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**VIBE SYNDICATE MANAGEMENT LTD**

**ANNUAL REPORT AND ACCOUNTS  
31 DECEMBER 2018**

**SYNDICATE 5678**

**Annual Report and Accounts**  
**For the year ended 31 December 2018**

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**Directors and Administration**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

***Managing Agent***

**Managing Agent**

Vibe Syndicate Management Limited

**Registered Office**

5th Floor  
90 Fenchurch Street  
London  
EC3M 4ST  
[www.vibesm.com](http://www.vibesm.com)

**Registered Number**

5957729

**Directors**

P N E Ceurvorst*	
P S Donovan	
J E England	Appointed 18 <sup>th</sup> October 2018
P A Flamank*	
A Fridlyand*	
I R Garven	Resigned 26 <sup>th</sup> March 2018
D J Gately	Resigned 21 <sup>st</sup> November 2018
B F Knight	
N C Krenteras*	
T J Leggett*	(Chairman)
S G J Sykes	Resigned 21 <sup>st</sup> September 2018
A E Williams	Appointed 20 <sup>th</sup> November 2018

\* 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 2018**

The Directors of Vibe Syndicate Management Limited (the Managing Agent) present their report for the year ended 31 December 2018.

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 2018 is a loss of £12.2m (2017 loss of £32.2m).

### **Principal Activity**

The principal activity of the Syndicate continues to be the underwriting of general insurance and reinsurance business at Lloyd's.

The Syndicate's allocated capacity for the 2018 year of account was £114.1m (2017: £89.5m). The capacity for the 2019 year of account is £112.4m.

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

### **Management of the Syndicate**

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.

### **Business of the Syndicate**

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 Direct and Facultative and Property Treaty.

The portfolio is built around business which has a high technical barrier to entry. The Syndicate will not sacrifice profitability for growth and will continue to walk away from business that is seen as unprofitable. It will continue to invest in skills and infrastructure so as to succeed in the current business environment.

During the 2018 financial year gross written premium by underwriting team was as follows:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Accident & Health	4,743	6,147
Casualty Treaty	26,770	27,418
Credit Surety Political Risk & Terror	17,842	10,678
Financial Institutions	6,668	12,267
North American Specialty Programs	24,616	23,900
Professional Indemnity	10,254	7,966
Property Direct and Facultative	16,554	27,145
Property Treaty	13,268	11,741
Other	163	-
<b>Total</b>	<b>120,878</b>	<b>127,262</b>

## Report of the Directors FOR THE YEAR ENDED 31 DECEMBER 2018

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.

### Review of Financial Performance

The Syndicate's key financial indicators for 2018 were as follows:

	2018 £000	2017 £000
Syndicate capacity	114.1	89.5
Gross written premium	120.9	127.3
(Loss) for the financial year	(12.2)	(32.2)
Net claims ratio	60%	101%
Net expense ratio (including commission)	50%	51%
Combined ratio	110%	152%

#### *Gross written premiums*

Vibe continues to grow the business in a controlled and disciplined manner with estimated ultimate gross premium increasing from £134m for the 2017 underwriting year to £160m for the 2018 underwriting year. This increase is not yet reflected in gross written premium in the table above due to a change in recognition of written premium for facility business.

#### *Claims incurred*

Claims activity in 2018 has been impacted by catastrophe activity that was higher than planned, albeit it was the frequency of medium sized losses which did not benefit from reinsurance protection that impacted (Hurricane Michael £3.5m, Typhoon Jebi £2.8m, Camp fire £2.8m, Hurricane Florence £1.8m, Typhoon Trami £1.4m). This has been offset by prior accident year releases of £11.5m mainly on long tail lines, recognising emerging experience as the Syndicate's live business matures.

The decrease in the net loss ratio of 60% (2017: 101%) is largely due to the impact of Hurricanes Harvey, Irma and Maria in 2017 (gross impact £31.5m, net £12.2m).

#### *Other*

Investment return in 2018 was £1.8m (2017: £0.6m). Net operating expenses in 2018 were £53.8m (2017: £33.5m), with the increase reflecting premium growth.

#### *Balance sheet*

Syndicate assets have increased by £18.7m to £255.4m (2017: £236.7m) and the total liabilities have increased by £28.3m to £276.3m (2017: £248.0m) as a result of business growth.

## **Report of the Directors FOR THE YEAR ENDED 31 DECEMBER 2018**

### ***Principal Risks and Uncertainties***

The Managing Agent has 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:

#### *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. 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 risk mitigation programme and the Agency uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business.

The Board monitors performance 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*

Credit risk relates to the risk of default on the settlement of balances receivable by the Syndicate. The Syndicate's reinsurers and intermediaries from which gross written premiums are sourced represent the principal sources of this risk. This risk is actively managed by the policies, procedures and controls of the Broker Vetting and Reinsurance Security Working Group.

#### *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.

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*

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. Currency matching is reviewed by Management 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*

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 so to maintain a fairly short average duration period, principally due to current market conditions.

#### *Financial instruments and risk management*

Information on the use of financial instruments by the Syndicate and its management of financial risk and in particular its exposure to interest rate risk, currency risk, credit risk and liquidity risk is disclosed in note 21 to the financial statements.

## **Report of the Directors FOR THE YEAR ENDED 31 DECEMBER 2018**

### *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*

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.

