets for underwriting classes, underwriting volumes, pricing sufficiency, line sizes and retentions by class of business. The Managing Agent subsequently monitors performance against the business plan throughout the year. The Syndicate uses catastrophe modelling software to model probabilities of loss from catastrophe exposed business.

Reserve adequacy is monitored through quarterly internal actuarial review. Reserves are reviewed annually by an independent external actuary. The Underwriting Committee oversees underwriting and catastrophe risks and the Finance Committee oversees reserving risk.

Credit Risk

The major sources of credit risk arise from the risk of default by one or more of the Syndicate's reinsurers or from one or more of the Syndicate's investment counterparties. The Syndicate operates a rigorous policy for the selection of reinsurers and managing the quantum of exposure ceded to any one reinsurer. The Syndicate has a conservative appetite to credit risk from investment counterparties and maintains a high quality investment portfolio with an average credit rating of AA+. The Finance Committee monitors and manages the Syndicate's exposure to credit risk.

Market Risk

The primary source of market risk is the risk of adverse movements in net assets due to movements in interest rates, currency rates and the market value of securities. Market risk exposures are monitored through the Finance Committee.

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT

RISK REVIEW (continued)

Operational Risk

The primary source of operational risk is the failure of people, processes or systems. These risks are managed through well documented policies and procedures, sound internal control processes and business continuity management procedures. The Executive Risk Committee oversees this risk type.

Regulatory Risk

Regulatory risk comprises the failure to comply with relevant regulations and laws. This risk is overseen by the Executive Risk Committee.

Conduct Risk

Conduct risk is the risk that the Syndicate fails to pay due regard to the interest of its customers or fails to treat them fairly at all times. Conduct risk exposures are monitored through the Executive Risk Committee.

Approved by the Board of Travelers Syndicate Management Limited on 20 March 2017.

M L Wilson
Chief Executive Officer

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of the Managing Agent present their Managing Agent's Report for the year ended 31 December 2016.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

The Managing Agent has agreed with the Syndicate's members to take advantage of the dispensation available and will not be producing separate underwriting year accounts for the Syndicate.

RESULTS

The result for the year ended 31 December 2016 is a profit of £22.8m (2015: £40.8m).

PRINCIPAL ACTIVITIES

The principal activities of the Syndicate are described within the Strategic Report of the Directors of the Managing Agent.

BUSINESS REVIEW

An analysis of the performance of the Syndicate is described within the Strategic Report of the Directors of the Managing Agent.

DIRECTORS AND DIRECTORS' INTERESTS

All of the directors set out on page 1 served throughout the year. There were no resignations during the year.

No director participated in the Syndicate during the period under review.

The directors benefited from qualifying third party indemnity provisions.

ACTIVE UNDERWRITER

S G Eccles was the Active Underwriter of the Syndicate during the period to the date of this report.

DISCLOSURE OF INFORMATION TO THE AUDITORS

The directors of the Managing Agent who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Syndicate's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

AUDITORS

Pursuant to Section14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board

J M Abramson
Company Secretary
20 March 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The Managing Agent is responsible for preparing the syndicate annual report and 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 financial statements at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice) including FRS102 the Financial Reporting Standard applicable in the UK and Republic of Ireland. The syndicate financial statements 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 financial statements, 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate financial statements; and
- prepare the syndicate financial statements on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the syndicate financial statements comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business website. Legislation in the UK governing the preparation and dissemination of syndicate financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

J M Abramson
Company Secretary
20 March 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 5000

We have audited the financial statements of Syndicate 5000 for the year ended 31 December 2016, as set out on pages 9 to 35. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

This report is made solely to the members of the syndicate, as a body, in accordance with 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 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 and the syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and auditors

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 7, the Managing Agent is responsible for the preparation of the syndicate's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate's financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matter prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 require us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the 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.

Jonathan Bell **(Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
20 March 2017

STATEMENT OF PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

for the year ended 31 December 2016

	Notes	*2016* *£'000*	*2015* *£'000*
Earned premiums, net of reinsurance			
Gross premiums written	5	300,466	287,115
Outward reinsurance premiums		(31,745)	(26,302)
Net premiums written		268,721	260,813
Change in the provision for unearned premiums			
Gross amount	15	(9,786)	15,766
Reinsurers' share	15	8,663	1,127
Earned premiums, net of reinsurance		267,598	277,706
Allocated investment return transferred from the non-technical account		2,879	4,155
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(180,717)	(166,507)
Reinsurers' share		15,125	20,203
Net claims paid		(165,592)	(146,304)
Change in the provision for claims			
Gross amount	15	39,743	33,224
Reinsurers' share	15	(1,982)	(7,031)
Change in the net provision for claims		37,761	26,193
Claims incurred, net of reinsurance		(127,831)	(120,111)
Net operating expenses	7	(120,061)	(119,165)
Balance on the technical account - general business		22,585	42,585

All operations relate to continuing activities.

