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Vibe Syndicate Management Ltd
(formerly RITC Syndicate Management Ltd)
Syndicate 5678

Annual Report
and
Accounts
31 December 2014

Contents

DIRECTORS AND ADMINISTRATION
FOR THE YEAR ENDED 31 DECEMBER 2014

Managing Agent
Vibe Syndicate Management Limited (formerly RITC Syndicate Management Ltd)

Directors

A G Hines*	(resigned as Chairman 31 May 2014)
T J Leggett*	(appointed Chairman 1 June 2014)
D J Gately	
P S Donovan	
S Fass*	
P A Flamank*	(appointed 2 July 2014)
A Fridlyand*	
M R Gates	
R Katzenberg	
B F Knight	(appointed 1 June 2014)
N C Krenteras*	
D C McCrickard*	(resigned 31 December 2014)
S L L Rogers	
S G J Sykes	(appointed 1 June 2014)

* Non-Executive Director

Company Secretary
Paul Box

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

Managing Agent's Registered Number
5957729

The Directors of the Managing Agent present their report for the Year Ended December 2014. This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("Lloyds Regulations 2008").

Principal activity and review of the business

Syndicate 5678 was originally formed with the primary objective of providing Reinsurance to Close ("RITC") for open years of syndicates at Lloyd's, and during the period 2008 to 2010 it successfully wrote RITC contracts covering 11 syndicates.

Management has been encouraged by the continuing favourable development on the RITC contracts written by the Syndicate. This is borne out by the reviews performed by the Actuarial Function as at 30th June, 30th September and 31st December. The result, as detailed below, is driven by a general trend of reductions in incurred claims due to favourable settlement of claims, including releases from major claims issues such as Italian Medical Malpractice. This favourable experience is reflected in the reductions that have been applied to the held IBNR reserves.

The Syndicate continues to look for Legacy and RITC business but during 2014 did not find any that met its underwriting criteria.

In 2013 the agency started the application process to the Prudential Regulatory Authority, the Financial Conduct Authority and Lloyd's for approval to write live business in Syndicate 5678 and this was granted from 1st July 2014. Lloyd's agreed a 2014 stamp capacity of £5.5m for the 2014 year of account for Financial Institutions, Professional Indemnity and Property Treaty business; as at year end the Syndicate had written £3.7m, net of acquisition cost. A stamp capacity of £26.3m has been agreed for 2015 which also includes three additional classes, Liability, Casualty Treaty and Accident & Health.

Results

The result for the year is a profit of £9.8 million comprising a £12.7m profit from the 2012 year of account and a loss of £2.9m from the 2014 year of account (2013: £12.3 million profit). The loss on the 2014 year of account was driven by the relatively low premium levels compared to operating expenses. Fixed costs make up a large proportion of the expense base, and the Syndicate expects its expense ratio to reduce significantly in the future as premiums grow.

The contribution from the run off years' gross reserve release was £16.2 million (2013: £16.9 million) which relates to improvements to the incurred claims position predominantly in the Third Party Liability Account of £7.4 million (2013 : £10.7 million) and RI acceptances of £4.2 million (2013 : £4.2 million). Profit on exchange amounting to £0.2 million was generated due to the movement in the US$/£ rate which moved from 1.66 at the beginning of the year to 1.56 at 31 December 2014. The average US$/£ rate of exchange for 2014 was 1.65 (2013:1.56). The profit on exchange has been recognised in the technical account and included within operating expenses.

Investments

	2014 £000	2013 £000
Investment return	**2,227**	482

Returns on investments not including cash or liquidity funds, other than the Euro fund, were as follows:

	2014	2013
Syndicate USD portfolio	**1.87%**	0.18%
Syndicate CAD portfolio	**1.64%**	1.30%
Syndicate GBP portfolio	**3.61%**	-0.42%
Syndicate EURO portfolio	**2.95%**	0.18%

Risk Management Statement

Principal risks and uncertainties

The overall risk appetite of the Syndicate is reviewed on an annual basis by the Board as part of the annual business planning and capital assessment process.