### *Conduct Risk*

Conduct risk is the risk that the Syndicate fails to pay appropriate regard to the interest of its customers and/or fails to treat them fairly at all times. Conduct risk is managed through the application of strong internal controls, compliance policies and procedures, and through the monitoring of various conduct risk metrics.

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

The Syndicate continues to transact in the same classes of general insurance and reinsurance business as at the end of 2018.

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. 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.

### ***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.

**Report of the Directors  
FOR THE YEAR ENDED 31 DECEMBER 2018**

***Disclosure of Information to the Auditors***

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

- 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
- 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***

Pursuant to Section 14 (2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed reappointed and Ernst & Young LLP will therefore continue in office.

On behalf of the Board

J E England

CEO

21 March 2019

## **Statement of Managing Agent's Responsibilities FOR THE YEAR ENDED 31 DECEMBER 2018**

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 report and accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate annual reports and 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 report and 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 notes to the Syndicate annual accounts; and
- 4 Prepare the Syndicate annual report and 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 report and 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 MEMBERS OF SYNDICATE 5678 FOR THE YEAR ENDED 31 DECEMBER 2018**

### **Opinion**

We have audited the syndicate annual accounts of syndicate 5678 ('the syndicate') for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- ▶ give a true and fair view of the syndicate's affairs as at 31 December 2018 and of its loss for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 5678 FOR THE YEAR ENDED 31 DECEMBER 2018**

### **Other information**

The other information comprises the information included in the annual report, other than the syndicate annual accounts and our auditor's report thereon. The managing agent is responsible for the other information.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008**

In our opinion, based on the work undertaken in the course of the audit

- the information given in the managing agent's report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts, and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

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;
- ▶ we have not received all the information and explanations we require for our audit; or
- ▶ certain disclosures of the managing agents' emoluments specified by law are not made.

### **Responsibilities of the managing agent**

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the managing agent either intends to cease to operate the syndicate, or has no realistic alternative but to do so.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 5678 FOR THE YEAR ENDED 31 DECEMBER 2018**

### **Auditor's responsibilities for the audit of the syndicate annual accounts**

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ed Jervis (Senior Statutory Auditor)

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

London

21 March 2019

### **Notes:**

1. The maintenance and integrity of the Syndicate web site is the responsibility of the manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Income Statement**  
**TECHNICAL ACCOUNT – GENERAL BUSINESS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 £000	2017 £000
<b>Gross premiums written</b>	<b>2</b>	<b>120,878</b>	127,262
Outward reinsurance premiums		<u>(27,209)</u>	<u>(24,415)</u>
Net written premiums		<u>93,669</u>	<u>102,847</u>
<b>Change in the provision for unearned premiums</b>			
Gross amount		8,558	(39,476)
Reinsurers' share		<u>4,445</u>	<u>1,812</u>
Change in the net provision for unearned premiums	<b>4</b>	<u>13,003</u>	<u>(37,664)</u>
<b>Earned premiums, net of reinsurance</b>		<b>106,672</b>	65,183
<b>Allocated investment return transferred from the non-technical account</b>		1,215	354
<b>Claims paid</b>			
Gross amount		(48,081)	(33,940)
Reinsurers' share		<u>11,742</u>	<u>5,645</u>
Net claims paid		<u>(36,339)</u>	<u>(28,295)</u>
<b>Change in claims outstanding</b>			
Gross amount		(24,599)	(56,381)
Reinsurers' share		<u>(2,838)</u>	<u>18,840</u>
Change in the net provision for claims		<u>(27,437)</u>	<u>(37,541)</u>
<b>Claims incurred, net of reinsurance</b>	<b>3</b>	<b>(63,776)</b>	(65,836)
<b>Net operating expenses</b>	<b>6</b>	<b>(53,767)</b>	(33,488)
<b>Balance on the technical account – general business</b>		<u>(9,656)</u>	<u>(33,787)</u>

All the amounts above are in respect of continuing operations.

**Income Statement (continued)**  
**NON - TECHNICAL ACCOUNT – GENERAL BUSINESS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 £000	2017 £000
<b>Balance on technical account – general business</b>		<b>(9,656)</b>	<b>(33,787)</b>
Investment income	10	1,849	1,140
Unrealised losses on investments	10	(75)	(554)
Investment expenses and charges	10	(146)	(150)
		<u>(8,028)</u>	<u>(33,351)</u>
Allocated investment return transferred to general business technical account		(1,215)	(354)
Exchange (losses)/gains		(2,984)	1,464
		<u>(12,227)</u>	<u>(32,241)</u>
<b>Loss for the financial year</b>		<b>(12,227)</b>	<b>(32,241)</b>

**Statement of Changes in Member's Balances'**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Due from members £000	Funds in Syndicate £000	Total Member's Balances' £000
<b>At 1 January 2018</b>	<b>(52,523)</b>	<b>41,249</b>	<b>(11,274)</b>
Loss for the financial year	(12,663)	436	(12,227)
Member Expenses	(81)	-	(81)
Distribution to Funds in Syndicate	7,706	(7,706)	-
Additional Funds in Syndicate	-	652	652
Revaluation of opening funds	-	2,021	2,021
<b>At 31 December 2018</b>	<b>(57,561)</b>	<b>36,652</b>	<b>(20,909)</b>
At 1 January 2017	(14,332)	-	(14,332)
Loss for the financial year	(32,318)	77	(32,241)
Member Expenses	(27)	-	(27)
Distribution to Funds in Syndicate	(5,846)	5,846	-
Additional Funds in Syndicate	-	35,326	35,326
<b>At 31 December 2017</b>	<b>(52,523)</b>	<b>41,249</b>	<b>(11,274)</b>