STATEMENT OF PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT
for the year ended 31 December 2016

	2016	*2015*
	£'000	*£'000*
Balance on the technical account for general business	22,585	42,585
Realised gains on investments	403	433
Investment Income	7,425	7,614
Investment expenses and charges	(280)	(296)
Realised losses on investments	(3,349)	(1,941)
	4,199	5,810
Allocated investment return transferred to technical account for general business	(2,879)	(4,155)
Loss on exchange	(1,155)	(3,443)
Profit for the financial year	22,750	40,797

All operations relate to continuing activities.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	2016	*2015*
	£'000	*£'000*
Profit for the year	22,750	40,797
Unrealised gains/(losses) on investments	1,727	(1,339)
Currency translation differences	8,861	1,600
Total comprehensive income for the year	33,338	41,058

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
as at 31 December 2016

	Notes	2016 £'000	2015 £'000
Investments			
Financial investments	11	444,517	379,204
Reinsurers' share of technical provisions	15		
Provision for unearned premium		18,306	6,030
Claims outstanding		49,701	45,655
		68,007	51,685
Debtors	12		
Arising out of direct insurance operations.		125,426	112,700
Arising out of reinsurance operations		12,761	8,273
Other debtors		4,151	2,754
		142,338	123,727
Other assets			
Cash and cash equivalents	17	23,939	24,735
Overseas deposits		13,304	11,876
		37,243	36,611
Prepayments and accrued income			
Accrued interest		2,266	1,771
Deferred acquisition costs	13	46,930	39,392
Other prepayments and accrued income		1,333	437
		50,529	41,600
Total assets		742,634	632,827
Capital and reserves			
Members' balances		139,402	90,327
Technical provisions	15		
Provision for unearned premiums		193,888	157,323
Claims outstanding		350,170	341,743
		544,058	499,066
Creditors	16		
Arising out of direct insurance operations.		16,817	14,648
Arising out of reinsurance operations		29,783	19,745
Other creditors		9,258	8,014
		55,858	42,407
Accruals and deferred income		3,316	1,027
Total liabilities		742,634	632,827

The Syndicate financial statements on pages 9 to 35 were approved by the Board of Travelers Syndicate Management Limited on 20 March 2017 and were signed on its behalf by:

M J GENT Mike Gent
Director

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN MEMBERS' BALANCES

for the year ended 31 December 2016

	2016	*2015*
	£'000	*£'000*
Members' balances brought forward at 1 January	90,327	125,094
Profit for the year	22,750	40,797
Other comprehensive income	10,588	261
Total comprehensive income for the year	33,338	41,058
Members' funds transferred to/(from) Funds in Syndicate (FIS)	29,821	(36,452)
Foreign exchange gains on members' FIS	15,872	7,625
Payments of profit from members' personal reserve fund	(29,821)	(46,813)
Non-standard Personal Expenses	(135)	(185)
Members' balances carried forward at 31 December	139,402	90,327

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	Notes	*2016* *£'000*	*2015* *£'000*
Cash flows from operating activities			
Profit for the year		22,750	40,797
Adjustments			
Investment return		(4,199)	(5,810)
Realised losses on investments		(2,946)	(1,508)
Market value and foreign exchange movements on investments		(64,370)	(10,933)
Investment income received		6,649	7,961
Movement in operating assets and liabilities			
Proceeds from sale of financial instruments		198,712	264,688
Acquisition of financial instruments		(189,201)	(174,273)
Movement in overseas deposits		(1,428)	334
(Increase)/decrease in reinsurers' share of technical provisions		(16,322)	4,344
(Increase)/decrease in deferred acquisition costs		(7,538)	1,876
Increase in debtors and prepayments		(19,507)	(13,021)
Increase/(decrease) in technical provisions		44,992	(33,922)
Increase/(decrease) in creditors		13,451	(2,110)
Increase in accruals and deferred income		2,289	883
Net cash (outflow)/inflow from operating activities		(16,668)	79,306
Net cash inflow/(outflow) from financing activities			
Transfer (to)/from members in respect of underwriting participations		(29,821)	(46,813)
Net movement on Funds in Syndicate		45,693	(28,827)
Net cash inflow/(outflow) from financing activities:		15,872	(75,640)
Net (decrease)/increase in cash and cash equivalents		(796)	3,666
Cash and cash equivalents at 1 January		24,735	21,069
Cash and cash equivalents at 31 December	17	23,939	24,735

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

Syndicate 5000 (the Syndicate) is supported by a single member of the Society of Lloyd's and underwrites insurance business in the London Market. The address of the Syndicate's Managing Agent is Exchequer Court, 33 St Mary Axe, London EC3A 8AG.

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (FRS 102) as issued in September 2015, and Financial Reporting Standard 103 *Insurance Contracts* (FRS 103) as issued in March 2014.

The financial statements have been prepared on the historical cost basis, except for financial assets held for sales that are measured at fair value.

The Syndicate has considerable financial resources together with prudent investment guidelines, a high quality of invested assets, sound underwriting procedures, strong controls and risk mitigating processes (including, but not limited to, reinsurance) and the support of a financially strong parent company. As a consequence, the Directors believe that the Syndicate is well placed to manage its business risks successfully. The Directors are confident that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statement.

The financial statements are presented in Pound Sterling (GBP) which is the Syndicate's presentational currency. The functional currency of Syndicate 5000 is the US dollar. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2. USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgement and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate. There is the risk that material adverse changes to this estimate in future years may have a material impact on the Syndicate's reported performance and financial position.

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate. As such no adverse run-off deterioration is envisaged.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's financial statements.

b) Premiums written

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Premiums written include estimates for pipeline premiums representing amounts written but not reported to the Syndicate by the balance sheet date.

c) Unearned premiums

Written premiums are recognised as earned according to the risk profile of the underlying policy. Unearned premiums represent the proportion of premiums written that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate. The reinsurers' share of unearned premiums is calculated with reference to the risk profile of the underlying reinsurance contract.

d) Reinsurance premiums ceded

Outwards reinsurance premiums are accounted for in the accounting period in which the underlying reinsurance treaty or facultative contract incepts.

e) Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs, and adjustments to claims provisions relating to previous years.

The provision for claims outstanding is assessed on an individual case basis for reported claims and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred by the balance sheet date but not reported until after the year end (IBNR), based on statistical methods.

