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VIBE SYNDICATE MANAGEMENT LTD

**ANNUAL REPORT AND ACCOUNTS
31 DECEMBER 2019**

SYNDICATE 5678

Annual Report and Accounts
For the year ended 31 December 2019

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Directors and Administration
FOR THE YEAR ENDED 31 DECEMBER 2019

Managing Agent

Managing Agent

Vibe Syndicate Management Limited

Registered Office

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

Registered Number

5957729

Directors

P N E Ceurvorst*

P S Donovan

D J Draper Appointed 9th September 2019, Resigned 13th December 2019

J E England Resigned 31st December 2019

P A Flamank*

A Fridlyand*

B F Knight Resigned 31st December 2019

N G Kirk Appointed 19th December 2019

N C Krenteras* Resigned 21st November 2019

T J Leggett* (Chairman)

S A Schaen* Appointed 19th December 2019

A E Williams

* Non-Executive Director

Company Secretary

P E Box

Syndicate

Active Underwriter

B F Knight Resigned 31st December 2019

Auditors

Ernst & Young LLP

Report of the Directors FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors of Vibe Syndicate Management Limited (the Managing Agent) present their annual report and audited financial statements for the year ended 31 December 2019.

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS102"), Financial Reporting Standard 103, "Insurance Contracts" and the Companies Act 2006. Furthermore, these financial statements comply with 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 2019 is a loss of £17.5m (2018 loss of £12.2m).

Principal Activity

The principal activity of the Syndicate during 2019 was the underwriting of general insurance and reinsurance business at Lloyd's. In November 2019 it was announced that the Syndicate would cease underwriting with effect from 31 December 2019 and commence a planned orderly run-off.

The Syndicate's allocated capacity for the 2019 year of account was £122.8m (2018: £114.1m).

The Syndicate 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 the Syndicate. The Managing Agent is ultimately owned by Syndicate Holding Corp, a Puerto Rican based company.

Business of the Syndicate

The Syndicate offered 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.

During the 2019 financial year gross written premium by underwriting team was as follows:

| | 2019 | 2018 |
|--|----------------|-------------|
| | £000 | £000 |
| Accident & Health | 7,236 | 4,743 |
| Casualty Treaty | 36,899 | 26,770 |
| Credit Surety, Political Risk & Terror | 28,112 | 17,842 |
| Financial Institutions | 17,786 | 6,668 |
| North American Specialty Programs | 39,686 | 24,616 |
| Professional Indemnity | 21,217 | 10,254 |
| Property Direct and Facultative | 11,346 | 16,554 |
| Property Treaty | 16,428 | 13,268 |
| Other | 132 | 163 |
| Total | 178,842 | 120,878 |

As previously noted the Syndicate ceased underwriting on 31 December 2019.

Report of the Directors

FOR THE YEAR ENDED 31 DECEMBER 2019

Review of Financial Performance

The Syndicate's key financial indicators for 2019 were as follows:

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Syndicate capacity | 122.8 | 114.1 |
| Gross written premium | 178.8 | 120.9 |
| Loss for the financial year | (17.5) | (12.2) |
| Net claims ratio | 70% | 60% |
| Net expense ratio (including commission) | 48% | 50% |
| Combined ratio | 118% | 110% |

Gross written premiums

Prior to the decision to cease underwriting Vibe continued to grow the business in a controlled and disciplined manner with gross written premium increasing from £121m to £179m.

Claims incurred

Claims incurred in 2019 were impacted by higher than planned catastrophe activity on the Property Direct and Facultative book (Hurricane Dorian, Storm Imelda) as well as adverse experience and also reserve strengthening of the Casualty Treaty class.

The net loss ratio was additionally impacted by a reduction in expected reinsurance recoveries for North American Specialty Programs and relatively low reinsurance recoveries on gross claims incurred in the year.

Other

Investment return in 2019 was £5.5m (2018: £1.6m). The improved return was primarily a result of additional investment funds from business growth, additional Funds in Syndicate and falling yields which generated unrealised gains. Net operating expenses in 2019 were £65.9m (2018: £53.8m), with the increase reflecting premium growth and additional expenses accrued related to the Syndicate being placed into run-off.

Balance sheet

Syndicate assets increased by £70.3m to £325.7m (2018: £255.4) and total liabilities increased by £73.1m to £349.4 (2018: £276.3m) as a result of business growth and additional Funds in Syndicate injected during the year (£16.5m).

Report of the Directors FOR THE YEAR ENDED 31 DECEMBER 2019

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 reviews and approves its risk appetite annually.

The Risk Management Function has implemented a Board approved Risk Management Strategy and Framework to enable the ongoing identification, assessment and management (mitigation, monitoring and reporting) of risks and is also responsible for producing 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 managed insurance risk prior to entering run-off 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 Actuarial function.

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 overseen by the Executive Management Committees.

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 processes are followed 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 22 to the financial statements.

Report of the Directors FOR THE YEAR ENDED 31 DECEMBER 2019

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 Function that 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

Syndicate Placed into Run-off

In November 2019 a decision was made by the Board to cease underwriting with effect from 31 December 2019 and place the Syndicate into planned run-off.

Following a reconsideration of the Managing Agency's business plan the Board determined that the business was unable to meet the shareholder's expectation of returns on their capital.

