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VIBE SYNDICATE MANAGEMENT

VIBE SYNDICATE MANAGEMENT LTD

ANNUAL REPORT AND ACCOUNTS
31 DECEMBER 2016

SYNDICATE 5678

Contents

DIRECTORS AND ADMINISTRATION
FOR THE YEAR ENDED 31 DECEMBER 2016

Managing Agent

Managing Agent
Vibe Syndicate Management Limited

Registered Office
5th Floor
90 Fenchurch Street
London
EC3M 4ST
www.vibesm.com

Registered Number
5957729

Directors

T J Leggett*	(Chairman)
P N E Ceurvorst*	Appointed 3 October 2016
D J Gately	
M R Gates	Resigned 29 February 2016
P S Donovan	
P A Flamank*	
A Fridlyand*	
R Katzenberg	
B F Knight	
N C Krenteras*	
S G J Sykes	

* Non-Executive Director

Company Secretary
P E Box

Syndicate

Active Underwriter
B F Knight

Auditors
Ernst & Young LLP

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors of Vibe Syndicate Management Limited (the Managing Agent) present their report for the year ended 31 December 2016.

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

The Managing Agent does not prepare separate underwriting year accounts on the three year accounting basis in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), as the Syndicate has a single Corporate Member.

Results

The result for calendar year 2016 is a loss of £11.5million (2015 result of £0.0million after restatement).

Principal Activity

From 2014 the Syndicate's principal activity has been the transaction of general insurance and reinsurance business as part of the Lloyd's market. Prior to 2014 the Syndicate wrote Lloyd's legacy contracts in the form of Reinsurance to Close ("RITC") for various syndicates' open years.

Syndicate 5678 offers a range of insurance and reinsurance products which is broken down into eight different underwriting teams.

- Accident & Health
- Casualty Treaty
- Credit, Surety, Political Risk & Terror
- Financial Institutions
- North American Specialty Programs
- Professional Indemnity
- Property D&F (commenced 2017)
- Property Treaty

Whilst new legacy activity has reduced significantly in recent years, the Agency continues to seek opportunities to write further contracts within the Lloyd's market.

Syndicate 5678 trades with the Lloyd's ratings of A+ Standard & Poor's, AA- Fitch and A A.M. Best.

Vibe Syndicate Management Limited is the Managing Agent for Syndicate 5678. The Managing Agent is ultimately owned by Syndicate Holding Corp, a Puerto Rican based company. The Group is owned principally by two investors, who together provide capital for the Syndicate: Quantum Strategic Partners Ltd., a private investment vehicle managed by Soros Fund Management LLC, and Pine Brook Partners.

The live underwriting operation has grown steadily from its initial mid-year start in 2014 of £5m, and in 2016 had gross written premium of £53.6m, with an approved plan of gross written premium for 2017 of £78m.

Business Review

Review of the Business of the Syndicate

The live side of the Syndicate is in growth mode, and despite the loss for 2016, the result is better than the business plan. The result reflects not only the expense involved when starting a new Lloyd's operation but also the setting of conservative loss ratios for reserving purposes which in management's view will prove to be more than adequate and lead to future reserve releases. The confidence in the reserves being set and the expectation of future releases is borne out in the improvements experienced in both the 2014 and 2015 underwriting years.

On the investment side, the challenging interest rate environment has resulted in an investment return of 1.08% (2015 1.48%).

The Syndicate's key financial statistics for 2016 were as follows:

	2016 £m	2015 (Restated) £m	Movement £m
Gross Written Premiums	**53.6**	17.4	36.2
Net incurred claims – live business	**(23.6)**	(5.5)	(18.1)
Net incurred claims – legacy business	**4.1**	9.7	(5.6)
(Loss)/profit for the financial year	**(11.5)**	0.0	(11.5)
Gross ULR – live business	**84%**	70%	14%

Vibe continues to grow the live business in a controlled and disciplined manner with gross written premiums increasing during 2016, the second full year of underwriting, to £53.6m. Four market leading teams have joined Vibe over the past 12 months; CSPT (Credit, Surety, Political Risk & Terror), North American Casualty, North American Specialty Programs and Property Direct & Facultative. The Property Direct and Facultative team joined with its in force book of business from Navigators and commenced underwriting from 1 January 2017. For 2017 Vibe will operate with eight underwriting teams.

2016 saw a small increase in the level of catastrophe losses for the market; notably the Fort McMurray wildfires and Hurricane Matthew, where the Syndicate had limited exposure. However, despite the extent of these losses to the wider market, these have been insufficient to apply any market wide pressure on rates and conditions, and going into 2017, rates on average have reduced further.

Against these difficult market conditions, each of the Syndicate classes have achieved their modest planned premium volumes and met management pricing targets. The Agency will continue to emphasise a disciplined approach to underwriting to ensure profitability is not sacrificed for premium volume. Remaining disciplined will in the short term have some impact on profitability due to the fixed nature of expenses against the modest but growing premium volumes. In addition, as a fledgling underwriting Syndicate, very conservative loss ratio assumptions have been set for each class of business even though management expect to outperform those assumptions.

It has been directors' strategy to concentrate on people, processes and procedures in our initial three years of underwriting rather than premium growth. This strategy has been fully supported by the capital providers.

With continued development of the original classes and the addition of the new classes in 2016, the directors remain excited for the future of the Syndicate. The long term strategy of the Syndicate is to achieve a balance between long tail and short tail, and insurance and reinsurance. The quality of the underwriters and the strong foundation that has been built give the Agency and capital providers optimism for the future, despite current market conditions.

The Agency has seen continued favourable development on the RITC contracts written by the Syndicate. This is borne out by the reviews performed by the Actuarial Function as at 30th June 2016, 30th September 2016 and 31st December 2016. This favourable experience reflects the efficiency of the Syndicate's long established claims management capabilities which the Agency considers a competitive advantage.

The Syndicate has maintained its cautious investment strategy during 2016 with a focus on government and high grade corporate debt with the asset duration running shorter than the liability duration; consequently, an investment return of 1.08% was earned. The Syndicate will continue to maintain this strategy for the foreseeable future.

Review of Financial Position

Financial investments increased from £65.0m to £72.3m, driven by both premium flow and the recent devaluation in GBP against most global currencies.