These methods generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced from more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted, and assessments of underwriting conditions, together with a contract by contract assessment of problematical areas and major catastrophes that do not lend themselves to projection based methods.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development in the future and that the rating and other models used for current business are fair reflections of the likely level and cost of ultimate claims to be incurred.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that event has a reliably measurable impact on the amount that

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

the Syndicate will receive from the reinsurer. Impairment losses are recognised in profit or loss in the period in which the impairment loss is recognised.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of 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. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

f. Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums.

g. Acquisition costs

Acquisition costs include the direct expenses, primarily commissions and brokerage, of acquiring the insurance policies written during the year. Acquisition costs are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which correspond to the proportion of gross written premiums which are unearned at the balance sheet date.

h. Foreign currencies

Transactions in foreign currencies are translated to the functional currency using exchange rates at the date of transactions. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts into the functional currency are included in the non-technical account. Differences arising from the conversion of the functional to the presentational currency are included in the statement of comprehensive income.

i. Financial assets and liabilities

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Classification
The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the statement of profit and loss or the statement of comprehensive income. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

Debt and other fixed-income securities are designated as available for sale and initially recognised at fair value. After initial measurement, these assets are subsequently measured at fair value. Interest earned whilst holding available for sale financial assets is reported as interest income. Other fair value changes are recognised in other comprehensive income and accumulated in the fair value reserve.

If an available-for-sale investment is sold or impaired, the cumulative gain or loss accumulated in the fair value reserve is reclassified to profit or loss. Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment, and the current fair value, less any impairment loss recognised previously in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. Otherwise it is reversed through the statement of comprehensive income.

Deposits with credit institutions, debtors and accrued interest are classified as loans and receivables.

Recognition
Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial instruments are derecognised if the Syndicate's contractual rights to the cash flows from the financial instruments expire or the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Identification and measurement of impairment
The Syndicate conducts a periodic review to identify invested assets having other than temporary impairments. Some of the factors considered in identifying other than temporary impairments include: (1) whether the Syndicate intends to sell the investment or whether it is more likely than not that the Syndicate will be required to sell the investment prior to an anticipated recovery in value; (2) the likelihood of the recoveries in full of the principal and interest; (3) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after initial recognition of an asset, and that the loss event has an impact of the future cash flows on the asset that can be estimated reliably.

All impairment losses are recognised in full in the profit and loss.

Offsetting
Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Syndicate has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

j. Investment return

Investment return comprises investment income, and realised investment gains and losses, net of investment expenses and charges.

Realised gains and losses on investments are calculated as the difference between sale proceeds and the purchase price.

Investment return is initially recorded in the non-technical account. The investment return relating to the profits on closed years retained within the Syndicate is allocated to the non-technical account. The balance of the investment return is allocated to the technical account.

Movements in unrealised gains and losses on investments are reported in the statement of comprehensive income. They represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date as well as the reversal of previous recognised unrealised gains and losses in respect of investments disposed of in the current period.

k. Overseas deposits

Overseas deposits are stated at the market value ruling at the balance sheet date. US situs trust funds are classified as investments.

l. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less that are subject to insignificant risk of changes in valuation and are used by the Syndicate in the management of its short-term commitments.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income, including capital appreciation, of syndicates.

It remains the responsibility of members to agree their corporation tax liabilities with HM Revenue & Customs.

No provision has been made for any United States Federal Income Tax or Canadian Federal Income Tax payable on underwriting results and investment income. The Syndicate is required to fund on account assessments of US dollar and Canadian dollar source income and these amounts are then recovered by reimbursements from the Members Services Unit. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'Other debtors.'

No provision has been made for any overseas tax payable by members on underwriting results.

n. Syndicate operating expenses

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

o. Pension costs

Travelers Management Limited, a service company and fellow group subsidiary, operates a group personal pension plan. Pension contributions relating to syndicate staff are charged to the Syndicate and included within net operating expenses or, where applicable, as claims handling costs within gross claims paid.

4. RISK AND CAPITAL MANAGEMENT

Introduction and overview

This note presents information about the nature and extent of insurance and financial risks to which the Syndicate is exposed, the Managing Agent's objectives, policies and processes for measuring and managing insurance and financial risks, and for managing the Syndicate's capital.

Risk Management Framework

As described in the Strategic Report of the Directors of the Managing Agent, the Board of Directors has overall responsibility for the establishment and oversight of the Syndicate's risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Syndicate, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Insurance Risk

Management of insurance risk

A key component of the management of underwriting risk for the Syndicate is a disciplined underwriting strategy that is focused on writing quality business and not writing for volume. Product pricing is designed to incorporate appropriate premiums for each type of assumed risk. The underwriting strategy includes underwriting limits on the Syndicate's total exposure to specific risks and classes of business together with limits on geographical and industry exposures. The aim is to ensure that a well diversified book is maintained with no over exposure in any one geographical region, class or industry.

Contracts can contain a number of features which help to manage the underwriting risk, such as the use of deductibles, or capping the maximum permitted loss, or number of claims (subject to local regulatory and legislative requirements).

NOTES TO THE FINANCIAL STATEMENTS

4 RISK AND CAPITAL MANAGEMENT (continued)

Insurance risk (continued)

The Syndicate makes use of reinsurance to mitigate the risk of incurring significant losses linked to one risk or event, including excess of loss, quota share and catastrophe reinsurance. Where an individual exposure is deemed to be in excess of the Syndicate's appetite additional facultative reinsurance is also purchased.

The Underwriting Committee oversees the management of insurance risk, whilst the Finance Risk Committee oversees reserving risk. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the quarterly reviews of claims development are all instrumental in mitigating reserving risk.

The Managing Agent's in-house actuaries perform a reserving analysis on a quarterly basis liaising closely with underwriters, claims and reinsurance technicians. The aim of this exercise is to produce a probability-weighted average of the expected future cash outflows arising from the settlement of incurred claims. These projections include an analysis of claims development compared to the previous 'best estimate' projections. The Finance Risk Committee performs a review of the results from the reserving analysis, both gross and net of reinsurance. On an annual basis, reserves are reviewed by an independent consultant actuary and a report is made to the Board.