The objectives of the Syndicate going forward are:

- honour all policies underwritten by the Syndicate in accordance with their terms and conditions
- manage all open and new claims in the normal way, paying all valid claims
- continue to provide a full customer service either directly or via the Syndicate's agents

Additionally, the Board will seek to reduce risk and explore options to enable the reinsurance to close of open years of account.

Brexit

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 still difficult to anticipate the terms of the UK's exit from the EU. With the Syndicate now in run-off and given the territorial exposure of the business written, the direct impact of Brexit on the Agency is judged to be minimal.

Directors

Details of the Directors of the Managing Agent who served during the year and up to the date of signing of the Syndicate Annual Report and Accounts are provided on page 2 in Directors and Administration section.

**Report of the Directors
FOR THE YEAR ENDED 31 DECEMBER 2019**

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 is 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

N G Kirk

CEO

3 March 2020

Statement of Managing Agent's Responsibilities FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019

Opinion

We have audited the syndicate annual accounts of syndicate 5678 ('the syndicate') for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 22, 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 2019 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 2019

Other information

The other information comprises the information included in the Annual Report and Accounts, 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 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 2019**

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

5 March 2020

Income Statement
TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2019

| | Notes | 2019 £000 | 2018 £000 |
|---|----------|-----------------|-----------------|
| Gross premiums written | 2 | 178,842 | 120,878 |
| Outward reinsurance premiums | | <u>(32,059)</u> | <u>(27,209)</u> |
| Net written premiums | | <u>146,783</u> | <u>93,669</u> |
| Change in the provision for unearned premiums | | | |
| Gross amount | | (11,137) | 8,558 |
| Reinsurers' share | | <u>1,738</u> | <u>4,445</u> |
| Change in the net provision for unearned premiums | 4 | <u>(9,399)</u> | <u>13,003</u> |
| Earned premiums, net of reinsurance | | 137,384 | 106,672 |
| Allocated investment return transferred from the non-technical account | | 3,930 | 1,215 |
| Claims paid | | | |
| Gross amount | | (65,166) | (48,081) |
| Reinsurers' share | | <u>12,514</u> | <u>11,742</u> |
| Net claims paid | | <u>(52,652)</u> | <u>(36,339)</u> |
| Change in claims outstanding | | | |
| Gross amount | | (46,638) | (24,599) |
| Reinsurers' share | | <u>3,000</u> | <u>(2,838)</u> |
| Change in the net provision for claims | | <u>(43,638)</u> | <u>(27,437)</u> |
| Claims incurred, net of reinsurance | 3 | (96,290) | (63,776) |
| Net operating expenses | 6 | (65,980) | (53,767) |
| Balance on the technical account – general business | | <u>(20,956)</u> | <u>(9,656)</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 2019

| | Notes | 2019 £000 | 2018 £000 |
|---|-------|-----------------|-----------------|
| Balance on technical account – general business | | (20,956) | (9,656) |
| Investment income | 10 | 4,473 | 1,849 |
| Unrealised gains/(losses) on investments | 10 | 1,225 | (75) |
| Investment expenses and charges | 10 | (147) | (146) |
| | | <u>(15,405)</u> | <u>(8,028)</u> |
| Allocated investment return transferred to general business technical account | | (3,930) | (1,215) |
| Exchange gains/(losses) | | 1,873 | (2,984) |
| | | <u>(17,462)</u> | <u>(12,227)</u> |
| Loss for the financial year | | (17,462) | (12,227) |

Statement of Changes in Member's Balances'
FOR THE YEAR ENDED 31 DECEMBER 2019

| | Due from members £000 | Funds in Syndicate £000 | Total Member's Balances' £000 |
|--------------------------------------|--------------------------|-------------------------------|-------------------------------------|
| At 1 January 2019 | (57,561) | 36,652 | (20,909) |
| (Loss)/profit for the financial year | (19,034) | 1,572 | (17,462) |
| Member Expenses | 35 | - | 35 |
| Distribution to Funds in Syndicate | (641) | 641 | - |
| Additional Funds in Syndicate | - | 16,010 | 16,010 |
| Revaluation of opening funds | - | (1,367) | (1,367) |
| At 31 December 2019 | (77,201) | 53,508 | (23,693) |
| At 1 January 2018 | (52,523) | 41,249 | (11,274) |
| (Loss)/profit 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 |
| At 31 December 2018 | (57,561) | 36,652 | (20,909) |

Statement of Financial Position
AS AT 31 DECEMBER 2019

| | Notes | 2019 £000 | 2018 £000 |
|--|-------|----------------|----------------|
| ASSETS | | | |
| Investments | | | |
| Financial investments | 11 | 178,449 | 131,301 |
| Reinsurers' share of technical provisions | | | |
| Provision for unearned premium | 4 | 8,776 | 7,301 |
| Claims outstanding | 3 | <u>40,425</u> | <u>38,576</u> |
| | | 49,201 | 45,877 |
| Debtors | | | |
| Debtors arising out of direct insurance operations | 12 | 24,346 | 16,838 |
| Debtors arising out of reinsurance operations | 13 | 34,564 | 30,757 |
| Other debtors | | <u>22</u> | <u>13</u> |
| | | 58,932 | 47,608 |
| Cash and other assets | | | |
| Cash at bank and in hand | 14 | 10,058 | 5,742 |
| Other assets | 15 | <u>9,172</u> | <u>7,128</u> |
| | | 19,230 | 12,870 |
| Prepayment and accrued income | | | |
| Deferred acquisition costs | 5 | <u>19,899</u> | <u>17,703</u> |
| Total assets | | <u>325,711</u> | <u>255,359</u> |