There has been a small increase from £19.4m to £22.9m on Reinsurers' share of technical provisions in the year. This increase is driven by the provision of IBNR on the live business and partially offset by the reductions in legacy balances.

Member's balances have decreased in line with the loss for the period.

Gross technical provisions have increased from £87.8m to £111.9m; this increase is driven by the provision of IBNR on the live business and partially offset by the reductions in legacy balances. The increase in unearned premiums is due to the increased volumes of live business.

Principal Risks and Uncertainties

The Managing Agent has established a Risk Management Function for the Syndicate with clear terms of reference from the Board of Directors, its Committees and the associated Executive Management Committees. The Board approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies.

The Board sets its risk appetite annually as part of the Syndicate's business planning and capital setting process. The Risk Management Function is also responsible for reviewing the Syndicate's Own Risk and Solvency Assessment ('ORSA'); recommending the assessment to the Board for approval.

The principal risks and uncertainties facing the Syndicate are set out below, including references to the Notes where additional information relating to these risks is provided in the financial statements:

Insurance Risk [Note 21(c)]

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. The objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate purchases reinsurance as part of its risks mitigation programme and the Agency uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business.

The Board monitors performance and exposures against the business plan on a quarterly basis. Reserve adequacy is monitored through quarterly review by the Syndicate Actuary and the Actuarial and Reserving Committee.

Credit Risk [Note 21(d)(1)]

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers. Compliance with the Reinsurer Credit Risk Policy is monitored and exposures and breaches are reported to the Syndicate Audit Committee. The Policy is regularly reviewed for changes in the risk environment.

Liquidity Risk [Note 21(d)(2)]

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

A number of policies are implemented by the Agency to mitigate against the risk of the Syndicate being unable to settle its obligations as they fall due.

Market Risk [Note 21(d)(3)]

The key aspect of market risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's Audit and Risk Committee reviews currency matching quarterly. Where there is a significant mismatch, the Agency seeks to mitigate the risk through buying or selling currency, where this is appropriate.

Interest Rate Risk [Note 21(d)(3)(b)]

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The extent of any price fluctuation is driven by the portfolio duration. The investment portfolio duration is managed with reference to the liability duration of the insurance policies written.

Operational Risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The Agency seeks to manage this risk through its governance structure and internal control framework and employs a structured programme of testing systems and controls which is carried out by the Internal Audit Function.

Regulatory Risk [Note 21(b)]

The Agency is required to comply with the requirements of the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency has a Compliance Officer who monitors regulatory developments and assesses the impact on the Agency's policies. The Compliance Officer is supported by a Compliance Manager who carries out a compliance monitoring programme.

Future Developments & Important Events since the end of the Financial Year

The Syndicate continues to transact in the classes of general insurance and reinsurance business that it has transacted since it started to write live business in 2014. The Syndicate has not added any further classes to its 2017 underwriting plan; however the planned Property D&F for 2016 was delayed until the addition of a Property Direct and Facultative team from Navigators who joined with an in force book of business at the beginning of 2017. As a consequence of this, the Agency's syndicate premium forecast of £78m for 2017 will increase.

1 January 2017 represented the first important renewal date where Vibe had all its core underwriting teams in situ. The Syndicate's expectations have been exceeded with all teams achieving increased income volumes at prices above management's forecast rate reductions.

The Syndicate has not quoted on any new legacy business following the contracts which were considered at the beginning of 2016. These contracts either proved outside of the acceptable underwriting parameters of the Agency or sufficient pricing could not be achieved.

The risks to UK economic growth remain significant not least because of the uncertainty created by the UK's decision to leave the European Union (Brexit). It is difficult to anticipate the terms of the UK's exit from the EU and Lloyd's will need to plan carefully to mitigate the impact in an already challenging market place. At this stage of the Agency's development and given the territorial exposure of the business written, the direct impact of Brexit on the Agency is judged to be minimal.

The Agency continues with its strategy to write profitable business, and will not grow the top line at the expense of long term profitability. The Agency continues to review the operating model and cost structure to ensure it can control the cost base on the assumption current market conditions persist, but also to ensure it is well positioned for favourable developments in market conditions. The Syndicate's strong capital providers remain committed to the Agency's long term growth strategy and are in a position to support the Syndicate as and when new opportunities arise.

On February 27, 2017, the UK Ministry of Justice announced a cut in the Ogden Discount Rate ("ODR") from 2.5% to -0.75%. The ODR is the discount rate applied to lump-sum personal injury payments to claimants and is expected to increase lump sum awards for bodily injury claims calculated with reference to Ogden table rates. The Syndicate has limited exposure to this event and as a result considers this to be an immaterial impact.

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 in Directors and Administration section.

Disclosure of Information to the Auditors

The Directors of the Managing Agent at the time the report is approved confirm that:

a) So far as each of them are aware, there is no relevant audit information, being information needed by the Syndicate's auditor in connection with the auditor's report, of which the auditor is unaware; and
b) Having made enquiries of fellow directors of the Managing Agency and the Syndicate's auditor, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Reappointment of Auditors

Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditors.

On behalf of the Board

Dinah Gately

CEO

21 March 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2016

The Managing Agent is responsible for preparing the Syndicate annual report and accounts in accordance with applicable laws and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The 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:

1. Select suitable accounting policies which are applied consistently;
2. Make judgements and estimates that are reasonable and prudent;
3. State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. Prepare the 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 Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for 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' web site. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF 5678
FOR THE YEAR ENDED 31 DECEMBER 2016

We have audited the Syndicate annual accounts of VIBE Syndicate 5678 ('the Syndicate') for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Changes in Member's Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

This report is made solely to the syndicate's member, 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 member those matters we are required to state to them in an auditors' 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities, set out on page 8 of the annual accounts, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the Syndicate Annual Report and Accounts sufficient to give reasonable assurance that the Syndicate Annual Report and Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the Syndicate Annual Report and Accounts. In addition, we read all the financial and non-financial information in the 2016 VIBE Syndicate 5678 Annual Report and Accounts to identify material inconsistencies with the audited Syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the Managing Agent's Report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

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 (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ed Jervis (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