**Statement of Financial Position**  
**AS AT 31 DECEMBER 2018**

	Notes	2018 £000	2017 £000
<b>ASSETS</b>			
<b>Investments</b>			
Financial investments	11	131,301	116,479
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premium	4	7,301	2,551
Claims outstanding	3	38,576	39,690
		<u>45,877</u>	<u>42,241</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	12	16,838	23,804
Debtors arising out of reinsurance operations	13	30,757	23,326
Other debtors		13	41
		<u>47,608</u>	<u>47,171</u>
<b>Cash and other assets</b>			
Cash at bank and in hand	14	5,742	3,925
Other assets	15	7,128	5,947
		<u>12,870</u>	<u>9,872</u>
<b>Prepayment and accrued income</b>			
Deferred acquisition costs	5	17,703	19,933
Other prepayments and accrued income		0	1,003
		<u>17,703</u>	<u>20,936</u>
<b>Total assets</b>		<u><u>255,359</u></u>	<u><u>236,699</u></u>

**Statement of Financial Position (continued)**  
**AS AT 31 DECEMBER 2018**

	Notes	2018 £000	2017 £000
<b>MEMBER'S BALANCE AND LIABILITIES</b>			
<b>Member's balances</b>			
Member's balances		<b>(20,909)</b>	(11,274)
<b>Liabilities</b>			
<b>Technical provisions</b>			
Provision for unearned premium	4	<b>67,960</b>	73,635
Claims outstanding	3	<b>192,988</b>	160,397
		<b>260,948</b>	234,032
<b>Creditors</b>			
Creditors arising out of direct insurance operations	16	<b>1,688</b>	4,116
Creditors arising out of reinsurance operations	16	<b>10,499</b>	6,125
Other creditors	17	<b>2,462</b>	2,859
		<b>14,649</b>	13,100
<b>Accruals and deferred income</b>		<b>671</b>	841
<b>Total liabilities</b>		<b>276,268</b>	247,973
<b>Total member's balances and liabilities</b>		<b>255,359</b>	236,699

The financial statements on pages 12 to 45 were approved by the Board of Vibe Syndicate Management Limited on 20 March 2019 and were signed on its behalf by:

A E Williams  
21 March 2019

**Statement of Cash Flows**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	<b>Notes</b>	<b>2018</b> <b>£000</b>	2017 £000
<b>Loss on ordinary activities</b>		<b>(12,227)</b>	(32,241)
Movement in general insurance unearned premiums and outstanding claims		<b>26,916</b>	84,575
Movement in reinsurers' share of unearned premiums and outstanding claims		<b>(3,636)</b>	(18,464)
Investment return		<b>(1,628)</b>	(435)
Movements in other assets/liabilities		<b>(1,016)</b>	(19,446)
<b>Net cash inflow from operating activities</b>		<b>8,409</b>	13,989
 <b>Investing activities</b>			
Investment income received		<b>1,738</b>	955
Purchases of debt and equity instruments		<b>(104,776)</b>	(146,198)
Sales of debt and equity instruments		<b>95,978</b>	95,932
Other		<b>(145)</b>	(150)
<b>Net cash outflow from investing activities</b>		<b>(7,205)</b>	(49,461)
 <b>Financing activities</b>			
Collection/(Payments) of profit to the member's personal reserve funds		<b>7,706</b>	(5,846)
Funds in Syndicate contributed by member		<b>652</b>	41,172
Funds in Syndicate released to member		<b>(7,915)</b>	-
<b>Net cash inflow from financing activities</b>		<b>443</b>	35,326
 <b>Increase/(Decrease) in cash and cash equivalents</b>		<b>1,647</b>	(146)
<b>Cash and cash equivalents at 1 January</b>		<b>3,925</b>	4,071
<b>Exchange differences on opening balances</b>		<b>187</b>	-
<b>Cash and cash equivalents at 31 December</b>		<b>5,759</b>	3,925
 <b>Cash and cash equivalents consists of:</b>			
Cash at bank and in hand	14	<b>5,742</b>	3,925
Short term deposits with credit institutions		<b>17</b>	-
		<b>5,759</b>	3,925

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**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.

**1.2 Basis of preparation**

The financial statements for the year ended 31 December 2018 were approved for issue by the Board of Directors on 20 March 2019.

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.

**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.

## **1. Accounting policies (continued)**

### **Insurance contract technical provisions (continued)**

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.

## **1.4 Significant accounting policies**

### **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 or the previous year.

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.

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**1. Accounting policies (continued)**

**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: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

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.

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**1. Accounting policies (continued)**

**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 written 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 re-measurement 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 re-measurement taking account of such a reduction is made as soon as there is an obligation to the policyholder.

**Outward reinsurance premiums**

Outward 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, outward 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 reinsurer. 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.

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**1. Accounting policies (continued)**

**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 recoveries 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 2018 and 31 December 2017 the Syndicate did not have an unexpired risks provision.