Statement of Financial Position (continued)
AS AT 31 DECEMBER 2019

| | Notes | 2019 £000 | 2018 £000 |
|--|-------|-----------------------|-----------------------|
| MEMBER'S BALANCE AND LIABILITIES | | | |
| Member's balances | | | |
| Member's balances | | (23,693) | (20,909) |
| Liabilities | | | |
| Technical provisions | | | |
| Provision for unearned premium | 4 | 76,699 | 67,960 |
| Claims outstanding | 3 | 232,824 | 192,988 |
| | | <u>309,523</u> | <u>260,948</u> |
| Creditors | | | |
| Creditors arising out of direct insurance operations | 16 | 233 | 1,688 |
| Creditors arising out of reinsurance operations | 16 | 23,795 | 10,499 |
| Other creditors | 17 | 15,062 | 2,462 |
| | | <u>39,090</u> | <u>14,649</u> |
| Accruals and deferred income | | <u>791</u> | <u>671</u> |
| Total liabilities | | <u>349,404</u> | <u>276,268</u> |
| Total member's balances and liabilities | | <u><u>325,711</u></u> | <u><u>255,359</u></u> |

The financial statements on pages 12 to 46 were approved by the Board of Vibe Syndicate Management Limited on 3 March 2020 and were signed on its behalf by:

A E Williams
3 March 2020

Statement of Cash Flows
FOR THE YEAR ENDED 31 DECEMBER 2019

| | Notes | 2019 £000 | 2018 £000 |
|---|-------|------------------|--------------|
| Loss on ordinary activities | | (17,462) | (12,227) |
| Movement in general insurance unearned premiums and outstanding claims | | 46,379 | 26,916 |
| Movement in reinsurers' share of unearned premiums and outstanding claims | | (3,204) | (3,636) |
| Investment return | | (5,551) | (1,628) |
| Movements in other assets/liabilities | | 14,265 | (1,016) |
| Net cash inflow from operating activities | | 34,427 | 8,409 |
| Investing activities | | | |
| Investment income received | | 4,474 | 1,738 |
| Purchases of debt and equity instruments | | (112,169) | (104,776) |
| Sales of debt and equity instruments | | 61,914 | 95,978 |
| Other | | (148) | (145) |
| Net cash outflow from investing activities | | (45,929) | (7,205) |
| Financing activities | | | |
| (Distribution of profits to)/Collection of losses from members | | (641) | 7,706 |
| Funds in Syndicate contributed by member | | 16,651 | 652 |
| Funds in Syndicate released to member | | - | (7,915) |
| Net cash inflow from financing activities | | 16,010 | 443 |
| Increase/(Decrease) in cash and cash equivalents | | 4,508 | 1,647 |
| Cash and cash equivalents at 1 January | | 5,759 | 3,925 |
| Exchange differences on opening balances | | (198) | 187 |
| Cash and cash equivalents at 31 December | | 10,069 | 5,759 |
| Cash and cash equivalents consists of: | | | |
| Cash at bank and in hand | 14 | 10,058 | 5,742 |
| Short term deposits with credit institutions | | 11 | 17 |
| | | 10,069 | 5,759 |

**Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019**

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 2019 were approved for issue by the Board of Directors on 3 March 2020.

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 (IBNR), at the reporting date. 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 Bornhuetter-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 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 22.

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.

Run-off provision

In arriving at the run-off provision, significant judgment is required to determine those costs which are committed in order to settle the claims of the syndicate. Some of those costs can be readily allocated to a claims handling provision, however, other costs, including contracts that are onerous, are indirectly required in order to support the broader operation of the business which, with the business in run-off, is to a significant extent all indirectly related to the settlement of claims. In order to quantify the additional provision over and above the claims handling provision, it has been necessary to make assumptions as to the length of the run-off period, the return on investments and the quantum of future expenses incurred and the restructuring costs. The ultimate cost of the run-off is dependent on future events and could be materially different from the amount provided and therefore the directors reassess the adequacy of the assumptions and the run-off provision annually.

The main assumptions underlying are:

- Expenses – committed planned run-off resourcing levels, systems and other expenses have been estimated based on expected activities at each point in the future.
- Underwriting profitability and return on investments – premium estimates associated with unexpired risk and facilities can be estimated from historical premium development. Additionally, historical claims and recovery experience can be used to determine the future claims and recovery associated with this premium. It is also assumed that past experience can be utilised in order to generate expected future cashflows from which future investment income is estimated.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

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 Syndicate's 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.

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.

**Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. Accounting policies (continued)

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

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

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

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

Investment return

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

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

Insurance contracts

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).

1. Accounting policies (continued)

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 in 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 these premiums are subject to an increase retrospectively, recognition of any potential increase is made 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.

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.

1. Accounting policies (continued)

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 2019 and 31 December 2018 the Syndicate did not have an unexpired risks provision.

Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the 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 2019 or 2018.