21 March 2017

INCOME STATEMENT
TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 (Restated) £000
Gross premiums written	2	**53,634**	17,427
Outward reinsurance premiums		**(5,020)**	(1,879)
Net written premiums		**48,614**	15,548
Change in the provision for unearned premiums:			
Gross amount		**(23,125)**	(7,318)
Reinsurers' share		**263**	358
Change in the net provision for unearned premiums:	4	**(22,862)**	(6,960)
Earned premiums, net of reinsurance		**25,752**	8,588
Allocated investment return transferred from the non-technical account		**657**	956
Claims paid			
Gross amount		**(11,342)**	(8,304)
Reinsurers' share		**1,878**	1,767
Net claims paid		**(9,464)**	(6,537)
Change in claims outstanding			
Gross amount		**(10,608)**	11,170
Reinsurers' share		**537**	(404)
Change in the net provision for claims		**(10,071)**	10,766
Claims incurred, net of reinsurance	3	**(19,535)**	4,229
Net operating expenses	6	**(19,162)**	(12,747)
Balance on the technical account – general business		**(12,288)**	1,026

All the amounts above are in respect of continuing operations.

INCOME STATEMENT
NON - TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016** **£000**	2015 (Restated) £000
Balance on technical account – general business		**(12,288)**	1,026
Investment income	**10**	**1,060**	1,453
Unrealised losses on investments	**10**	**(263)**	(372)
Investment expenses and charges	**10**	**(140)**	(125)
		(11,631)	1,982
Allocated investment return transferred to general business technical account		**(657)**	(956)
Exchange gains and (losses)		**768**	(970)
(Loss)/ Profit for the financial year		**(11,520)**	56

STATEMENT OF CHANGES IN MEMBER'S BALANCES'
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Total Member's Balances' (Restated)
At 1 January 2016		**(2,812)**
Loss for the financial year		**(11,520)**
At 31 December 2016		**(14,332)**
At 1 January 2015		9,819
Profit for the financial year		56
Payments of profit to the member		(12,687)
At 31 December 2015		(2,812)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	2016	2015 (Restated)
		£000	£000
ASSETS			
Investments			
Financial investments	11	**72,304**	65,032
Reinsurers' share of technical Provisions			
Provision for unearned premium	4	**837**	524
Claims outstanding	3	**22,941**	19,387
		23,778	19,911
Debtors			
Debtors arising out of direct insurance operations	12	**12,098**	4,918
Debtors arising out of reinsurance Operations		**15,121**	4,696
Other debtors	13	**73**	61
		27,292	9,675
Cash and other assets			
Cash at bank and in hand	14	**4,071**	2,017
Other assets	15	**4,246**	3,255
		8,317	5,272
Prepayment and accrued income			
Deferred acquisition costs	5	**10,178**	3,279
Other prepayments and accrued income		**195**	-
		10,373	3,279
Total assets		**142,064**	103,169

STATEMENT OF FINANCIAL POSITION (CONT'D)
AS AT 31 DECEMBER 2016

	Notes	2016 £000	2015 (Restated) £000
MEMBER'S BALANCE AND LIABILITIES			
Member's balances			
Profit and loss account		**(14,332)**	(2,812)
Liabilities			
Technical provisions			
Provision for unearned premium	**4**	**37,586**	11,412
Claims outstanding	**3**	**111,871**	87,761
		149,457	99,173
Creditors			
Creditors arising out of direct insurance Operations	**16**	**750**	702
Creditors arising out of reinsurance Operations	**16**	**1,069**	1,341
Other creditors	**17**	**1,640**	1,634
		3,459	3,677
Accruals and deferred income		**3,480**	3,131
Total liabilities		**156,396**	105,981
Total member's balances and liabilities		**142,064**	103,169

The financial statements on pages 11 to 45 were approved by the Board of Vibe Syndicate Management Limited on 20 March 2017 and were signed on its behalf by:-

R Katzenberg
21 March 2017

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 (Restated) £000
(Loss)/Profit on ordinary activities		**(11,520)**	56
Movement in general insurance unearned premiums and outstanding claims		**50,284**	(1,154)
Movement in reinsurers' share of unearned premiums and outstanding claims		**(3,866)**	(415)
Investment return		**(657)**	(956)
Movements in other assets/liabilities		**(24,580)**	(6,735)
Net cash inflow /(outflow) from operating activities		**9,661**	(9,204)
Investing activities			
Investment income received		**1,060**	1,453
Purchases of debt and equity instruments		**(100,306)**	(116,396)
Sales of debt and equity instruments		**102,771**	138,980
Other		**(11,378)**	335
Net cash (outflow) / inflow from investing activities		**(7,853)**	24,372
Financing activities			
Payments of profit to the member's personal reserve funds		**-**	(12,688)
Other		**-**	(1,426)
Net cash outflow from financing activities		**-**	(14,114)
Increase in cash and cash equivalents		**1,808**	1,054
Cash and cash equivalents at 1 January		**2,017**	978
Exchange differences on opening balances		**246**	(15)
Cash and cash equivalents at 31 December		**4,071**	2,017

1. Accounting policies

1.1 Statement of compliance

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and 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 financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

The Syndicate transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2014.

1.2 Basis of preparation

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 20 March 2017.

The financial statements are prepared in sterling which is the functional and presentational currency of the Syndicate and rounded to the nearest £'000.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

The 2015 comparative information has been restated. The Syndicate has changed its accounting policy for recognition and measurement of deferred acquisition costs (DAC). Further details of the 2015 restatement of DAC is set out in note 5.

Certain other amounts have been amended within the disclosure notes in order to conform with current year presentation.

1.3 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 balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the Syndicate's key sources of estimation uncertainty:

Insurance contract technical provisions

For insurance contracts, estimates have 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 yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is assessed on an individual case basis 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 but not reported (IBNR) at the balance sheet date based on statistical methods.

Insurance contract technical provisions (cont'd)

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for 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.

The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset. Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

Further details are given in Note 21.

Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying these estimates is that past premium development can be used to project future premium development.

Fair value of financial assets determined using valuation techniques

The Syndicate does not have any financial assets and financial liabilities recorded on the statement of financial position whose fair values cannot be derived from active markets, therefore it does not need to use any valuation techniques to determine fair values.