Much of this work is supported by the risk register which has been developed by the Board under the stewardship of the Risk Committee. The risk register documents the key risks to the organisation and the controls that are in operation to monitor and/or reduce these risks. The register is regularly refreshed to take account of the changing environment from both an underwriting and non-underwriting perspective. The principal risks and uncertainties facing the Syndicate are as follows:

Insurance risk

This is defined as "the risk of loss arising from inherent uncertainties as to the occurrence amount and timing of insurance liabilities". This, therefore, includes both underwriting and reserving risk. Given that insurance underwriting is the principal activity of the Syndicate, this is, of course, the main risk to the business. When the Syndicate only wrote Reinsurance to Close (RITC) or similar business, the risk was virtually all reserving risk which arose once the contracts for RITC were signed. Extensive due diligence is performed prior to the writing of a contract, including obtaining actuarial reports, review of policies written and claims reserves held. The Board will then monitor the performance of the acquired business against the price quoted.

Now that the Syndicate also writes live business it has the risk that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Board manages these risks 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 Board then monitors performance against the plan quarterly through the year. The agency uses catastrophe modelling software to model losses from catastrophe exposed business. Reserve adequacy is monitored through quarterly review by the Syndicate actuary.

Credit risk

A key risk to the Syndicate is default of one or more of its reinsurers, although the reinsurance on the RITC business written from 2008 to 2010 now amounts to only 20% of reserves. The Board's policy is that the Syndicate will only reinsure with businesses rated A- or better, and the agency has established a reinsurance security committee which assesses and is required to approve all new reinsurers before business is placed with them.

Market risk

The key market risk arises from the investment of the funds held in the Syndicate's premium trust funds. The Syndicate is exposed to the potential for unanticipated changes in both the UK and international market and economic conditions, which could lead to capital losses. In addition, if the duration of assets is mismatched to liabilities when they fall due, then losses can arise.

The Board has always taken the view that its principal activity is insurance and thus it is this activity from which profit should be derived rather than relying on a secondary stream of income from its investment portfolio. As a consequence, a conservative strategy has been, and will continue to be, adopted in its approach to investment, so as to reduce the potential of jeopardising a positive underwriting return.

The Board delegates the oversight of its investment function to the Investment Committee, which takes independent advice from BlackRock, who act as an investment advisor and manage the portfolio.

Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, as a result of a shortfall in cash. The Executive Committee regularly reviews cashflow projections to guard against this risk. In addition, contingency arrangements are in place should difficulties be experienced, including the ability to call cash from its Syndicate member.

Operational risk

This is the risk that errors, caused by people and/or inadequate processes or systems, lead to the Syndicate experiencing losses. The main risk in this regard is a failure in the Syndicate's control framework. The Syndicate's risk register, which details all of the current principal risks to the Syndicate, also identifies the key controls in response to these risks and the owners of those controls. The Risk Committee and Compliance Officer regularly review these controls to ensure that they are operating effectively and in accordance with expectations.

Regulatory risk

Regulatory risk arises from the risk of loss arising from a breach of a regulatory requirement and/or failure to respond to regulatory change. This could lead to censure, fine and/or loss of the ability to trade in certain jurisdictions. The principal regulators to which the Syndicate has to report are the PRA, FCA and Lloyd's (which in addition manages regulatory relations with overseas regulators in an endeavour to protect Lloyd's international trading licences). The Compliance Officer monitors regulatory developments and ensures that the Syndicate responds accordingly.

Group risk

Vibe Syndicate Management Limited is 100% owned by Syndicate Re A.I. (SRAI), a Puerto Rican Reinsurer, which in turn is owned by Syndicate Holding Corp. (SHC), a Puerto Rican Holding company. SRAI owns Vibe Corporate Management Limited, a Lloyd's Corporate Member, Insurance Management Services Limited, a UK management services company and SRAI SARL, the group's European office. SHC owns Inceptum Insurance Company Limited, a UK insurance company in run-off.

Group risk is the risk that the activities of one or more of the group companies could have a prejudicial effect on the Syndicate. Such activities could have a direct financial effect through withdrawal of capital support for the Syndicate and/or an indirect effect through, for instance, a downgrade of rating. The Group currently provides all of the capital for Syndicate 5678 and is committed to the controlled growth of the Syndicate.

Directors

The Directors of the Managing Agent who served during the year are shown on page 2 of these Report and Accounts.