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

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

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 EIR. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Foreign currencies

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

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

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

Exchange differences are recorded in the non-technical account.

Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate are included in the statement of financial position under the heading '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 2019

1. Accounting policies (continued)

Run-off provision

Provisions are recognised when the Syndicate has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A run-off provision representing a provision for running off all years of account is based on the managing agent's estimate of the likely costs involved. Other than future claims handling costs, which are provided for in the claims outstanding provision, the managing agent has estimated expected future costs based on committed restructuring costs and onerous contracts. This expected future cost is offset by expected future underwriting profits and investment income and is discounted to present value using a discount rate that appropriately reflects management's current assessment of the time value of money and risks specific to the run-off provision.

The assessment is made based on the information available at the reporting date. The managing agent reviews the run-off provision at each reporting date and adjusts to reflect current best estimate of the amount that would be required to settle the obligation at that reporting date.

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

2. Segmental Analysis

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

| 2019 | 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 | 7,369 | 6,807 | (2,876) | (3,692) | (946) | (707) |
| Aviation | - | 4 | - | (2) | - | 2 |
| Fire and other damage to property | 11,819 | 14,949 | (15,978) | (6,378) | (3,455) | (10,862) |
| Marine | 144 | 146 | (42) | (66) | (9) | 29 |
| Motor (other classes) | 4 | 4 | (9) | (2) | 3 | (4) |
| Motor (third party liability) | 2 | 1 | 16 | - | (3) | 14 |
| Pecuniary loss | 10,259 | 7,683 | (4,780) | (2,907) | 1,175 | 1,171 |
| Third party liability | 79,581 | 71,351 | (38,502) | (28,737) | (6,616) | (2,504) |
| Transport | 49 | 40 | 10 | (18) | (55) | (23) |
| | 109,227 | 100,985 | (62,161) | (41,802) | (9,906) | (12,884) |
| Reinsurance | 69,615 | 66,720 | (49,643) | (24,178) | (4,901) | (12,002) |
| Total | 178,842 | 167,705 | (111,804) | (65,980) | (14,807) | (24,886) |
| 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) |
| | 68,321 | 75,367 | (43,561) | (33,372) | (4,998) | (6,564) |
| Reinsurance | 52,557 | 54,069 | (29,119) | (20,395) | (8,862) | (4,307) |
| Total | 120,878 | 129,436 | (72,680) | (53,767) | (13,860) | (10,871) |

Commissions on direct insurance gross premiums earned during 2019 were £28,635k (2018: £16,565k).

All premiums were concluded in the UK.

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

2. Segmental Analysis (continued)

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

| | 2019 | 2018 |
|--------------------|-----------------------|----------------|
| | £000 | £000 |
| UK | 58,261 | 42,932 |
| Other EU countries | 4,124 | 3,179 |
| US | 93,762 | 56,717 |
| Other | 22,695 | 18,050 |
| | <u>178,842</u> | <u>120,878</u> |

3. Claims outstanding

| 2019 | Gross | Reinsurer's | Net |
|--|-----------------------|------------------------|-----------------------|
| | £000 | Share | £000 |
| | | £000 | |
| At 1 January 2019 | 192,988 | (38,576) | 154,412 |
| Claims incurred in current underwriting year | 45,476 | (9,584) | 35,892 |
| Claims incurred in prior underwriting years | 66,328 | (5,930) | 60,398 |
| Claims paid during the year | (65,166) | 12,514 | (52,652) |
| Foreign exchange | (6,802) | 1,151 | (5,651) |
| At 31 December 2019 | <u>232,824</u> | <u>(40,425)</u> | <u>192,399</u> |
| | Gross | Reinsurer's | Net |
| | £000 | Share | £000 |
| | | £000 | |
| At 1 January 2018 | 160,397 | (39,690) | 120,707 |
| Claims incurred in current underwriting year | 42,320 | (6,981) | 35,339 |
| Claims incurred in prior underwriting year | 30,360 | (1,923) | 28,437 |
| Claims paid during the year | (48,081) | 11,742 | (36,339) |
| Foreign exchange | 7,992 | (1,724) | 6,268 |
| At 31 December 2018 | <u>192,988</u> | <u>(38,576)</u> | <u>154,412</u> |

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

4. Provision for unearned premium

| 2019 | Gross | Reinsurer's | Net |
|------------------------------|---------------|--------------------|---------------|
| | £000 | Share | £000 |
| | | £000 | |
| At 1 January 2019 | 67,960 | (7,301) | 60,659 |
| Premiums written in the year | 178,842 | (32,059) | 146,783 |
| Premiums earned in the year | (167,705) | 30,321 | (137,384) |
| Foreign exchange | (2,398) | 263 | (2,135) |
| At 31 December 2019 | <u>76,699</u> | <u>(8,776)</u> | <u>67,923</u> |

| 2018 | Gross | Reinsurer's | Net |
|------------------------------|---------------|--------------------|---------------|
| | £000 | Share | £000 |
| | | £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> |

5. Deferred acquisition costs

| | 2019 | 2018 |
|--------------------------------------|---------------|---------------|
| | £000 | £000 |
| At 1 January | 17,703 | 19,933 |
| Change in deferred acquisition costs | 2,614 | (3,434) |
| Foreign exchange | (418) | 1,204 |
| At 31 December | <u>19,899</u> | <u>17,703</u> |

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

6. Net Operating Expenses

| | 2019 | 2018 |
|--------------------------------------|----------------|--------|
| | £000 | £000 |
| Acquisition costs | 46,461 | 30,960 |
| Change in deferred acquisition costs | (2,614) | 3,434 |
| | 43,847 | 34,394 |
| Administrative expenses | 22,133 | 19,373 |
| | 65,980 | 53,767 |

Member's standard personal expenses of £1,417k (2018: £4,986k) are included within administrative expenses. Member's standard personal expenses include Lloyd's subscriptions, central fund contributions and managing agents fees.