Financial investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 – Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

The Syndicate classifies its financial investments as either financial assets at fair value through profit or loss, loans and receivables or available for sale. The Syndicate determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as fair value through profit or loss as the Syndicate's documented investment strategy is to manage financial investments acquired on a fair value basis. The available for sale category is used only in cases when the investments are passively managed and the Syndicate held none of these at year end 2016, 2015 or 2014.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date the Syndicate commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. All of the Syndicates assets are held for trading. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Derivative financial instruments

The Syndicate does not use any form of derivatives.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

Fair value of financial assets

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

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

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

See Note 11 for details of financial instruments classified by fair value hierarchy.

Derecognition of financial assets

A financial asset is derecognised when the Syndicate has transferred all the risks and rewards of the asset.

Financial liabilities

The Syndicate's financial liabilities include trade and other payables, borrowings and insurance payables. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in investment return in the profit or loss.

Derivative financial liabilities are subsequently measured at fair value through profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in profit or loss.

Investment return

Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated member's balance is made from the non-technical account to the technical account. Investment return related to non-insurance business and member's balance is attributed to the non-technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Insurance contracts – *Product classification*

Insurance contracts are those contracts when the Syndicate (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder if a specified uncertain future event (the re/insured event) adversely affects the policyholders. As a general guideline, the Syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with IAS 39 unless the embedded derivative is itself an insurance contract (i.e., the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

Gross Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a remeasurement of the initial premium. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

Under some policies, written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a remeasurement taking account of such a reduction is made as soon as there is an obligation to the coverholder.

Reinsurance Premiums

Reinsurance written premiums comprise the total premiums payable for the whole cover provided by contracts entered into the period, including portfolio premiums payable, and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is recognised as soon as there is an obligation to the policyholder. Outwards reinsurance premiums are accounted for and earned in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Profit commission

The managing agent does not charge profit commission.

Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical provisions

Technical provisions comprise claims outstanding and provisions for unearned premiums.

Claims outstanding

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Unexpired risks

A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs.

The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date, after offsetting surpluses and deficits arising on products which are managed together. Investment income is taken into account in calculating the provision.

At 31 December 2016 and 31 December 2015 the Syndicate did not have an unexpired risks provision.

Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

Deferred acquisition costs are costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods.

Deferred acquisition costs are amortised over the period in which the related premiums are earned.

The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement. At 31 December 2016 and 31 December 2015 the Syndicate did not have deferred acquisition costs in relation to reinsurers.

During the year, the Syndicate changed its policy on the classification of indirect costs between administrative and acquisition costs. Historically, underwriters' salaries and underwriting systems costs were classified as administrative expenses, but they are now classified as acquisition costs and a proportion of these costs have been deferred. 2015 has been restated for this change in accounting policy. The effects of this are shown in note 5.

Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2016 or 2015.

Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Foreign currencies

The Syndicate's functional currency and presentational currency is Sterling.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

Taxation

Under schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic-rate income tax from trading income. In addition, all UK basic-rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to the member or their member's agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate are included in the statement of financial position under the heading 'other debtors'.

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

Pension costs

The Managing Agency outsources its operations to a Service Company which operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

2. Segmental Analysis

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

2016

2016 Direct Insurance	Gross written premiums £000	Gross premium earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Accident and Health	4,218	2,319	(3,991)	(1,773)	993	(2,452)
Motor (third party liability)	1,089	169	(84)	(280)	(21)	(216)
Motor (other classes)	-	-	(33)	(29)	31	(31)
Marine	15	9	44	(49)	(11)	(7)
Aviation	56	51	(18)	(28)	3	8
Transport	261	279	(249)	(92)	(38)	(100)
Energy - Marine	-	-	-	-	-	-
Energy - Non Marine	-	-	(10)	(1)	-	(11)
Fire and other damage to property	1,031	717	(450)	(293)	(196)	(222)
Third party liability	24,121	13,918	(8,213)	(9,119)	(761)	(4,175)
Pecuniary loss	3,764	994	(1,142)	(977)	(525)	(1,650)
	34,555	18,456	(14,146)	(12,641)	(525)	(8,856)
Reinsurance	19,079	12,053	(7,804)	(6,521)	(1,817)	(4,089)
Total	53,634	30,509	(21,950)	(19,162)	(2,342)	(12,945)

2015

2015 (Restated) Direct Insurance	Gross Written Premiums £000	Gross Earned Premiums £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000	Total £000
Accident and Health	797	244	(705)	(787)	551	(697)
Motor (third party liability)	-	-	(63)	(16)	22	(57)
Motor (other classes)	-	-	148	(96)	(149)	(97)
Marine	(8)	(8)	53	(33)	(64)	(52)
Aviation	-	-	2	-	-	2
Transport	307	142	(138)	(147)	(33)	(176)
Energy - Marine	-	-	-	-	94	94
Energy - Non Marine	-	-	(2)	(3)	(2)	(7)
Fire and other damage to property	33	27	342	(66)	9	312
Third party liability	7,966	4,492	2,723	(6,343)	(425)	447
Pecuniary loss	129	16	261	(79)	271	469
	9,224	4,913	2,621	(7,570)	274	238
Reinsurance	8,202	5,196	245	(5,177)	(432)	(168)
Total	17,426	10,109	2,866	(12,747)	(158)	70

Commissions on direct insurance gross premiums earned during 2016 were £8,374k (2015: £2,286k).

All premiums were concluded in the UK.

2. Segmental Analysis (continued)

*Gross operating expenses are the same as net operating expenses shown in the profit and loss account, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2016.