## **1. Accounting policies (continued)**

### **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 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.

### **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 2018 or 2017.

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.

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**1. Accounting policies (continued)**

**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 'Member's Balances'.

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.

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**2. Segmental Analysis**

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

2018	Gross Written Premiums	Gross Earned Premiums	Gross Claims Incurred	Gross Operating Expenses	Reinsurance balance	Total
	£000	£000	£000	£000	£000	£000
Direct Insurance						
Accident and Health	4,664	5,717	(3,520)	(3,081)	(289)	(1,173)
Aviation	9	8	(4)	(3)	27	28
Energy - Non Marine	0	0	90	0	(1)	89
Fire and other damage to property	16,127	16,407	(14,643)	(6,634)	(5,425)	(10,295)
Marine	29	51	(24)	(23)	84	88
Motor (other classes)	1	2	(46)	(1)	(1)	(46)
Motor (third party liability)	0	0	7	0	(15)	(8)
Pecuniary loss	5,047	4,648	(3,225)	(1,837)	(500)	(914)
Third party liability	42,483	48,562	(22,310)	(21,806)	1,225	5,671
Transport	(39)	(28)	114	13	(103)	(4)
	<b>68,321</b>	<b>75,367</b>	<b>(43,561)</b>	<b>(33,372)</b>	<b>(4,998)</b>	<b>(6,564)</b>
Reinsurance	<b>52,557</b>	<b>54,069</b>	<b>(29,119)</b>	<b>(20,395)</b>	<b>(8,862)</b>	<b>(4,307)</b>
Total	<b>120,878</b>	<b>129,436</b>	<b>(72,680)</b>	<b>(53,767)</b>	<b>(13,860)</b>	<b>(10,871)</b>

2017	Gross Written Premiums	Gross Earned Premiums	Gross Claims Incurred	Gross Operating Expenses	Reinsurance Balance	Total
	£000	£000	£000	£000	£000	£000
Direct Insurance						
Accident and Health	6,088	4,847	(1,765)	(2,920)	352	514
Aviation	78	74	541	(21)	(4)	590
Energy - Marine	21	11	(7)	(3)	0	1
Energy - Non Marine	63	32	(20)	(9)	1	4
Marine	103	71	(70)	(33)	(3)	(35)
Motor ( third party liability)	4,775	2,123	(1,472)	(980)	30	(299)
Motor (other classes)	6	3	(22)	(1)	19	(1)
Pecuniary loss	8,988	6,014	(4,377)	(2,160)	(515)	(1,038)
Third party liability	54,607	34,192	(23,080)	(15,065)	422	(3,531)
Transport	90	208	(400)	(92)	(5)	(289)
Fire and other damage to property	29,081	19,587	(37,545)	(5,234)	3,800	(19,392)
	<b>103,900</b>	<b>67,162</b>	<b>(68,217)</b>	<b>(26,518)</b>	<b>4,097</b>	<b>(23,476)</b>
Reinsurance	<b>23,362</b>	<b>20,624</b>	<b>(22,104)</b>	<b>(6,970)</b>	<b>(2,215)</b>	<b>(10,665)</b>
Total	<b>127,262</b>	<b>87,786</b>	<b>(90,321)</b>	<b>(33,488)</b>	<b>1,882</b>	<b>(34,141)</b>

Commissions on direct insurance gross premiums earned during 2018 were £16,565k (2017: £23,095k).

All premiums were concluded in the UK.

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**2. Segmental Analysis (continued)**

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

	<b>2018</b>	2017
	<b>£000</b>	£000
UK	<b>42,932</b>	40,704
Other EU countries	<b>3,179</b>	5,063
US	<b>56,717</b>	48,803
Other	<b>18,050</b>	32,692
	<b><u>120,878</u></b>	<u>127,262</u>

**3. Claims outstanding**

<b>2018</b>	<b>Gross</b>	<b>Reinsurer's</b>	<b>Net</b>
	<b>£000</b>	<b>Share</b>	<b>£000</b>
		<b>£000</b>	<b>£000</b>
At 1 January 2018	<b>160,397</b>	<b>(39,690)</b>	<b>120,707</b>
Claims incurred in current underwriting year	<b>42,320</b>	<b>(6,981)</b>	<b>35,339</b>
Claims incurred in prior underwriting year	<b>30,360</b>	<b>(1,923)</b>	<b>28,437</b>
Claims paid during the year	<b>(48,081)</b>	<b>11,742</b>	<b>(36,339)</b>
Foreign exchange	<b>7,992</b>	<b>(1,724)</b>	<b>6,268</b>
At 31 December 2018	<b><u>192,988</u></b>	<b><u>(38,576)</u></b>	<b><u>154,412</u></b>

2017	Gross	Reinsurer's	Net
	£000	Share	£000
		£000	£000
At 1 January 2017	111,871	(22,941)	88,930
Claims incurred in current underwriting year	71,253	(22,020)	49,233
Claims incurred in prior underwriting year	19,068	(2,465)	16,603
Claims paid during the year	(33,940)	5,645	(28,295)
Foreign exchange	(7,855)	2,091	(5,764)
At 31 December 2017	<b><u>160,397</u></b>	<b><u>(39,690)</u></b>	<b><u>120,707</u></b>

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**4. Provision for unearned premium**