7. Auditors' Remuneration

| | 2019 | 2018 |
|------------------------------------|-------------|------|
| | £000 | £000 |
| Audit of syndicate annual accounts | 230 | 202 |
| Audit related assurance services | 50 | 49 |
| Actuarial services | 82 | 45 |
| | 362 | 296 |

Auditors' 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:

| | 2019 | 2018 |
|-----------------------------------|--------------|-------|
| | £000 | £000 |
| Wages & salaries | 9,445 | 8,321 |
| Social security and pension costs | 2,141 | 1,865 |

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

| | 2019 | 2018 |
|--------------------------------------|-------------|------|
| | No. | No. |
| Claims | 7 | 10 |
| Administration, finance & management | 38 | 32 |
| Underwriting | 27 | 30 |
| Reinsurance | 2 | 2 |
| IT | 8 | 10 |
| Operations | 9 | 9 |
| Risk Management | 2 | 3 |
| | 93 | 96 |

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

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:

| | 2019 | 2018 |
|---|--------------|--------------|
| | £000 | £000 |
| Aggregate remuneration of Executive Directors | 2,142 | 2,279 |
| Aggregate remuneration of Non-Executive Directors | 153 | 117 |

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

| | 2019 | 2018 |
|------------|-------------|------|
| | £000 | £000 |
| Emoluments | 1,115 | 398 |

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

10. Investment Return

| | 2019 | 2018 |
|---|--------------|-------|
| | £000 | £000 |
| Income from other financial investments | 3,928 | 2,309 |
| Net gains/(losses) on realisation of investments | | |
| Fair value through profit or loss designated upon initial recognition | 545 | (460) |
| Total investment income | 4,473 | 1,849 |
| Net unrealised gains/(losses) on investments | | |
| Financial instruments at fair value through profit and loss | 1,225 | (75) |
| Investment expenses and charges | (147) | (146) |
| Total investment return | 5,551 | 1,628 |

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

11. Financial Investments

| | 2019 | | |
|---|------------------------|------------------------|----------------|
| | Carrying value £000 | Purchase price £000 | Listed £000 |
| Shares and other variable yield securities and units in unit trusts | 14,342 | 14,342 | 14,342 |
| Debt securities and other fixed income securities designated at fair value through profit or loss | 161,120 | 159,943 | 161,120 |
| Loans and deposits with credit institutions | 2,987 | 2,987 | - |
| | 178,449 | 177,272 | 175,462 |

| | 2018 | | |
|---|------------------------|------------------------|----------------|
| | Carrying value £000 | Purchase price £000 | Listed £000 |
| Shares and other variable yield securities and units in unit trusts | 9,419 | 9,419 | 9,419 |
| Debt securities and other fixed income securities designated at fair value through profit or loss | 119,091 | 118,543 | 119,091 |
| Deposits with credit institutions | 2,791 | 2,791 | - |
| | 131,301 | 130,753 | 128,510 |

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

| | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|-----------------|-----------------|-----------------|----------------|
| 31 December 2019 | | | | |
| Shares and other variable yield securities and units in unit trusts | 14,342 | - | - | 14,342 |
| Debt securities and other fixed income securities includes loans and deposits | - | 161,120 | - | 161,120 |
| Loans and deposits with credit institutions | 2,492 | - | 495 | 2,987 |
| | 16,834 | 161,120 | 495 | 178,449 |
| 31 December 2018 | | | | |
| Shares and other variable yield securities and units in unit trusts | 9,419 | - | - | 9,419 |
| Debt securities and other fixed income securities includes loans and deposits | - | 119,091 | - | 119,091 |
| Loans and deposits with credit institutions | 2,791 | - | - | 2,791 |
| | 12,210 | 119,091 | - | 131,301 |

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

11. Financial Investments (continued)

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

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. At year end 2019 these represent the loan to the Lloyd's Central Fund. No further Level 3 disclosure is provided on the grounds of materiality. The Syndicate did not hold any of these at year end 2018.