Future developments

The Syndicate will continue to look for Legacy and RITC business in 2015, and whilst the Syndicate has the market's highest percentage stamp increase for 2015, it remains modest at £26.3m. This reflects management's disciplined approach to underwriting and desire to build strong foundations that will serve the organisation well over the long term. The Syndicate stamp will be used to underwrite the following classes: property treaty, financial institutions, professional indemnity, D&O, casualty treaty and accident & health.

In recent years the Lloyd's market has commented extensively on the challenging conditions it faces. With no apparent end in sight to the soft market, it is critical the Syndicate maintains its underwriting discipline and builds the business with awareness to the prevailing economic and underwriting environment. Current market rate reductions, the loosening of coverage conditions and low rates of investment return make conditions potentially as poor as those last experienced prior to the market wide increases seen after 9/11. Whilst no one can accurately forecast how long these conditions will prevail, the Syndicate's strong capital providers are in a position to support the organisation as and when new business opportunities arise.

A small stamp will provide the Syndicate with a competitive advantage as the underwriting teams are not constrained by the need to generate significant premium income, but can focus on risk selection and building fruitful long term relationships with brokers.

Whether Solvency II leads to increased M&A activity, there will always be companies acquiring competitors; these often lead to individuals and teams being available. Management continually seeks to access new underwriting teams that can work within the parameters of the overall underwriting strategy of the organisation.

Finally, with limited live business claims activity has been minimal. An area management considers to be a competitive advantage is its long established claims management capabilities. The Syndicate has a proven claims management track record which is reflected in the results of the legacy business it has written and it is expected that this expertise will form a vital part of the Syndicate's long term success.

Disclosure of Information to the Auditors

So far as each person who was a Director of the Managing Agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow Directors of the agency and the Syndicate's auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

Ernst & Young LLP are deemed re-appointed as auditors of the Syndicate.

By order of the Board

Dinah Gately
CEO
London
13th March 2015

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2014

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

1. Select suitable accounting policies which are applied consistently;
2. Make judgements and estimates that are reasonable and prudent;
3. State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. Prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' web site. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 5678
FOR THE YEAR ENDED 31 DECEMBER 2014**

We have audited the syndicate annual accounts of Syndicate 5678 for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet and the Cash Flow Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Managing Agent and the Auditor

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

Scope of the audit of the Syndicate annual accounts

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

Opinion on Syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the Syndicate's affairs as at 31 December 2014 and of its profit 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.

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

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

Matters on which we are required to report by exception

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

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

Ernst + Young LLP

Ed Jervis (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
13 March 2015

PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £000	2014 £000	2013 £000	2013 £000
Earned premiums, net of reinsurance					
Gross premiums written	3	5,401		1,269	
Outward reinsurance premiums		439		(579)	
Net premiums written		5,840		690	
Change in the provision for unearned premiums:					
Gross unearned premium		(3,683)		-	
Reinsurance unearned premium		155		-	
Change in provision for unearned premiums:		(3,528)		-	
Earned premiums, net of reinsurance			2,312		690
Allocated investment return transferred from the non-technical account			2,227		482
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(28,120)		(39,287)	
Reinsurers' share		4,111		13,897	
Net claims paid		(24,009)		(25,390)	
Change in the provision for claims					
Gross amount		43,504		56,163	
Reinsurers' share		(5,884)		(12,946)	
Change in the net provision for claims	4	37,620		43,217	
Claims incurred, net of reinsurance			13,611		17,827
Other income/charges	5		(359)		1,142
Net operating expenses	6		(7,972)		(7,820)
Balance on the technical account for general business			9,819		12,321

All the amounts above are in respect of continuing operations.

PROFIT AND LOSS ACCOUNT
NON -TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £000	2013 £000
Balance on the general business technical account		**9,819**	12,321
Investment income	**10**	**2,385**	1,960
Unrealised gains on investments		**369**	79
Unrealised losses on investments		**(409)**	(1,284)
Investment expenses and charges	**10**	**(118)**	(273)
		12,046	12,803
Allocated investment return transferred to general business technical account		**(2,227)**	(482)
Profit for the financial year		**9,819**	12,321

There is no Statement of Total Recognised Gains and Losses because the Syndicate has no recognised gains or losses other than the profit for the period.