The geographical analysis of net premiums by risk is as follows:

	2016	2015
	£000	£000
UK	**17,895**	1,509
Other EU countries	**2,770**	2,652
US	**17,255**	5,793
Other	**10,694**	5,594
	48,614	15,548

3. Claims outstanding

2016	**Gross**	**Reinsurer's Share**	**Net**
	£000	**£000**	**£000**
At 1 January 2016	**87,761**	**(19,387)**	**68,374**
Claims incurred in current underwriting year	**3,200**	**50**	**3,250**
Claims incurred in prior underwriting year	**18,750**	**(2,465)**	**16,285**
Claims paid during the year	**(11,342)**	**1,878**	**(9,464)**
Foreign exchange	**13,502**	**(3,017)**	**10,485**
At 31 December 2016	**111,871**	**(22,941)**	**88,930**

2015	Gross	Reinsurer's Share	Net
	£000	£000	£000
At 1 January 2015	96,644	(19,341)	77,303
Claims incurred in current underwriting year	(8,135)	(387)	(8,522)
Claims incurred in prior underwriting year	5,269	(976)	4,293
Claims paid during the year	(8,304)	1,767	(6,537)
Foreign exchange	2,287	(450)	1,837
At 31 December 2015	87,761	(19,387)	68,374

4. Provision for unearned premium

2016	**Gross**	**Reinsurer's Share**	**Net**
	£000	**£000**	**£000**
At 1 January 2016	**11,412**	**(524)**	**10,888**
Premiums written in the year	**53,634**	**(5,020)**	**48,614**
Premiums earned in the year	**(30,509)**	**4,756**	**(25,753)**
Foreign exchange	**3,049**	**(49)**	**3,000**
At 31 December 2016	**37,586**	**(837)**	**36,749**

4. Provision for unearned premium (continued)

2015	Gross £000's	Reinsurer's Share £000's	Net £000's
At 1 January 2015	3,683	(155)	3,528
Premiums written in the year	17,426	(1,879)	15,547
Premiums earned in the year	(10,108)	1,521	(8,587)
Foreign exchange	411	(11)	400
At 31 December 2015	11,412	(524)	10,888

5. Deferred acquisition costs

	2016 £000	2015 £000 (Restated)
At 1 January	**3,278**	920
Change in deferred acquisition costs	**6,175**	2,244
Foreign exchange	**725**	115
At 31 December	**10,178**	3,279

During the year, the Syndicate changed its policy on the classification of indirect costs between administrative and acquisition costs. Historically, underwriters' salaries and underwriting systems costs were classified as administrative expenses, but they are now classified as acquisition costs and a proportion of these costs have been deferred to recognise the costs in line with other acquisition costs. 2015 has been restated for this change in accounting policy.

Before restatement the deferred acquisition costs balance at 31 December 2015 was £2,635k which is an increase of £644k. The effect on the 31 December 2016 balance has been an increase of £1,307k.

It was considered impracticable to calculate and present the amount for the period before those presented as the change was deemed to have an immaterial effect on the financial results of the Syndicate

6. Net Operating Expenses

	2016 £000	2015 £000 (Restated)
Acquisition costs	**16,678**	3,560
Change in deferred acquisition costs	**(6,175)**	(2,244)
	10,503	1,316
Administrative expenses	**8,659**	11,431
	19,162	12,747

Member's standard personal expenses amounting £696k (2015:£581k) are included in administrative expenses. Member's standard personal expenses include Lloyd's subscriptions, New Central Fund contributions and managing agents fees.

7. Auditors' Remuneration

	2016	2015
	£000	£000
Audit of syndicate annual accounts	**147**	140
Other services pursuant to Regulations and Lloyd's Byelaws	**73**	50
	220	190

8. Staff Costs

There were no staff employed by the syndicate or managing agency.

Recharges from Vibe Services Management Ltd in respect of staff costs were as follows:

	2016	2015
	£000	£000
Wages & salaries	**6,656**	5,024
Social security and pension costs	**1,430**	1,130

The average number of employees employed by Vibe Services Management Ltd but working for the syndicate during the year was as follows:

	2016	2015
	No.	No.
Claims	**7**	10
Administration, finance & management	**12**	10
Underwriting	**21**	15
Reinsurance	**4**	5
IT	**7**	6
Operations	**11**	8
Risk Management	**5**	3
	67	57

9. Emoluments of the Directors of Vibe Syndicate Management Limited

The directors of Vibe Syndicate Management Limited (Vibe SML) are paid by Vibe Services Management Ltd and a proportion of their remuneration is charged to the syndicate and included within net operating expenses:

	2016	2015
	£000	£000
Aggregate remuneration of Executive Directors	**1,333**	1,723
Aggregate remuneration of Non-Executive Directors	**123**	143

The active underwriter received the following remuneration charged as a Syndicate expense:

	2016	2015
	£000	£000
Emoluments	**402**	474

No advances or credits granted by the managing agent to any of its directors subsisted during the year.

10. Investment Return

	2016	2015
	£000	£000
Income from other financial investments	**1,019**	1,605
Net gains/(losses) on realisation of investments		
Fair value through profit or loss designated upon initial recognition	**41**	(152)
Total investment income	**1,060**	1,453
Net unrealised losses on investments		
Financial instruments at fair value through profit and loss	**(263)**	(372)
Investment expenses and charges	**(140)**	(125)
Total investment return	**657**	956

10. Investment Return (continued)

Average amount of funds available for investment during the year:

	2016 £000	2015 £000
Sterling	**7,367**	13,223
United States Dollars	**47,904**	47,077
Canadian Dollars	**9,299**	7,018
Euro	**8,636**	5,486
Australian Dollars	**572**	450
Combined in Sterling	**73,778**	73,254

Gross calendar year investment yield:		
Sterling	**2.61%**	1.16%
United States Dollars	**0.85%**	1.41%
Canadian Dollars	**1.18%**	2.12%
Euro	**0.73%**	1.93%
Australian Dollars	**4.29%**	2.23%
Combined in Sterling	**1.08%**	1.48%

11. Financial Investments

	2016 Carrying value £000	**2016 Purchase price £000**	**2016 Listed £000**
Shares and other variable yield securities and units in unit trusts (Note 14)	**2,562**	**2,562**	**2,562**
Debt securities and other fixed income securities designated at fair value through profit or loss	**64,361**	**64,631**	**64,361**
Deposits with credit institutions	**5,381**	**5,381**	**-**
	72,304	**72,574**	**66,923**

	2015 Carrying value £000	2015 Purchase price £000	2015 Listed £000
Shares and other variable yield securities and units in unit trusts (Note 14)	2,747	2,747	2,747
Debt securities and other fixed income securities designated at fair value through profit or loss	58,196	58,552	58,196
Deposits with credit institutions	4,089	4,089	-
	65,032	65,388	60,943

11. Financial Investments (continued)

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

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
31 December 2016				
Shares and other variable yield securities and units in unit trusts	**2,562**	**-**	**-**	**2,562**
Debt securities and other fixed income securities	**64,361**	**-**	**-**	**64,361**
	66,923	**-**	**-**	**66,923**
31 December 2015				
Shares and other variable yield securities and units in unit trusts	2,747	-	-	2,747
Debt securities and other fixed income securities	58,196	-	-	58,196
	60,943	-	-	60,943

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.