12. Debtors arising out of direct insurance operations

| | 2019 | 2018 |
|-------------------------|---------------|---------------|
| | £000 | £000 |
| Due from intermediaries | 24,346 | 16,838 |

13. Debtors arising out of reinsurance operations

| | 2019 | 2018 |
|--|---------------|--------|
| | £000 | £000 |
| Due from ceding insurers and intermediaries under reinsurance business | 29,523 | 28,919 |
| Due from reinsurers and intermediaries under reinsurance contracts ceded | 5,041 | 1,838 |
| | 34,564 | 30,757 |

14. Cash at bank and in hand

| | 2019 | 2018 |
|--------------|---------------|-------|
| | £000 | £000 |
| Cash at bank | 10,058 | 5,742 |

15. Other Assets

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

| | 2019 | 2018 |
|-------------------|--------------|-------|
| | £000 | £000 |
| Overseas deposits | 9,172 | 7,128 |

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

16. Creditors

| | 2019 | 2018 |
|--|---------------|--------|
| | £000 | £000 |
| Creditors arising out of direct insurance operations | | |
| Due to intermediaries within one year | 233 | 1,688 |
| Creditors arising out of reinsurance operations | | |
| Reinsurance ceded | 23,060 | 10,427 |
| Reinsurance accepted | 735 | 72 |
| | 23,795 | 10,499 |

17. Other Creditors

| | 2019 | 2018 |
|--|---------------|-------|
| | £000 | £000 |
| Run-off provision (Note18) | 4,254 | - |
| Amounts owed to Vibe Services Management Ltd | 10,635 | 2,320 |
| Taxation | 173 | 142 |
| | 15,062 | 2,462 |

18. Run-off Provision

| | 2019 | 2018 |
|---|-----------------|------|
| | £000 | £000 |
| <i>Undiscounted</i> | | |
| Net underwriting profit | 15,596 | - |
| Expenses | (33,676) | - |
| Investment income | 13,520 | - |
| | (4,560) | - |
| Run-off provision (discounted expected future losses) | 4,254 | - |

A run-off cost provision of £4.3m has been provided at 31 December 2019. This represented a provision for running off all years of account and was based on the managing agent's estimate of the likely costs involved.

Net underwriting profit has been estimated based on insurance contracts that were either in place at year end or estimated to be written after year end as part of a facility that was in place at year end.

Expenses are the anticipated committed costs other than those allocated to claims handling provision, including contracts that are onerous, required to support the run-off of the syndicate.

The projected investment return has been based on applying expected yields on investments resulting from forecast future cashflows.

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

19. Related Parties

Vibe Syndicate Management Limited (Vibe SML) is a wholly-owned subsidiary of Vibe UK Holdings Ltd. Managing agency fees of £0.1m (2018: £3.8m) were paid by the Syndicate to Vibe SML

Vibe Services Management Limited is a wholly-owned subsidiary of Vibe UK Holdings Ltd. It provides management services to Vibe SML and Syndicate. Expenses of £22.1m (2018: £21.3m), of which £4.6m (2018: £4.8m) relates to acquisition costs, were recharged to the Syndicate from Vibe Services Management Limited.

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

20. Funds at Lloyd's and Funds in Syndicate

(a) Funds at Lloyd's

Members are 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 required 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, increased by £16.8m to £53.5m. These accounts, therefore, incorporate assets held and the investment return achieved on the FIS.

21. 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.

22. 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.

22. Risk Management (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, licence and ratings objectives.

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level.

Lloyd's capital setting process

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. The Syndicate 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 2019 was 35% of the member's SCR 'to ultimate'. A further capital uplift of 10% is applied for inactive members (members of only run-off syndicates).

As these capital requirements apply to the members rather than the Syndicate the capital requirement of the one member of Syndicate 5678 is not disclosed in these financial statements, nor is the level of capital put in place by the member or whether that capital meets the Lloyd's requirement.

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.

(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.

22. Risk Management (continued)

Insurance Risk (continued)

The Syndicate purchases reinsurance as part of its risks mitigation programme in respect of the business. Reinsurance ceded is a mixture of quota share and excess of loss reinsurance designed to mitigate the Syndicate's net exposure to catastrophe and large 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 is the Syndicate substantially dependent upon any single reinsurance contract.

Prior to entering run-off the Syndicate principally issued 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, professional indemnity, property direct and facultative 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) and large losses.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes and large losses based on the Syndicate's risk appetite as decided by the Board.

The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

The Syndicate uses 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 2019.

**Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019**

22. Risk Management (continued)

Insurance Risk (continued)

Average Risk Exposures during 2019

| Scenario £m | Average Gross RDS | Average Net RDS |
|------------------------------------|------------------------------|----------------------------|
| San Francisco Earthquake | 60.5 | 5.6 |
| Cyber – Major Security Breach | 55.3 | 19.6 |
| Los Angeles Earthquake | 55.2 | 5.6 |
| Terrorism – One World Trade Center | 44.5 | 13.8 |
| Florida Windstorm – Pinellas | 37.3 | 3.7 |
| Florida Windstorm – Miami Dade | 34.0 | 3.7 |
| Two Events – Carolinas Windstorm | 30.7 | 3.6 |
| Terrorism - Rockefeller Center | 27.3 | 3.6 |
| Madrid Earthquake | 23.4 | 5.5 |
| Japanese Earthquake | 18.9 | 3.5 |

Average Risk Exposures during 2018

| Scenario £m | Average Gross RDS | Average Net RDS |
|-----------------------------------|------------------------------|----------------------------|
| Cyber – Major Security Breach | 61.3 | 31.3 |
| Los Angeles Earthquake | 52.2 | 8.9 |
| San Francisco Earthquake | 51.7 | 8.9 |
| Gulf of Mexico Windstorm | 41.8 | 7.5 |
| Two Events – North East Windstorm | 35.0 | 7.5 |
| Terrorism - Rockefeller Center | 31.3 | 5.8 |
| Florida Windstorm – Miami Dade | 30.8 | 7.5 |
| Florida Windstorm – Pinellas | 30.6 | 7.5 |
| Madrid Earthquake | 24.2 | 6.0 |
| Two Events – Carolinas Windstorm | 21.5 | 7.3 |