2018	Gross £000	Reinsurer's Share £000	Net £000
At 1 January 2018	73,635	(2,551)	71,084
Premiums written in the year	120,878	(27,209)	93,669
Premiums earned in the year	(129,436)	22,764	(106,672)
Foreign exchange	2,883	(305)	2,578
At 31 December 2018	<u>67,960</u>	<u>(7,301)</u>	<u>60,659</u>

2017	Gross £000's	Reinsurer's Share £000's	Net £000's
At 1 January 2017	37,586	(837)	36,749
Premiums written in the year	127,262	(24,415)	102,847
Premiums earned in the year	(87,786)	22,603	(65,183)
Foreign exchange	(3,427)	98	(3,329)
At 31 December 2017	<u>73,635</u>	<u>(2,551)</u>	<u>71,084</u>

**5. Deferred acquisition costs**

	2018 £000	2017 £000
At 1 January	19,933	10,178
Change in deferred acquisition costs	(3,434)	10,556
Foreign exchange	1,204	(801)
At 31 December	<u>17,703</u>	<u>19,933</u>

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**6. Net Operating Expenses**

	<b>2018</b>	2017
	<b>£000</b>	£000
Acquisition costs	<b>30,960</b>	31,312
Change in deferred acquisition costs	<b>3,434</b>	(10,556)
	<b>34,394</b>	20,756
Administrative expenses	<b>19,373</b>	12,732
	<b>53,767</b>	33,488

Member's standard personal expenses of £4,986k (2017: £1,462k) are included within administrative expenses. Member's standard personal expenses include Lloyd's subscriptions, central fund contributions and managing agents fees.

**7. Auditors' Remuneration**

	<b>2018</b>	2017
	<b>£000</b>	£000
Audit of syndicate annual accounts	<b>202</b>	182
Audit related assurance services	<b>49</b>	44
Actuarial services	<b>45</b>	37
	<b>296</b>	263

Auditor' remuneration is included as part of the administrative expenses in note 6 to the financial statements.

**8. Staff Costs**

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

Recharges from Vibe Services Management Ltd, a wholly-owned subsidiary of Syndicate Holding Corp and recharged to the Syndicate in respect of staff costs were as follows:

	<b>2018</b>	2017
	<b>£000</b>	£000
Wages & salaries	<b>8,321</b>	7,105
Social security and pension costs	<b>1,865</b>	1,989

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

	<b>2018</b>	2017
	<b>No.</b>	No.
Claims	<b>10</b>	11
Administration, finance & management	<b>32</b>	28
Underwriting	<b>30</b>	33
Reinsurance	<b>2</b>	2
IT	<b>10</b>	9
Operations	<b>9</b>	9
Risk Management	<b>3</b>	5
	<b>96</b>	97

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**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:

	<b>2018</b>	2017
	<b>£000</b>	£000
Aggregate remuneration of Executive Directors	<b>2,279</b>	1,234
Aggregate remuneration of Non-Executive Directors	<b>117</b>	117

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

	<b>2018</b>	2017
	<b>£000</b>	£000
Emoluments	<b>398</b>	374

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

**10. Investment Return**

	<b>2018</b>	2017
	<b>£000</b>	£000
Income from other financial investments	<b>2,309</b>	1,341
Net losses on realisation of investments		
Fair value through profit or loss designated upon initial recognition	<b>(460)</b>	(201)
Total investment income	<b>1,849</b>	1,140
Net unrealised losses on investments		
Financial instruments at fair value through profit and loss	<b>(75)</b>	(554)
Investment expenses and charges	<b>(146)</b>	(150)
Total investment return	<b>1,628</b>	436

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**10. Investment Return (continued)**

Average amount of funds available for investment during the year:

	<b>2018</b>	2017
	<b>£000</b>	£000
Sterling	<b>3,312</b>	4,551
United States Dollars	<b>116,721</b>	65,937
Canadian Dollars	<b>20,239</b>	9,868
Euro	<b>9,376</b>	9,117
Australian Dollars	<b>4,843</b>	1,591
Combined in Sterling	<b>154,491</b>	91,064

Gross calendar year investment yield:

Sterling	<b>0.37%</b>	0.34%
United States Dollars	<b>1.19%</b>	0.73%
Canadian Dollars	<b>2.13%</b>	0.79%
Euro	<b>(0.54)%</b>	(0.14)%
Australian Dollars	<b>2.26%</b>	1.54%
Combined in Sterling	<b>1.23%</b>	0.64%

**11. Financial Investments**

	<b>2018</b>		
	<b>Carrying value</b>	<b>Purchase price</b>	<b>Listed</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Shares and other variable yield securities and units in unit trusts	<b>9,419</b>	<b>9,419</b>	<b>9,419</b>
Debt securities and other fixed income securities designated at fair value through profit or loss	<b>119,091</b>	<b>118,543</b>	<b>119,091</b>
Deposits with credit institutions	<b>2,791</b>	<b>2,791</b>	<b>-</b>
	<b>131,301</b>	<b>130,753</b>	<b>128,510</b>
	<hr/>		
	<b>2017</b>		
	<b>Carrying value</b>	<b>Purchase price</b>	<b>Listed</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Shares and other variable yield securities and units in unit trusts	6,252	6,252	6,252
Debt securities and other fixed income securities designated at fair value through profit or loss	107,553	108,647	107,553
Deposits with credit institutions	2,674	2,674	-
	116,479	117,573	113,805
	<hr/>		

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**11. Financial Investments (continued)**

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>31 December 2018</b>				
Shares and other variable yield securities and units in unit trusts	9,419	-	-	9,419
Debt securities and other fixed income securities	-	119,091	-	119,091
	<u>9,419</u>	<u>119,091</u>	<u>-</u>	<u>128,510</u>
<b>31 December 2017</b>				
Shares and other variable yield securities and units in unit trusts	6,252	-	-	6,252
Debt securities and other fixed income securities	107,553	-	-	107,553
	<u>113,805</u>	<u>-</u>	<u>-</u>	<u>113,805</u>

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.