Level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. The Syndicate did not hold any of these at year end 2016 or 2015.

Level 3 category are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The Syndicate did not hold any of these at year end 2016 or 2015.

12. Debtors arising out of direct insurance operations

	2016	2015
	£000	£000
Due from policyholders	**-**	-
Due from intermediaries	**12,098**	4,918
	12,098	4,918

13. Other Debtors

	2016	2015
	£000	£000
Overseas tax	31	31
Vibe Syndicate Management	35	30
VAT	7	-
	73	61

14. Cash and Cash Equivalents

	2016	2015
	£000	£000
Cash at bank and at hand	4,071	2,017
Short term deposits with financial institutions (Note 11)	2,562	2,747
	6,633	4,764

15. Other Assets

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

16. Creditors

	2016	2015
	£000	£000
Creditors arising out of direct insurance operations		
Due to intermediaries within one year	750	702
Creditors arising out of re-insurance operations		
Due to intermediaries within one year	1,069	1,341

17. Other Creditors

	2016	2015
	£000	£000
Amounts owed to Vibe Syndicate Management Ltd	1,272	1,273
Amounts owed to Vibe Services Management Ltd	224	-
Canadian tax	5	4
Unsettled investment trades	40	48
VAT Repayable	-	18
Taxation	99	21
Due to insolvent company	-	270
	1,640	1,634

18. Related Parties

Vibe Syndicate Management Limited (Vibe SM) is a wholly-owned subsidiary of Syndicate Re A.I., a reinsurance company incorporated in Puerto Rico.

Managing agency fees of £371,196 (2015: £317,564) were paid by the Syndicate to Vibe SM. In addition to this, expenses of £13.4m (2015: £12.1m), of which £5.0m (2015 Restated: £0.7m) relates to acquisition costs, were recharged to the syndicate from Vibe Services Management Limited.

Vibe Services Management Limited is a wholly-owned subsidiary of Syndicate Re A.I. It provides management services to Vibe Syndicate Management Limited and Syndicate 5678.

Syndicate Re, A.I.is the immediate parent company of Vibe SM and is 100% owned by Syndicate Holding Corp. (the ultimate controlling party), a company registered in Puerto Rico.

19. Funds at Lloyd's

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

20. Off-balance sheet items

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

21. Risk Management

(a) Governance framework

The primary objective of the Syndicate's risk management framework is to protect the Syndicate's member from events that hinder the sustainable achievement of objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Managing Agent has established a risk management function and governance arrangements for the Syndicate with clear terms of reference from the board of directors to its committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to committees and senior managers. Lastly, a Syndicate risk appetite framework and associated policies which set out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate.

The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies and associated strategy and business plans to ensure that they remain aligned. The Syndicate regularly undertakes an Own Risk and Solvency Assessment (ORSA) which is reviewed and approved by the board.

(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.

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency 1 figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted the Solvency Capital requirement of the Syndicate, since this has been previously calculated based on Solvency II principles, as described below.

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, 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 Vibe Syndicate 5678 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.

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Syndicate 5678 only has one underwriting member whose SCR is determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. The SCR reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by member's

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), held within and managed within a Syndicate (Funds in Syndicate) or as the member's share of the member's balances on each Syndicate on which it participates.

Accordingly all of the assets less liabilities of the Syndicate, as represented in the member's balances reported on the statement of financial position on page 15, represent resources available to meet the member's and Lloyd's capital requirements.

(c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Syndicate did not purchase reinsurance to cover the legacy business but inherited a mix of proportional and non proportional reinsurance contracts. The Syndicate purchases reinsurance as part of its risks mitigation programme in respect of the live business. Reinsurance ceded is currently placed on a non–proportional basis and is primarily excess of loss reinsurance designed to mitigate the Syndicate's net exposure to catastrophe losses. Retention limits for the excess of loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The Syndicate principally issues the following types of general insurance and reinsurance contracts: accident and health and third party liability. Risks usually cover twelve months duration.

The most significant risks arise from climate changes, natural disasters and terrorist activities. For longer tail claims that take some years to settle, there is also inflation risk.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Syndicate. The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Syndicate has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Syndicate's risk appetite as decided by management. The overall aim when calculating risk capital is currently to restrict the net impact of a 1 in 200 year aggregate loss on a region / peril basis to 10% of capital and any planned profit. The day to day limit that underwriters then work to is to restrict exposure to any two 1 in 200 year single catastrophic events to GBP6m on a net basis. The largest counterparty exposure to catastrophes was GBP6.4m which is with an A+ rated company. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

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

As a further guide to the level of catastrophe exposure written by the Syndicate, the following table shows hypothetical claims arising for various realistic disaster scenarios based on the Syndicate's average risk exposures during 2016.

Insurance Risk (continued)

Average Risk Exposures during 2016

Scenario £m	Average Gross RDS	Average Net RDS
European Windstorm	13.9	2.1
Japanese Earthquake	11.4	2.8
Japanese Typhoon	5.6	2.0
Gulf Mexico Wind (Onshore)	11.8	2.2
North East Hurricane	15.7	2.2
Pinellas Hurricane	9.6	2.2
Los Angeles Earthquake	16.6	5.6
San Francisco Earthquake	16.0	5.6
Carolinas Earthquake	4.2	2.2
Miami Dade Hurricane	5.4	2.2
UK Flood	0.5	0.5

Average Risk Exposures during 2015

Scenario £m	Average Gross RDS	Average Net RDS
European Windstorm	11.8	2.0
Japanese Earthquake	5.8	1.5
Japanese Typhoon	3.4	1.5
Gulf Mexico Wind (Onshore)	5.0	2.0
North East Hurricane	8.6	2.0
Pinellas Hurricane	4.5	2.0
Los Angeles Earthquake	3.1	2.0
San Francisco Earthquake	3.0	2.0
Carolinas Earthquake	1.9	2.0
Miami Dade Hurricane	2.4	2.0
UK Flood	0.5	0.5