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

22. Risk Management (continued)

Insurance Risk (continued)

The table below sets out the concentration of outstanding claim liabilities by type of contract for 2019:

| £000 | Gross Liabilities | Reinsurance of Liabilities | Net liabilities |
|--------------------------------|--------------------------|-----------------------------------|------------------------|
| Accident & Health | 13,216 | 1,721 | 11,495 |
| Aviation | 5 | 0 | 5 |
| Energy – non marine | 58 | 22 | 36 |
| Fire and other property damage | 12,464 | 2,662 | 9,802 |
| Marine | 525 | 41 | 484 |
| Motor (other classes) | 296 | 24 | 272 |
| Motor (third party liability) | 138 | 0 | 138 |
| Pecuniary loss | 5,366 | 1,784 | 3,582 |
| Third Party liability | 98,528 | 19,080 | 79,448 |
| Transport | 91 | 20 | 71 |
| Reinsurance Acceptance | 102,137 | 15,071 | 87,066 |
| Total | 232,824 | 40,425 | 192,399 |

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

| £000 | Gross Liabilities | Reinsurance of Liabilities | Net liabilities |
|--------------------------------|--------------------------|-----------------------------------|------------------------|
| 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 |
| Total | 192,988 | 38,576 | 154,412 |

All of the business is written in the UK.

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

22. 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.

| 31 December 2019 | Change in assumptions | Impact on gross liabilities | Impact on net liabilities | Impact on profit | Impact on member's balance |
|--|---|------------------------------------|----------------------------------|-------------------------|-----------------------------------|
| | | £000's | £000's | £000's | £000's |
| Average claim cost | + 10% severity | 23,282 | 19,240 | (19,240) | (19,240) |
| Average number of claims | + 10% frequency | 23,282 | 19,240 | (19,240) | (19,240) |
| Average claim settlement period | 6 month reduction in settlement period | (25,759) | (25,759) | (80) | (80) |

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

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 2019**

22. 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 adverse prior year development of £1.5m (2018: £11.5m positive development).

Gross insurance contract outstanding claims provision as at 31 December 2019

| 2019 Gross £000 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|--|--------------|---------------|---------------|----------------|---------------|---------------|----------------|
| Estimate of cumulative claims incurred at end of underwriting year | 918 | 5,838 | 19,042 | 69,681 | 42,770 | 44,285 | |
| 12 months later | 2,232 | 11,854 | 36,005 | 106,828 | 96,838 | | |
| 24 months later | 3,043 | 12,728 | 33,393 | 117,423 | | | |
| 36 months later | 2,408 | 11,115 | 35,668 | | | | |
| 48 months later | 1,744 | 12,489 | | | | | |
| 60 months later | 1,648 | | | | | | |
| Current estimate of cumulative claims incurred | 1,648 | 12,489 | 35,668 | 117,423 | 96,838 | 44,285 | 308,351 |
| Less: gross claims paid | 1,512 | 6,396 | 19,806 | 69,668 | 28,358 | 2,206 | 127,946 |
| Gross outstanding claims – 2011-2019 | 136 | 6,093 | 15,862 | 47,755 | 68,480 | 42,079 | 180,405 |
| Gross outstanding claims – 2010 & prior | | | | | | | 52,419 |
| | | | | | | | 232,824 |

**Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019**

22. Risk Management (continued)

Claims development table (continued)

| 2019 Net £000 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|--|--------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Estimate of cumulative claims incurred at end of underwriting year | 732 | 4,728 | 16,559 | 48,154 | 35,720 | 34,968 | |
| 12 months later | 2,041 | 11,262 | 31,693 | 82,374 | 81,230 | | |
| 24 months later | 2,926 | 12,130 | 30,007 | 92,958 | | | |
| 36 months later | 2,255 | 10,871 | 32,304 | | | | |
| 48 months later | 1,708 | 11,148 | | | | | |
| 60 months later | 1,639 | | | | | | |
| Current estimate of cumulative claims incurred | 1,639 | 11,148 | 32,304 | 92,958 | 81,230 | 34,968 | 254,247 |
| Less: net claims paid | 1,512 | 6,396 | 17,481 | 52,215 | 24,206 | 1,947 | 103,757 |
| Net outstanding claims – 2011-2019 | 127 | 4,752 | 14,823 | 40,743 | 57,024 | 33,021 | 150,490 |
| Net outstanding claims – 2010 & prior | | | | | | | 41,909 |
| | | | | | | | 192,399 |

Years of account 2011 to 2013 have not been presented above as the Syndicate did not participate on these years of account.