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 2018 or 2017.

A change in Investment Managers during the year, has resulted in the categorisation of the debt securities from level 1 to level 2 due to the valuation approach taken by the Investment Manager.

**12. Debtors arising out of direct insurance operations**

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Due from intermediaries	<u>16,838</u>	<u>23,804</u>

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**13. Debtors arising out of reinsurance operations**

	<b>2018</b>	2017
	<b>£000</b>	£000
Due from ceding insurers and intermediaries under reinsurance business	<b>28,919</b>	21,265
Due from reinsurers and intermediaries under reinsurance contracts ceded	<b>1,838</b>	2,061
	<b>30,757</b>	23,326

**14. Cash at bank and in hand**

	<b>2018</b>	2017
	<b>£000</b>	£000
Cash at bank	<b>5,742</b>	3,925

**15. Other Assets**

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

	<b>2018</b>	2017
	<b>£000</b>	£000
Overseas deposits	<b>7,128</b>	5,947

**16. Creditors**

	<b>2018</b>	2017
	<b>£000</b>	£000
<i>Creditors arising out of direct insurance operations</i>		
Due to intermediaries within one year	<b>1,688</b>	4,116
<i>Creditors arising out of reinsurance operations</i>		
Reinsurance ceded	<b>10,427</b>	6,096
Reinsurance accepted	<b>72</b>	29
	<b>10,499</b>	6,125

**17. Other Creditors**

	<b>2018</b>	2017
	<b>£000</b>	£000
Amounts owed to Vibe Syndicate Management Ltd	-	1,681
Amounts owed to Vibe Services Management Ltd	<b>2,320</b>	1,059
Taxation	<b>142</b>	119
	<b>2,462</b>	2,859

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**18. Related Parties**

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

Managing agency fees of £3.8m (2017: £0.8m) were paid by the Syndicate to Vibe SML. In addition to this, expenses of £21.3m (2017: £18.8m), of which £4.8m (2017: £5.1m) relates to acquisition costs, were recharged to the syndicate from Vibe Services Management Limited.

Vibe Services Management Limited is a wholly-owned subsidiary of Vibe UK Holdings Ltd. It provides management services to Vibe SML and Syndicate 5678.

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

**19. Funds at Lloyd's and Funds in Syndicate**

**(a) 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.

**(b) Funds in Syndicate**

During the year, the Funds in Syndicate (FIS) which fall under the management of the managing agent, decreased by £4.6m to £36.7m. These accounts, therefore, incorporate assets held and the investment return achieved on the FIS.

**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. 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.

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

**Governance framework (continued)**

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.

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 2018 was 35% of the member's SCR 'to ultimate'.

**Provision of capital by members**

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), 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.

## **21. Risk Management (continued)**

### **(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 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 a mixture of quota share and 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, casualty treaty, credit, surety, political risk & terror, financial institutions, North American specialty programs, and property treaty. 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 the Board.

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

**Insurance Risk (continued)**

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 2018.

**Average Risk Exposures during 2018**

<b>Scenario £m</b>	<b>Average Gross RDS</b>	<b>Average Net RDS</b>
European Windstorm	18.9	3.5
Japanese Earthquake	17.0	4.5
Japanese Typhoon	7.4	3.0
Gulf Mexico Wind (Onshore)	41.8	7.5
North East Hurricane	35.0	7.5
Pinellas Hurricane	30.6	7.5
Los Angeles Earthquake	52.2	8.9
San Francisco Earthquake	51.7	8.9
Miami Dade Hurricane	30.8	7.5
UK Flood	5.2	2.8

**Average Risk Exposures during 2017**

<b>Scenario £m</b>	<b>Average Gross RDS</b>	<b>Average Net RDS</b>
European Windstorm	15.0	3.5
Japanese Earthquake	15.8	4.0
Japanese Typhoon	6.9	2.3
Gulf Mexico Wind (Onshore)	61.4	17.8
North East Hurricane	30.3	6.7
Pinellas Hurricane	34.9	7.6
Los Angeles Earthquake	53.9	12.3
San Francisco Earthquake	52.3	12.2
Miami Dade Hurricane	40.2	8.1
UK Flood	0.3	0.3

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

**Insurance Risk (continued)**

The table below sets out the concentration of outstanding claim liabilities by type of contract for 2018:

<b>£000</b>	<b>Gross Liabilities</b>	<b>Reinsurance of Liabilities</b>	<b>Net liabilities</b>
Accident & Health	14,249	2,738	11,511
Aviation	6	0	6
Energy – non marine	60	23	37
Fire and other property damage	15,169	6,134	9,035
Marine	521	34	487
Motor (other classes)	308	25	283
Motor (third party liability)	164	2	162
Pecuniary loss	2,758	291	2,467
Third Party liability	74,008	17,065	56,943
Transport	116	23	93
Reinsurance Acceptance	85,629	12,241	73,388
<b>Total</b>	<b>192,988</b>	<b>38,576</b>	<b>154,412</b>