The table below sets out the concentration of outstanding claim liabilities by type of contract for 2016:

£000	Gross Liabilities	Reinsurance of Liabilities	Net liabilities
Accident & Health	**20,034**	**4,409**	**15,625**
Aviation	**118**	**7**	**111**
Energy – non marine	**161**	**23**	**138**
Fire and other property damage	**1,027**	**150**	**877**
Marine	**532**	**33**	**499**
Motor (other classes)	**336**	**34**	**302**
Motor (third party liability)	**255**	**-1**	**256**
Pecuniary loss	**1,240**	**19**	**1,221**
Third Party liability	**54,898**	**12,620**	**42,278**
Transport	**302**	**15**	**287**
Reinsurance Acceptance	**32,968**	**5,632**	**27,336**
Total	**111,871**	**22,941**	**88,930**

The table below sets out the concentration of outstanding claim liabilities by type of contract for 2015:

£000	Gross Liabilities	Reinsurance of Liabilities	Net liabilities
Accident & Health	15,635	3,354	12,281
Aviation	66	-	66
Energy – non marine	136	19	117
Fire and other property damage	438	65	373
Marine	473	27	446
Motor (other classes)	343	21	322
Motor (third party liability)	175	19	156
Pecuniary loss	131	63	68
Third Party liability	44,544	10,792	33,752
Transport	102	17	85
Reinsurance Acceptance	25,718	5,010	20,708
Total	87,761	19,387	68,374

All of the business is written in the UK.

Key assumptions

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

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

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

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit and member's balances. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non–linear.

31 December 2016	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit	Impact on member's balance
		£000's	£000's	£000's	£000's
Average claim cost	+ 10% frequency	11,187	8,893	(8,893)	(8,893)
Average number of claims	+ 10% severity	11,187	8,893	(8,893)	(8,893)
Average claim settlement period	6 month reduction in settlement period	(34,776)	(23,218)	36	36

31 December 2015	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit	Impact on member's balance
		£000's	£000's	£000's	£000's
Average claim cost	+ 10% frequency	8,776	6,837	(6,837)	(6,837)
Average number of claims	+ 10% severity	8,776	6,837	(6,837)	(6,837)
Average claim settlement period	6 month reduction in settlement period	(1,294)	(884)	7	7

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

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at the end of the underwriting year. The impact of exchange differences is shown at the bottom of the table.

The Syndicate has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed is being increased from five years to ten years over the period 2016–2020.

In setting claims provisions the Syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

Gross insurance contract outstanding claims provision as at 31 December 2016

2016 Gross

£000	Before 2012	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims incurred at end of underwriting year				962	6,055	19,798	
12 months later				2,362	12,317		
24 months later				3,223			
36 months later							
48 months later							
Current estimate of cumulative claims incurred	6,084,372			3,223	12,317	19,798	
Cumulative claims paid at end of underwriting year				19	365	1,412	
12 months later				515	2,938		
24 months later				805			
36 months later							
48 months later							
Cumulative payments to date	6,003,684			805	2,938	1,412	
Total gross outstanding claims provision per the statement of financial position	**81,688**	**-**	**-**	**2,418**	**9,379**	**18,386**	**111,871**

2016 Net

£000	Before 2012	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims incurred at end of underwriting year				772	4,899	17,203	
12 months later				2,161	11,697		
24 months later				3,099			
36 months later							
48 months later							
Current estimate of cumulative claims incurred	4,010,729			3,099	11,697	17,203	
Cumulative claims paid at end of underwriting year				19	365	1,352	
12 months later				515	2,938		
24 months later				805			
36 months later							
48 months later							
Cumulative payments to date	3,948,703			805	2,938	1,352	
Total gross outstanding claims provision per the statement of financial position	**62,026**	**-**	**-**	**2,294**	**8,759**	**15,851**	**88,930**

(d) Financial risk

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

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

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the Syndicate Risk and Audit Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each counterparty or Syndicate of counterparties, geographical and industry segment (i.e., limits are set for investments and cash deposits, exposures from open positions in derivatives and minimum credit ratings for investments that may be held).
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and ascertaining suitable allowance for impairment.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the Statement of Financial Position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

31 December 2016	Neither past due nor impaired	Past Due	Impaired	Total
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and unit trusts	**2,562**	**-**	**-**	**2,562**
Debt securities	**64,361**	**-**	**-**	**64,361**
Participation in investment pools	**-**	**-**	**-**	**-**
Loans with credit institutions	**-**	**-**	**-**	**-**
Deposits with credit institutions	**5,381**	**-**	**-**	**5,381**
Overseas deposits	**4,246**	**-**	**-**	**4,246**
Derivative assets	**-**	**-**	**-**	**-**
Other investments	**-**	**-**	**-**	**-**
Deposits with ceding undertakings	**-**	**-**	**-**	**-**
Reinsurer' share of claims outstanding	**22,941**	**-**	**-**	**22,941**
Reinsurance debtors	**417**	**-**	**-**	**417**
Cash at bank and in hand	**4,071**	**-**	**-**	**4,071**
Insurance debtors	**7,380**	**4,719**	**-**	**12,099**
Other debtors	**25,986**	**-**	**-**	**25,986**
Total credit risk	**137,345**	**4,719**	**-**	**142,064**

31 December 2015	Neither past due nor impaired	Past Due	Impaired	Total
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and unit trusts	2,747	-	-	2,747
Debt securities	58,196	-	-	58,196
Participation in investment pools	-	-	-	-
Loans with credit institutions	-	-	-	-
Deposits with credit institutions	4,088	-	-	4,088
Overseas deposits	3,255	-	-	3,255
Derivative assets	-	-	-	-
Other investments	-	-	-	-
Deposits with ceding undertakings	-	-	-	-
Reinsurer' share of claims outstanding	19,387	-	-	19,387
Reinsurance debtors	282	-	-	282
Cash at bank and in hand	2,016	-	-	2,016
Insurance debtors	9,028	305	-	9,333
Other debtors	61	-	-	61
Total credit risk	99,061	305	-	99,366

Assets which are past due but not impaired have been in arrears for less than 3 months from the reporting date.