Following this review the Finance Risk Committee makes recommendations to the Managing Agent's Board of Directors of the claims provisions to be established. In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate to reduce the probability of adverse run-off deviation.

Concentration of insurance risk

The Syndicate's exposure to insurance risk is well diversified. The following table provides an analysis of the geographical breakdown of its gross written premiums.

	2016 *£'000*	*2015* *£'000*
Risks located in UK	78,014	53,096
Risks located in other member states of the EU	24,605	34,311
Risks located in other countries	197,847	199,708
	300,466	287,115

Sensitivity to insurance risk

The liabilities established as at 31 December 2016 could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being underwritten and can arise from developments in case reserves for large losses and catastrophes, or from changes in estimates of claims incurred but not reported (IBNR). A five per cent increase or decrease in the ultimate cost of settling claims arising is considered to be reasonably possible at the reporting date.

A five per cent increase or decrease in total claims liabilities would have the following effect on the Syndicate's result and financial position:

	2016 5% change £'000	*2015* 5% change £'000
Accident and health	1,365	731
Marine, aviation and transport	2,707	3,015
Fire and other damage to property	3,291	3,196
Third party liability	2,568	2,411
Energy	985	981
Other	307	468
Reinsurance	3,800	4,002
	15,023	14,804

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Credit risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation.

The Syndicate is exposed to credit risk in respect of the following:

- debt securities
- reinsurers' share of insurance liabilities;
- amounts due from intermediaries;
- amounts due from reinsurers in respect of settled claims;
- cash and cash equivalents; and
- other debtors and accrued interest.

The nature of the Syndicate's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year.

Management of credit risk

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies. The Syndicate has a policy of investing only in high quality government and corporate fixed income securities. The Syndicate targets an average portfolio credit quality of AA+.

The Syndicate limits the amount of cash and cash equivalents that can be deposited with a single counterparty, and maintains an authorised list of acceptable counterparties.

The Syndicate's exposure to intermediaries is monitored as part of the credit control processes.

All intermediaries must meet minimum requirements established by the Syndicate. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The Syndicate assesses the creditworthiness of all reinsurers by reviewing public rating information and by internal investigations. The impact of reinsurer default is regularly assessed and managed accordingly. The Syndicate only uses reinsurers that have been pre-approved by its internal credit processes.

Exposure to credit risk

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure. The Syndicate does not hold any collateral as security or purchase any credit enhancements (such as guarantees, credit derivatives and netting arrangements that do not qualify for offset).

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Credit risk (continued)

The following table analyses counterparty credit exposure by credit rating:

31 December 2016	AAA £'000	AA £'000	A £'000	BBB & less £'000	Not rated £'000	Total £'000
Financial Investments:						
Debt securities and other fixed income securities	225,177	128,805	77,797	810	-	432,589
Overseas deposits as investments	-	-	365	-	11,563	11,928
	225,177	128,805	78,162	810	11,563	444,517
Reinsurers' share of technical provisions	-	22,416	22,365	-	4,920	49,701
Debtors arising out of direct insurance operations	-	-	-	-	125,426	125,426
Debtors arising out of reinsurance operations	-	5,755	5,743	-	1,263	12,761
Overseas deposits as other assets	8,362	2,125	1,638	1,166	13	13,304
Cash and cash equivalents	-	-	23,939	-	-	23,939
Other debtors and accrued interest	-	-	-	-	7,750	7,750
Total	233,539	159,101	131,847	1,976	150,935	677,398

31 December 2015	AAA £'000	AA £'000	A £'000	BBB & less £'000	Not rated £'000	Total £'000
Financial Investments:						
Debt securities and other fixed income securities	203,921	87,530	79,186	1,351	-	371,988
Overseas deposits as investments	1,561	2,918	698	2,039	-	7,216
	205,482	90,448	79,884	3,390	-	379,204
Reinsurers' share of technical provisions	-	16,572	18,032	-	11,051	45,655
Debtors arising out of direct insurance operations	-	-	-	-	112,700	112,700
Debtors arising out of reinsurance operations	-	985	819	-	6,469	8,273
Overseas deposits as other assets	7,829	2,069	1,266	712	-	11,876
Cash and cash equivalents	-	24,735	-	-	-	24,735
Other debtors and accrued interest	-	-	-	-	4,962	4,962
Total	213,311	134,809	100,001	4,102	135,182	587,405

At 31 December 2016 and 2015 the largest concentration of risk within its investment portfolio was to the US government and amounted to £43.9m (2015: £50.2m). The Syndicate has no holding in government bonds of Greece, Italy, Spain or Portugal nor any corporate bonds based in these countries.

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Credit risk (continued)

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. The Syndicate does not consider these debtors to be impaired.

An analysis of the carrying amounts of past due debtors as at 31 December is presented in the table below:

	2016		2015	
	Debtors arising from direct insurance operations	Debtors arising from reinsurance operations	Debtors arising from direct insurance operations	Debtors arising from reinsurance operations
	£'000	£'000	£'000	£'000
Past due but not impaired financial assets:				
Past due by:				
up to 90 days	8,238	10	7,414	169
91 to 180 days	4,090	81	3,849	-
More than 180 days	6,732	1,006	6,854	2,114
Past due but not impaired financial assets	19,060	1,097	18,117	2,283
Impaired financial assets	-	-	-	-
Neither past due nor impaired financial assets	106,366	11,664	94,583	5,990
Net carrying value	125,426	12,761	112,700	8,273

Liquidity Risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations arising from its insurance contracts and financial liabilities. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts.

The nature of the Syndicate's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

Management of liquidity risk

The Syndicate's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Syndicate's reputation.