The table below sets out the concentration of outstanding claim liabilities by type of contract for 2017:

<b>£000</b>	<b>Gross Liabilities</b>	<b>Reinsurance of Liabilities</b>	<b>Net liabilities</b>
Accident & Health	14,446	2,801	11,645
Aviation	79	3	76
Energy - marine	6	0	6
Energy – non marine	166	22	144
Fire and other property damage	28,631	13,113	15,518
Marine	503	32	471
Motor (other classes)	289	27	262
Motor (third party liability)	1,539	26	1,513
Pecuniary loss	4,316	114	4,202
Third Party liability	65,608	14,495	51,113
Transport	375	40	335
Reinsurance Acceptance	44,439	9,017	35,422
<b>Total</b>	<b>160,397</b>	<b>39,690</b>	<b>120,707</b>

All of the business is written in the UK.

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

**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 everything else 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 them, assumptions had to be changed on an individual basis. It should be noted that movements in assumptions are non-linear.

<b>31 December 2018</b>	<b>Change in assumptions</b>	<b>Impact on gross liabilities</b>	<b>Impact on net liabilities</b>	<b>Impact on profit</b>	<b>Impact on member's balance</b>
		<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Average claim cost</b>	<b>+ 10% severity</b>	<b>19,299</b>	<b>15,441</b>	<b>(15,441)</b>	<b>(15,441)</b>
<b>Average number of claims</b>	<b>+ 10% frequency</b>	<b>19,299</b>	<b>15,441</b>	<b>(15,441)</b>	<b>(15,441)</b>
<b>Average claim settlement period</b>	<b>6 month reduction in settlement period</b>	<b>(18,121)</b>	<b>(17,719)</b>	<b>(109)</b>	<b>(109)</b>

<b>31 December 2017</b>	<b>Change in assumptions</b>	<b>Impact on gross liabilities</b>	<b>Impact on net liabilities</b>	<b>Impact on profit</b>	<b>Impact on member's balance</b>
		<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Average claim cost</b>	<b>+ 10% severity</b>	<b>16,040</b>	<b>12,071</b>	<b>(12,071)</b>	<b>(12,071)</b>
<b>Average number of claims</b>	<b>+ 10% frequency</b>	<b>16,040</b>	<b>12,071</b>	<b>(12,071)</b>	<b>(12,071)</b>
<b>Average claim settlement period</b>	<b>6 month reduction in settlement period</b>	<b>(21,170)</b>	<b>(21,170)</b>	<b>(78)</b>	<b>(78)</b>

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

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

***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.

Claims incurred during the year, net of reinsurance, include positive prior year development of £11.5m (2017: £8.7m adverse development).

**Gross insurance contract outstanding claims provision as at 31 December 2018**

<b>2018 Gross £000</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
Estimate of cumulative claims incurred at end of underwriting year	-	-	943	6,001	19,538	72,122	44,174	
12 months later	-	-	2,307	12,178	36,926	110,325		
24 months later	-	-	3,147	13,095	34,281			
36 months later	-	-	2,491	11,454				
48 months later	-	-	1,808					
<b>Current estimate of cumulative claims incurred</b>	-	-	1,808	11,454	34,281	110,325	44,174	202,042
<b>Less: gross claims paid</b>	-	-	1,420	6,279	13,841	45,686	3,435	70,661
<b>Gross outstanding claims – 2012-2018</b>	-	-	<b>388</b>	<b>5,175</b>	<b>20,440</b>	<b>64,639</b>	<b>40,739</b>	<b>131,381</b>
<b>Gross outstanding claims – 2011 &amp; prior</b>								<b>61,607</b>
								<b>192,988</b>

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

*Claims development table (continued)*

<b>2018 Net</b>								
<b>£000</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
Estimate of cumulative claims incurred at end of underwriting year	-	-	754	4,860	16,990	49,768	36,892	
12 months later	-	-	2,109	11,568	32,555	84,953		
24 months later	-	-	3,025	12,488	30,857			
36 months later	-	-	2,334	11,203				
48 months later	-	-	1,770					
<b>Current estimate of cumulative claims incurred</b>	-	-	1,770	11,203	30,857	84,953	36,892	165,675
<b>Less: net claims paid</b>	-	-	1,420	6,280	11,881	34,351	3,434	57,366
<b>Net outstanding claims – 2012-2018</b>	-	-	350	4,923	18,976	50,602	33,458	108,309
<b>Net outstanding claims – 2011 &amp; prior</b>								46,103
								<b>154,412</b>

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

**(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 Audit and Risk 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.