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

22. 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 2019 | Neither past due nor impaired £'000 | Past Due £'000 | Impaired £'000 | Total £'000 |
|--|--|-------------------|-------------------|----------------|
| Shares and other variable yield securities and unit trusts | 14,342 | - | - | 14,342 |
| Debt securities | 161,120 | - | - | 161,120 |
| Loans and deposits with credit institutions | 2,987 | - | - | 2,987 |
| Overseas deposits | 9,172 | - | - | 9,172 |
| Reinsurer' share of claims outstanding | 40,425 | - | - | 40,425 |
| Reinsurance debtors | 2,882 | 2,159 | - | 5,041 |
| Cash at bank and in hand | 10,058 | - | - | 10,058 |
| Insurance debtors | 21,378 | 2,968 | - | 24,346 |
| Other debtors | 53,975 | 4,245 | - | 58,220 |
| Total credit risk | 316,339 | 9,372 | - | 325,711 |

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

22. Risk Management (continued)

Credit risk (continued)

| 31 December 2018 | Neither past due nor impaired £'000 | Past Due £'000 | Impaired £'000 | Total £'000 |
|--|--|-------------------|-------------------|----------------|
| Shares and other variable yield securities and unit trusts | 9,419 | - | - | 9,419 |
| Debt securities | 119,091 | - | - | 119,091 |
| Loans and 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 | - | 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 |
| Total credit risk | 231,454 | 23,905 | - | 255,359 |

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2019 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 2019 | AAA £'000 | AA £'000 | A £'000 | BBB £'000 | <BBB £'000 | Not rated £'000 | Total £'000 |
|--|---------------|---------------|----------------|---------------|---------------|--------------------|----------------|
| Shares and other variable yield securities and unit trusts | 4,543 | 1,182 | 7,806 | - | - | 811 | 14,342 |
| Debt securities | 17,087 | 65,322 | 66,143 | 12,221 | 347 | - | 161,120 |
| Loans and deposits with credit institutions | - | - | 2,987 | - | - | - | 2,987 |
| Overseas deposits | 4,435 | 866 | 962 | 580 | 611 | 1,718 | 9,172 |
| Reinsurer' share of claims outstanding | - | 10,361 | 28,231 | 155 | 1 | 1,677 | 40,425 |
| Reinsurance debtors | - | - | 2,882 | - | - | - | 2,882 |
| Cash at bank and in hand | - | - | 10,058 | - | - | - | 10,058 |
| Total credit risk | 26,065 | 77,731 | 119,069 | 12,956 | 959 | 4,206 | 240,986 |

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

22. Risk Management (continued)

Credit risk (continued)

| 31 December 2018 | AAA | AA | A | BBB | <BBB | Not rated | Total |
|--|---------------|---------------|---------------|---------------|----------------|------------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Shares and other variable yield securities and unit trusts | 2,559 | 844 | 5,860 | - | - | 156 | 9,419 |
| Debt securities | 12,091 | 48,328 | 48,771 | 9,703 | 198 | - | 119,091 |
| Loans and 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 |
| Total credit risk | 18,619 | 63,895 | 86,466 | 10,209 | 343 | 3,215 | 182,747 |

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. 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 2019**

22. 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 2019 | No stated maturity | 0-1 year | 1-3 years | 3-5 years | >5 years | Total |
|--------------------|--------------------|----------|-----------|-----------|----------|---------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Claims outstanding | - | 58,742 | 74,553 | 44,465 | 55,064 | 232,824 |
| Creditors | - | 34,836 | 1,259 | 2,995 | - | 39,090 |
| Total credit risk | - | 93,578 | 75,812 | 47,460 | 55,064 | 271,914 |

| 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 |
| Total credit risk | - | 55,802 | 61,932 | 32,668 | 57,235 | 207,637 |

(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 2019**

22. 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:

| 31 December 2019 | GBP | USD | EUR | CAD | AUD | JPY | Total |
|-------------------------|-----------------|------------------|-----------------|-----------------|----------------|-----------------|------------------|
| Converted £'000 | | | | | | | |
| Total assets | 31,893 | 246,682 | 12,983 | 18,984 | 7,554 | 7,615 | 325,711 |
| Total liabilities | (78,266) | (229,138) | (11,623) | (11,480) | (7,512) | (11,385) | (349,404) |
| Net Assets | (46,373) | 17,544 | 1,360 | 7,504 | 42 | (3,770) | (23,693) |
| <hr/> | | | | | | | |
| 31 December 2018 | GBP | USD | EUR | CAD | AUD | JPY | Total |
| Converted £'000 | | | | | | | |
| Total assets | 23,385 | 191,928 | 12,615 | 17,938 | 7,333 | 2,160 | 255,359 |
| Total liabilities | (48,871) | (195,306) | (11,800) | (10,963) | (6,212) | (3,116) | (276,268) |
| Net Assets | (25,486) | (3,378) | 815 | 6,975 | 1,121 | (956) | (20,909) |

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 2019.

Impact on profit and member's balances

| | 2019 | 2018 |
|------------------------------|----------------|--------------|
| | £'000 | £'000 |
| Sterling weakens | | |
| 10% against other currencies | 2,520 | 508 |
| 20% against other currencies | 5,670 | 1,144 |
| Sterling strengthens | | |
| 10% against other currencies | (2,062) | (416) |
| 20% against other currencies | (3,780) | (763) |

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

22. 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

| | 2019 | 2018 |
|-----------------------------|----------------|-------|
| Changes in variables | £'000 | £'000 |
| + 50 basis points on result | (1,691) | (820) |
| - 50 basis points on result | 1,691 | 820 |

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