The Syndicate's approach to managing its liquidity risk is as follows:

- Forecasts are prepared and revised on a regular basis to predict cash outflows from insurance contracts over the short, medium and long term;
- The Syndicate maintains cash and liquid assets to meet daily calls on its insurance contracts

Liquidity risk is not considered to be a principal risk to the Syndicate and therefore is not specifically quantified within these accounts.

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Liquidity Risk (continued)

	Total	0-1 year	2-5 years	More than 5 years
	£'000	£'000	£'000	£'000
2016				
Technical Provision	350,170	175,085	175,085	-
Creditors	55,858	55,858	-	-
	406,028	230,943	175,085	-
2015				
Technical Provision	341,743	170,871	170,872	-
Creditors	42,407	42,407	-	-
Total	384,150	213,278	170,872	-

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices. Market risk for the Syndicate comprises two principal types of risk: interest rate risk and currency risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Syndicate's exposure to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

Management of market risk

For each of the major components of market risk the Syndicate has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of market risk and the exposure of the Syndicate at the reporting date to each major risk are addressed below.

Interest rate risk

Interest rate risk arises primarily from the Syndicate's financial investments, cash and overseas deposits. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The Finance Risk Committee monitors the duration of these assets on a regular basis and ensures the asset duration matches the duration of the underlying liabilities.

Currency risk

The Syndicate writes business primarily in Sterling, Euro, Canadian dollar and US dollar and is therefore exposed to currency risk arising from fluctuations in the exchange rates of these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled in order to hedge the currency risk inherent in these contracts. Any surplus assets are held in US dollars. The table below summarises the carrying value of the Syndicate's assets and liabilities, at the reporting date:

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Currency risk (continued)

2016

Financial investments	**Sterling** £'000	**Euro** £'000	**US Dollar** £'000	**Other** £'000	**Total** £'000
Debt securities and other fixed income securities	79,141	26,280	312,417	26,679	444,517
Reinsurers' share of technical provisions	11,629	4,728	50,433	1,217	68,007
Debtors	11,410	7,217	124,023	(312)	142,338
Other assets	5,968	3,914	40,010	637	50,529
Cash and cash equivalents	9,587	2,011	14,183	11,462	37,243
Total assets	117,735	44,150	541,066	39,683	742,634
Technical provisions	80,157	43,309	408,173	12,419	544,058
Insurance and reinsurance payables	388	1,537	44,280	395	46,600
Creditors	6,723	799	4,528	524	12,574
Total liabilities	87,268	45,645	456,981	13,338	603,232
Net assets	30,467	(1,495)	84,085	26,345	139,402

2015

Financial investments	**Sterling** £'000	**Euro** £'000	**US Dollar** £'000	**Other** £'000	**Total** £'000
Debt securities and other fixed income securities	6,746	36,697	321,968	13,793	379,204
Reinsurers' share of technical provisions	14,728	3,644	32,980	333	51,685
Debtors	14,196	1,980	107,332	219	123,727
Other assets	5,275	3,060	32,743	522	41,600
Cash and cash equivalents	6,729	1,730	18,347	9,805	36,611
Total assets	47,674	47,111	513,370	24,672	632,827
Technical provisions	92,684	42,776	351,785	11,821	499,066
Creditors	2,376	818	30,654	545	34,393
Accruals and deferred income	7,061	240	818	922	9,041
Total liabilities	102,121	43,834	383,257	13,288	542,500
Net assets	(54,447)	3,277	130,113	11,384	90,327

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Sensitivity analysis to market risks

An analysis of the Syndicate's sensitivity to interest rate and currency price risk is presented in the table below. The table shows the effect on the result and net assets of reasonably possible changes in the relevant risk variable, assuming that all other variables remain constant, if that change had occurred at the end of the reporting period and had been applied to the risk exposures at that date.

	2016	2015
	£'000	£'000
Interest rate risk		
Impact of 50 basis point increase on result and net assets	(4,639)	(3,690)
Impact of 50 basis point decrease on result and net assets	4,722	3,337
Currency risk		
Impact of 10% strengthening in Sterling on results and net assets	(10,894)	(14,477)
Impact of 10% weakening in Sterling on results and net assets	9,903	13,161

A 10% increase (or decrease) in exchange rates and a 50 basis point decrease in yield curves have been selected on the basis that these are considered to be reasonably possible changes in these risk variables over the following year.

The sensitivity analysis demonstrates the effect of a change in a key variable while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

Capital Management

Capital Framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework.

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

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only, not at syndicate level, accordingly, the capital requirement in respect of Syndicate 5000 is not disclosed in these financial statements.

Lloyd's capital setting process

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

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Capital Management (continued)

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

In the case of Syndicate 5000 the FAL is wholly provided by Aprilgrange Limited and F&G UK Underwriters Limited which are both wholly owned subsidiaries of The Travelers Companies, Inc.

NOTES TO THE FINANCIAL STATEMENTS

5. ANALYSIS OF UNDERWRITING RESULT

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

2016	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total	Net technical provisions
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Direct Insurance							
Accident & Health	34,469	32,030	(14,282)	(14,446)	(474)	2,828	(43,269)
Marine, Aviation and Transport	53,128	48,838	(24,719)	(19,860)	1,181	5,440	(85,761)
Fire and other damage to property	99,806	93,805	(50,026)	(37,689)	(2,730)	3,360	(104,294)
Third party liability	38,100	35,404	(12,990)	(12,614)	193	9,993	(81,364)
Energy	16,245	14,564	(8,354)	(5,809)	(259)	142	(31,227)
Other	2,422	2,251	(1,030)	(1,029)	(28)	164	(9,739)
	244,170	226,892	(111,401)	(91,447)	(2,117)	21,927	(355,654)
Reinsurance	56,296	63,788	(29,573)	(28,614)	(7,822)	(2,221)	(120,397)
	300,466	290,680	(140,974)	(120,061)	(9,939)	19,706	(476,051)