31 December 2018	<b>Neither past due nor impaired £'000</b>	<b>Past Due £'000</b>	<b>Impaired £'000</b>	<b>Total £'000</b>
Shares and other variable yield securities and unit trusts	9,419	-	-	9,419
Debt securities	119,091	-	-	119,091
Deposits with credit institutions	2,791	-	-	2,791
Overseas deposits	7,128	-	-	7,128
Reinsurer' share of claims outstanding	38,576	-	-	38,576
Reinsurance debtors	0	1,838	-	1,838
Cash at bank and in hand	5,742	-	-	5,742
Insurance debtors	2,987	13,851	-	16,838
Other debtors	45,720	8,216	-	53,936
<b>Total credit risk</b>	<b>231,454</b>	<b>23,905</b>	<b>-</b>	<b>255,359</b>

**Notes to the Financial Statements**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

**Credit risk (continued)**

31 December 2017	Neither past due nor impaired £'000	Past Due £'000	Impaired £'000	Total £'000
Shares and other variable yield securities and unit trusts	6,252	-	-	6,252
Debt securities	107,553	-	-	107,553
Deposits with credit institutions	2,674	-	-	2,674
Overseas deposits	5,947	-	-	5,947
Reinsurer' share of claims outstanding	39,690	-	-	39,690
Reinsurance debtors	1,147	914	-	2,061
Cash at bank and in hand	3,925	-	-	3,925
Insurance debtors	17,025	6,779	-	23,804
Other debtors	44,793	-	-	44,793
<b>Total credit risk</b>	<b>229,006</b>	<b>7,693</b>	<b>-</b>	<b>236,699</b>

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2018 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 2018	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
Shares and other variable yield securities and unit trusts	2,559	844	5,860	-	-	156	9,419
Debt securities	12,091	48,328	48,771	9,703	198	-	119,091
Deposits with credit institutions	-	-	2,791	-	-	-	2,791
Overseas deposits	3,703	771	565	347	143	1,599	7,128
Reinsurer' share of claims outstanding	-	13,952	23,003	159	2	1,460	38,576
Cash at bank and in hand	266	-	5,476	-	-	-	5,742
<b>Total credit risk</b>	<b>18,619</b>	<b>63,895</b>	<b>86,466</b>	<b>10,209</b>	<b>343</b>	<b>3,215</b>	<b>182,747</b>

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

**Credit risk (continued)**

31 December 2017	AAA	AA	A	BBB	<BBB	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities and unit trusts	2,055	740	3,336	-	-	121	6,252
Debt securities	87,588	7,304	11,962	699	-	-	107,553
Deposits with credit institutions	-	-	2,674	-	-	-	2,674
Overseas deposits	2,882	1,876	598	480	-	111	5,947
Reinsurer' share of claims outstanding	-	14,835	23,633	148	1	1,073	39,690
Reinsurance debtors	-	420	727	-	-	-	1,147
Cash at bank and in hand	-	-	3,925	-	-	-	3,925
Total credit risk	92,525	25,175	46,855	1,327	1	1,305	167,188

**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 Audit and Risk 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.

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

**Liquidity risk (continued)**

**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 2018	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	-	41,153	61,932	32,668	57,235	192,988
Creditors	-	14,649	-	-	-	14,649
<b>Total credit risk</b>	<b>-</b>	<b>55,802</b>	<b>61,932</b>	<b>32,668</b>	<b>57,235</b>	<b>207,637</b>

  

31 December 2017	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	-	41,084	41,635	23,728	53,950	160,397
Creditors	-	13,100	-	-	-	13,100
<b>Total credit risk</b>	<b>-</b>	<b>54,184</b>	<b>41,635</b>	<b>23,728</b>	<b>53,950</b>	<b>173,497</b>

**(3) Market risk**

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

- Currency risk;
- Interest rate risk; and
- 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 Audit and Risk 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).

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

**(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:

<b>31 December 2018</b>	<b>GBP</b>	<b>USD</b>	<b>EUR</b>	<b>CAD</b>	<b>AUD</b>	<b>JPY</b>	<b>Total</b>
Converted £'000							
Total assets	<b>23,385</b>	<b>191,928</b>	<b>12,615</b>	<b>17,938</b>	<b>7,333</b>	<b>2,160</b>	<b>255,359</b>
Total liabilities	<b>(48,871)</b>	<b>(195,306)</b>	<b>(11,800)</b>	<b>(10,963)</b>	<b>(6,212)</b>	<b>(3,116)</b>	<b>(276,268)</b>
Net Assets	<b>(25,486)</b>	<b>(3,378)</b>	<b>815</b>	<b>6,975</b>	<b>1,121</b>	<b>(956)</b>	<b>(20,909)</b>
<hr/>							
<b>31 December 2017</b>	<b>GBP</b>	<b>USD</b>	<b>EUR</b>	<b>CAD</b>	<b>AUD</b>	<b>JPY</b>	<b>Total</b>
Converted £'000							
Total assets	23,386	179,778	9,083	15,763	6,119	2,570	236,699
Total liabilities	(45,888)	(172,687)	(12,516)	(9,901)	(5,910)	(1,071)	(247,973)
Net Assets	(22,502)	7,091	(3,433)	5,862	209	1,499	(11,274)

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 2018.

**Impact on profit and member's balances**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Sterling weakens</b>		
10% against other currencies	508	1,248
20% against other currencies	1,144	2,807
<b>Sterling strengthens</b>		
10% against other currencies	(416)	(1,021)
20% against other currencies	(763)	(1,871)

**Notes to the Financial Statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**21. Risk Management (continued)**

**(b) Interest rate risk**

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

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**

	<b>2018</b>	2017
<b>Changes in variables</b>	<b>£'000</b>	£'000
+ 50 basis points on result	(820)	(568)
- 50 basis points on result	820	568

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