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2016 by classifying assets according to Standard & Poor's 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.

31 December 2016	**AAA**	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Shares and other variable yield securities and unit trusts	**655**	**101**	**1,697**	**-**	**-**	**108**	**2,561**
Debt securities	**46,323**	**5,240**	**10,695**	**1,620**	**484**		**64,362**
Participation in investment pools	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans with credit institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deposits with credit institutions	**-**	**-**	**5,381**	**-**	**-**	**-**	**5,381**
Overseas deposits	**2,308**	**1,186**	**366**	**351**	**-**	**36**	**4,247**
Derivative assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other investments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deposits with ceding undertakings	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reinsurer' share of claims outstanding	**-**	**8,611**	**11,848**	**1,286**	**1**	**1,195**	**22,941**
Reinsurance debtors	**-**	**(116)**	**365**	**-**	**9**	**159**	**417**
Cash at bank and in hand	**-**	**-**	**4,071**	**-**	**-**	**-**	**4,071**
Total credit risk	**49,286**	**15,022**	**34,423**	**3,257**	**494**	**1,498**	**103,980**

31 December 2015	AAA	AA	A	BBB	<BBB	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities and unit trusts	994	293	1,373	-	-	87	2,747
Debt securities	41,733	3,765	10,780	1,918	-	-	58,196
Participation in investment pools	-	-	-	-	-	-	-
Loans with credit institutions	-	-	-	-	-	-	-
Deposits with credit institutions	-	-	4,088	-	-	-	4,088
Overseas deposits	1,645	867	228	512	-	3	3,255
Derivative assets	-	-	-	-	-	-	-
Other investments	-	-	-	-	-	-	-
Deposits with ceding undertakings	-	-	-	-	-	-	-
Reinsurer' share of claims outstanding	-	7,528	9,227	1,391	1	1,239	19,387
Reinsurance debtors	-	(72)	144	54	5	150	282
Cash at bank and in hand	-	-	2,016	-	-	-	2,016
Total credit risk	44,373	12,381	27,856	3,876	6	1,480	89,972

Maximum credit exposure

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, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Syndicate's rating policy. The attributable risk ratings are assessed and updated regularly.

During the year, no credit exposure limits were exceeded. The Syndicate actively manages its product mix to ensure that there is no significant concentration of credit risk.

(2) Liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the Syndicate's exposure to liquidity risk:

- A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the Risk and Audit Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.
- Contingency funding plans are set to meet emergency funding in the event of a large demand on cash.

Maturity profiles

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

31 December 2016	**No stated maturity**	**0-1 year**	**1-3 years**	**3-5 years**	**>5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Derivatives	-	-	-	-	-	-
Deposits received from reinsurers	-	-	-	-	-	-
Provisions for other risks and charges	-	-	-	-	-	-
Claims outstanding	-	**15,666**	**20,511**	**24,017**	**51,677**	**111,871**
Creditors	-	**3,459**	-	-	-	**3,459**
Other	-	-	-	-	-	-
Total credit risk	-	**19,125**	**20,511**	**24,017**	**51,677**	**115,330**

31 December 2015	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Derivatives	-	-	-	-	-	-
Deposits received from reinsurers	-	-	-	-	-	-
Provisions for other risks and charges	-	-	-	-	-	-
Claims outstanding	-	17,769	24,931	12,907	32,154	87,761
Creditors	-	3,677	-	-	-	3,677
Other	-	-	-	-	-	-
Total credit risk	-	21,446	24,931	12,907	32,154	91,438

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

a. Currency risk;
b. Interest rate risk; and
c. Equity price risk (there are no equity instruments in the portfolio).

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

- An investment policy exists that sets out the assessment and determination of what constitutes market risk for the Syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the Risk and Audit Committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Strict control over derivative instruments (there are no derivative contracts).

(a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is Sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, US and Canadian dollars. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

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

31 December 2016	**GBP**	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**Total**
Converted £'000							
Total assets	**6,886**	**103,964**	**16,108**	**7,420**	**5,707**	**1,979**	**142,064**
Total liabilities	**(36,194)**	**(95,816)**	**(12,146)**	**(6,192)**	**(5,203)**	**(845)**	**(156,396)**
Net Assets	**(29,308)**	**8,148**	**3,962**	**1,228**	**504**	**1,134**	**(14,332)**

31 December 2015	GBP	USD	EUR	CAD	AUD	JPY	Total
Converted £'000							
Total assets	10,483	71,612	9,075	9,109	2,008	882	103,169
Total liabilities	(25,816)	(64,626)	(9,912)	(3,790)	(1,303)	(535)	(105,981)
Net Assets	(15,333)	6,986	(837)	5,319	705	347	(2,812)

The non-Sterling denominated net assets of the Syndicate may lead to a reported loss (depending on the mix relative to the liabilities), should Sterling strengthen against these currencies. Conversely, reported gains may arise should Sterling weaken.

The Syndicate matches its currency position so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates. As a result, the Syndicate holds a significant proportion of its assets in foreign currency investments.

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 Sterling against the value of the US dollar, Canadian dollar and Euro simultaneously. The analysis is based on the information as at 31st December 2016.

Impact on profit and member's balances

	2016	2015
Sterling weakens	**£'000**	£'000
10% against other currencies	1,665	1,205
20% against other currencies	3,745	2,713
Sterling strengthens		
10% against other currencies	(1,362)	(987)
20% against other currencies	(2,497)	(1,809)

(b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit and member's balances of the effects of changes in interest rates on fixed rate financial assets and liabilities.

Impact on profit and member's balances

	2016	2015
Changes in variables	**£'000**	£'000
+ 50 basis points on result	(256)	(102)
- 50 basis points on result	256	101

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

22. Post balance sheet events

On February 27, 2017, the UK Ministry of Justice announced a cut in the Ogden Discount Rate ("ODR") from 2.5% to -0.75%. The ODR is the discount rate applied to lump-sum personal injury payments to claimants and is expected to increase lump sum awards for bodily injury claims calculated with reference to Ogden table rates. The Syndicate has limited exposure to this event and as a result considers this to be an immaterial impact.

SYNDICATE 5678

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