2015	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total	Net technical provisions
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Direct Insurance							
Accident & Health	30,600	31,620	(2,047)	(16,970)	(697)	11,906	(29,728)
Marine, Aviation and Transport	53,822	55,619	(31,615)	(22,246)	(1,082)	676	(87,305)
Fire and other damage to property	75,287	77,798	(36,404)	(26,992)	(4,261)	10,141	(93,204)
Third party liability	33,824	34,952	(16,929)	(10,510)	(1,979)	5,534	(70,134)
Energy	21,079	21,782	(8,776)	(8,785)	(826)	3,395	(29,952)
Other	2,150	2,222	(1,090)	(972)	(61)	99	(14,064)
	216,762	223,993	(96,861)	(86,475)	(8,906)	31,751	(324,387)
Reinsurance	70,353	78,888	(36,422)	(32,690)	(3,097)	6,679	(122,994)
	287,115	302,881	(133,283)	(119,165)	(12,003)	38,430	(447,381)

NOTES TO THE FINANCIAL STATEMENTS

6 CLAIMS OUTSTANDING

The surpluses following the reassessment of claims outstanding, net of expected reinsurance recoveries, held at the end of the previous year are as set out below:

	2016 £'000	2015 £'000
Accident & health	(1,261)	9,979
Marine, aviation and transport	2,421	3,896
Fire and other damage to property	2,233	5,771
Third party liability	8,003	2,404
Energy	248	1,666
Other	261	-
Total direct	11,905	23,716
Reinsurance acceptances	4,233	6,105
	16,138	29,821

7 NET OPERATING EXPENSES

	2016 £'000	2015 £'000
Acquisition costs – commissions	71,895	67,104
Change in deferred acquisition costs	214	3,298
Administrative expenses	47,952	48,763
	120,061	119,165

Included in acquisition costs are 2016 £50,520,109 (2015: £50,487,074) in relation to commissions on direct business.

8 ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December include:

Auditor's remuneration:	2016 £'000	2015 £'000
Fees payable to the Syndicate's auditor for the audit of these financial statements	163	163
Fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	237	228
	400	391
Members' standard personal expenses	2,656	2,695

9 STAFF NUMBERS AND COSTS

All staff are employed by Travelers Management Limited. All staff cost disclosures are made in that company's financial statements.

The average number of employees employed by the service company but working for the Syndicate during the year was as follows:

Administration and finance	56	58
Underwriting	84	80
Claims	26	24
	166	162

NOTES TO THE FINANCIAL STATEMENTS

10 KEY MANAGEMENT PERSONNEL COMPENSATION

The Directors of Travelers Syndicate Management Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses for the years ended 31 December:

	2016	*2015*
	£'000	*£'000*
Fees	115	116
Emoluments	1,244	1,376
Compensation for loss of office	-	33
	1,359	1,525

The Active Underwriter, who is also the highest paid director, received aggregate remuneration of £669,405 (2015: £740,775) charged to the Syndicate and included within emoluments above.

11 FINANCIAL INVESTMENTS

	Market Value		Cost	
As at 31 December	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Debt securities and other fixed income securities	432,589	371,988	432,467	374,116
Overseas Deposits	11,928	7,216	11,934	7,216
	444,517	379,204	444,401	381,332

The Syndicate has not entered into any stock lending arrangements.

All investments are quoted on recognised stock markets and are treated as available for sale.

Fair value measures of investments

The Syndicate's estimates of fair value for investments are based on the framework established in the fair value accounting guidance hierarchy. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Syndicate's significant market assumptions. The level in the fair value hierarchy within which the fair value measurement is reported is based on the lowest level input that is significant to the measurement of its entirety. The three levels of the hierarchy are as follows:

Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable (ie for which market data is unavailable) for the asset or liability and therefore, prices are determined using a valuation technique.

The Syndicate utilised a third party pricing service to estimate the fair value of its investments at both 31 December 2016 and 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

11 FINANCIAL INVESTMENTS (continued)

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated, willing parties, i.e. not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realised if the security was sold in an immediate sale, e.g. a forced transaction. Additionally, the valuation of investments is more potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

For investments that have quoted market prices in active markets, the Syndicate uses the unadjusted quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Syndicate receives the quoted market prices from third party, nationally recognized, pricing services. When quoted market prices are unavailable, the Syndicate utilises these pricing services to determine an estimate of fair value. The fair value estimates provided from these pricing services are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate from a pricing service are unavailable, the Syndicate produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Syndicate bases all of its estimates of fair value for assets on the bid price as it represents what a third-party market participant would be willing to pay in an arm's length transaction.

The following table presents the level within the fair value hierarchy at which the Syndicate's investments are categorised as at 31 December:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2016				
Debt securities and other fixed income securities	43,751	388,838	-	432,589
Overseas deposits as investments	11,928	-	-	11,928
Financial investments	55,679	388,838	-	444,517
Overseas deposits as other assets	2,540	10,764	-	13,304
Deposits with credit institutions	851	-	-	851
	59,070	399,602	-	458,672
2015				
Debt securities and other fixed income securities	50,212	321,776	-	371,988
Overseas deposits as investments	7	7,209	-	7,216
Financial investments	50,219	328,985	-	379,204
Overseas deposits as other assets	9,854	2,022	-	11,876
Deposits with credit institutions	201	-	-	201
	60,274	331,007	-	391,281

12 DEBTORS

	2016 £'000	*2015 £'000*
Arising out of direct insurance operations		
Amounts due within one year	124,993	112,543
Amounts due after one year	433	157
Arising out of reinsurance operations		
Amounts due within one year	12,662	8,246
Amounts due after one year	99	27
	138,187	120,973
Other debtors	4,151	2,754
	142,338	123,727

NOTES TO THE FINANCIAL STATEMENTS

13 DEFERRED ACQUISITION COSTS

The table below shows changes in deferred acquisition costs assets from the beginning of the period to the end of the period.

	2016 *£'000*	*2015* *£'000*
Balance at 1 January	39,392	41,268
Incurred costs deferred	71,895	67,104
Amortisation	(72,109)	(70,402)
Effect of movement in exchange rates	7,752	1,422
Balance at 31 December	46,930	39,392

14 CLAIMS DEVELOPMENT

Claims development is shown in the tables below both gross and net of reinsurance ceded on an underwriting year basis. The Syndicate has taken advantage of the transitional arrangements incorporated in FRS103 and accordingly is presenting the data for the last six (2015: five) underwriting years only, and not the full ten years normally required by FRS103. Balances have been translated at exchange rates prevailing at 31 December 2016.

Pure Underwriting Year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
Estimate of ultimate gross claims							
At end of underwriting year	123	99	89	98	86	79	79
One year later	266	184	191	167	188	-	188
Two years later	253	177	210	173	-	-	173
Three years later	239	171	185	-	-	-	185
Four years later	241	165	-	-	-	-	165
Five years later	242	-	-	-	-	-	242
	242	165	185	173	188	79	1,032
Less gross claims paid	(230)	(143)	(160)	(114)	(92)	(17)	(756)
Gross ultimate claims reserves 2011 to 2016	12	22	25	59	96	62	276
Gross ultimate claims reserves 2010 & prior							74
Gross claims reserves							350

NOTES TO THE FINANCIAL STATEMENTS

14 CLAIMS DEVELOPMENT (continued)

Pure Underwriting Year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
Estimate of ultimate net claims							
At end of underwriting year	112	90	81	91	80	75	75
One year later	245	169	172	157	177		177
Two years later	218	172	190	158			158
Three years later	209	167	164				164
Four years later	204	163					163
Five years later	203						203
	203	163	164	158	177	75	940
Less net claims paid	(201)	(140)	(151)	(113)	(92)	(17)	(714)
Net ultimate claims reserves 2011 to 2016	2	23	13	45	85	58	226
Net ultimate claims reserves 2010 & prior							74
Net claims reserves							300

NOTES TO THE FINANCIAL STATEMENTS

15 TECHNICAL PROVISIONS

The table below shows changes in the insurance contract liabilities and assets from the beginning of the period to the end of the period.

	2016			2015		
	Gross Provisions	Reinsurance assets	Net provisions	Gross Provisions	Reinsurance assets	Net provisions
	£000	£000	£000	£000	£000	£000
Claims Outstanding						
Balance at 1 January	341,743	(45,655)	296,088	365,387	(51,231)	314,156
Change in claims outstanding	(39,743)	1,982	(37,761)	(33,224)	7,031	(26,193)
Effect of movements in exchange rates	48,170	(6,028)	42,142	9,580	(1,455)	8,125
Balance at 31 December	350,170	(49,701)	300,469	341,743	(45,655)	296,088
Claims notified	247,328	(39,017)	208,311	204,712	(25,938)	178,774
Claims incurred but not reported	88,277	(10,684)	77,593	118,446	(19,717)	98,729
Unallocated loss adjustment expenses	14,565	-	14,565	18,585	-	18,585
Balance at 31 December	350,170	(49,701)	300,469	341,743	(45,655)	296,088
Unearned Premiums						
Balance at 1 January	157,323	(6,030)	151,293	167,601	(4,798)	162,803
Change in unearned premiums	9,786	(8,663)	1,123	(15,766)	(1,127)	(16,893)
Effect of movements in exchange rates	26,779	(3,613)	23,166	5,488	(105)	5,383
Balance at 31 December	193,888	(18,306)	175,582	157,323	(6,030)	151,293

16 FINANCIAL LIABILITIES

As at 31 December	*2016 £'000*	*2015 £'000*
Creditors arising out of direct insurance operations	16,817	14,648
Creditors arising out of reinsurance operations	29,783	19,745
	46,600	34,393
Other creditors	9,258	8,014
	55,858	42,407

All creditors are payable within one year.

NOTES TO THE FINANCIAL STATEMENTS

17 CASH AND CASH EQUIVALENTS

	2016 *£'000*	*2015* *£'000*
Cash at bank	23,088	24,534
Deposits with credit institutions	851	201
Total cash and cash equivalents	23,939	24,735

18 FOREIGN EXCHANGE RATES

The following currency exchange rates have been used for principal foreign currency transactions:

	2016	*2015*
Rates ruling at 31 December:		
US dollars	1.23	1.47
Canadian dollar	1.66	2.04
Euro	1.17	1.36
Average rates applied for calendar year:		
US dollar	1.36	1.53
Canadian dollar	1.80	1.95
Euro	1.22	1.38

19 CALENDAR YEAR INVESTMENT YIELD

(a) The average Syndicate funds available for investment during the year, and the investment return and yield for the calendar year, were as follows:

	2016 *£'000*	*2015* *£'000*
Average amount of Syndicate funds available for investment during the year		
Sterling	78,511	16,557
US dollar	315,463	383,231
Canadian dollar	20,257	19,138
Euro	40,396	44,373
Total funds available for investment in Sterling	454,627	463,299

	2016 *£'000*	*2015* *£'000*
Interest and realised gains and losses	4,199	5,810
Unrealised gains and losses	1,727	(1,339)
Total investment return	5,926	4,471
Total annual investment yield	1.41%	1.3%

(b) Analysis of calendar year investment yield by currency:

Sterling	1.9%	1.4%
US dollar	1.3%	1.2%
Canadian dollar	0.4%	1.0%
Euro	0.8%	1.5%

NOTES TO THE FINANCIAL STATEMENTS

20 CALENDAR YEAR INVESTMENT YIELD (continued)

The above investment yields are calculated on total investment returns, including unrealised gains and losses, from all interest generating assets and include all income earned from investments, cash balances and overseas deposits.

21 RELATED PARTY TRANSACTIONS

All related party transactions are entered into on arms-length terms.

The Syndicate is related to Travelers Asia Pte Ltd (TAP) by virtue of common control. TAP is an insurance services company operating within the Lloyd's Asia trading platform. TAP ceased writing business and was put into run-off on 31 January 2014. Brokerage and commissions paid by the Syndicate to TAP in the year amounted to £nil (2015: £nil).

The Syndicate is also related to Travelers Underwriting Agency Limited (TUAL) by virtue of common control. TUAL acts as a coverholder to Lloyd's underwriters. During the year TUAL placed inwards premium income with the Syndicate on normal commercial terms. Brokerage and commissions paid by the Syndicate to TUAL in the year amounted to £0.7m (2015: £0.7m).

The Syndicate is also related to The Travelers Indemnity Company (TIC) by virtue of common control. TIC is the investment manager for the Syndicate. Investment Management fees paid by the Syndicate to TIC in the year amounted to £0.3m (2015: £0.3m). Intercompany reinsurance premiums payable to TIC amounted to £2.4m (2015: £2.2m).

The Syndicate is also related to Travelers Syndicate Management Limited (TSM) by virtue of common control. The agency fees charged to the Syndicate amounted to £0.2m (2015: £0.2m)

The Syndicate is also related to Travelers Management Limited (TML) by virtue of common control. The recharged expenses amounted to £41.6m (2015: £43.7m)

22 ULTIMATE CONTROLLING PARTY

The immediate and ultimate parent company of Travelers Syndicate Management Limited (TSM) is The Travelers Companies, Inc. (TRV), a company registered in the USA. Group accounts for TRV are available from the Company Secretary of TSM, Exchequer Court, 33 St. Mary Axe, London EC3A 8AG.

23 CONTINGENT LIABILITIES

At 31 December 2016 there was nil (2015: £3.3m) in respect of letters of credit issued on behalf of the Syndicate. The letters of credit are lodged in the Syndicate's US Surplus Lines and Credit for Reinsurance trust funds in order to support gross liability funding requirements.

24 FUNDS AT LLOYDS

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's ('FAL'). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities. The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulatory Authority requirements and resource criteria. The determination of 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 Financial Statements by way of such capital resources. However, the Managing Agent is able to make a call on the Member's FAL to meet liquidity requirements or to settle losses.

TRAVELERS

Travelers Syndicate Management Ltd
Exchequer Court
33 St. Mary Axe
London EC3A 8AG
020 3207 6000 TEL
020 3116 2180 FAX
travelers.co.uk/lloyds

SYNDICATE ANNUAL ACCOUNTS AND LLOYD'S ANNUAL RETURN
31 DECEMBER 2016

Syndicate No: 5000

Statement by the managing agent to the Council of Lloyd's

In accordance with Market Bulletin Y5043 dated 07 December 2016, "2016 Syndicate Report and Accounts", we confirm that the disclosures in column C of QMA001 and QMA002 of the Annual Return as submitted to Lloyd's on 16 February 2017 agree with those for the 2016 profit and loss account, balance sheet, and related notes of the syndicate annual accounts as at 31 December 2016.

We also confirm the syndicate annual accounts either have positive disclosure or have no positive disclosure as follows:

	Positive disclosure	No positive disclosure
Off balance sheet arrangements – Lloyds Regulations 2008, Schedule 1, para 7		✓
Related party transactions that have not been concluded under normal market conditions – Reporting Regulations 2008, Schedule 3, para 90		✓

Signed Mike Gent Finance Director

Name MICHAEL GENT (BLOCK CAPITALS)

Signed Director

Name MATTHEW L. WILSON (BLOCK CAPITALS)

On behalf of TRAVELERS SYNDICATE MANAGEMENT LIMITED Managing Agent

Date 22 MARCH 2017

LLOYD'S

Appendix 7

SYNDICATE ANNUAL ACCOUNTS AND SYNDICATE UNDERWRITING YEAR ACCOUNTS 31 DECEMBER 2016

Syndicate No. 5000

Managing Agent: TRAVELERS SYNDICATE MANAGEMENT LIMITED

In respect of the above syndicate:

I confirm that the version of the 31 December 2016 syndicate annual accounts submitted to Lloyd's in electronic PDF file format, via the Lloyd's Secure Store Syndicate Reports and Accounts website on or before 22 March 2017, is identical to the hardcopy signed version of the syndicate annual accounts submitted to Lloyd's Market Finance Department on or before 21 March 2017.

and either:

*~~I confirm that the version of the 31 December 2016 syndicate underwriting year accounts submitted to Lloyd's in electronic PDF file format, via the Lloyd's Secure Store Syndicate Reports and Accounts website on or before 22 March 2017, is identical to the hardcopy signed version of the syndicate underwriting year accounts submitted to Lloyd's Market Finance Department on or before 22 March 2017.~~

or

*~~I confirm that no syndicate underwriting year accounts have been produced for this syndicate because either the syndicate has no year that has reached the normal date of closure or because all members have agreed that no underwriting year accounts are required.~~

Signed Mike Gat Director / Compliance Officer

Name MICHAEL GENT (Block capitals)

Date 21 MARCH 2017

*Delete as appropriate

This form is to be signed and dated by a Director or compliance officer and returned to Nadia Yakoob, Market Finance, 1986 Building/G5, 1 Lime Street, London, EC3M 7HA, by Wednesday 22 March 2017.