BALANCE SHEET
ASSETS
AS AT 31 DECEMBER 2014

	Notes	2014 £000	2014 £000	2013 £000	2013 £000
Investments					
Financial investments	12		86,661		114,672
Reinsurers' share of technical provisions					
Claims outstanding		19,341		24,599	
Provision for unearned premium		155		-	
			19,496		24,599
Debtors					
Debtors arising out of direct insurance operations	13	4,174		2,273	
Debtors arising out of reinsurance operations	13	473		4,174	
Other debtors	14	289		1,147	
			4,936		7,594
Other Assets					
Cash at bank and in hand			978		701
Other	15		3,615		10,853
Prepayment and accrued income					
Deferred acquisition costs			920		-
Other prepayments and accrued income			3,417		-
Total assets			120,023		158,419

BALANCE SHEET
LIABILITIES
AS AT 31 DECEMBER 2014

	Notes	2014 £000	2014 £000	2013 £000	2013 £000
Capital and reserves					
Member balance	**16**		**9,819**		12,321
Technical provisions					
Claims outstanding		**96,644**		137,475	
Provision for unearned premium		**3,683**		-	
Provision for other risks and charges		**250**		250	
			100,577		137,725
Creditors					
Creditors arising out of direct insurance operations	**17**	**799**		1,456	
Creditors arising out of reinsurance operations	**17**	**4,075**		1,040	
Other creditors	**17**	**1,272**		2,342	
			6,146		4,838
Creditors due after one year					
Other creditors			**270**		270
Accruals and deferred income			**3,211**		3,265
Total liabilities			**120,023**		158,419

The financial statements on pages 10 to 26 were approved by the Board of Vibe Syndicate Management Limited on 13 March 2015 and were signed on its behalf by:-

RKatzenberg

R Katzenberg
13 March 2015

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £000	2013 £000
Net cash outflow from operating activities	**18**	**(38,453)**	(53,862)
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	**19**	**290**	(1,055)
(Decrease) in overseas deposits	**19**	**(7,387)**	(7,521)
(Decrease) in net portfolio investment	**19**	**(31,356)**	(45,286)
Net investment of cash flows		**(38,453)**	(53,862)

1. Basis of Preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers, except that exchange differences are dealt with in the technical account as there are no non-technical items giving rise to these differences.

2. Accounting Policies

Premiums written

Premiums written comprise premiums and reinstatement premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified. Any RITC premiums charged to acquire the business are treated as reserve movements and are included within claims provisions.

Unearned premiums

Written premiums are recognised and earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Claims provisions and related recoveries

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

The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

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. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

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

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

2 Accounting Policies (cont)

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Claims handling costs

Gross claims include claims handling costs. The provision for claims handling costs is reassessed at the end of each financial year.

Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Acquisition costs arising on accepting Reinsurance to Close from existing open syndicates are recorded as an expense in the period incurred.

Foreign currencies

Transactions in US dollars, Canadian dollars, Euros and Australian Dollars are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate. Non-monetary assets and liabilities are translated at the rates ruling at the transaction dates.

Exchange differences arising from the translation of non-monetary items at transaction rates are included in the technical account.

Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value (bid value) and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

2 Accounting Policies (cont)

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 members or their members' 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 during the year are included in the balance sheet under the heading 'other debtors'.

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

Profit Commission

No Profit commission is charged by the managing agent as a monthly fee has been agreed.

Pension Costs

Vibe SM does not have any employees but employs the services of Insurance Management Services Limited (IMSL), which is part of the Vibe Group.

IMSL does not operate a company pension scheme but makes contributions to employees' personal pensions.

3. Segmental Analysis

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

2014

	Gross Written Premiums	Gross Earned Premiums	Gross Claims Incurred	Gross Operating Expenses	Re-insurance Balance	Total	Net Technical Provisions
	£000	£000	£000	£000	£000	£000	£000
Direct insurance							
Accident and health	41	41	3,927	(877)	(1,060)	2,031	12,335
Motor (third party liability)	2	2	69	(13)	(28)	30	151
Motor (other classes)	-	-	157	(42)	(10)	105	328
Marine	21	21	21	(32)	(40)	(30)	445
Aviation	-	-	(59)	(39)	(62)	(160)	64
Transport	9	4	(11)	(12)	6	(13)	28
Energy - Marine	5	5	28	-	337	370	-
Energy - Non Marine	-	-	78	(5)	43	116	118
Fire & other damage to property	9	9	2	(114)	(40)	(143)	719
Third party liability	3,879	846	6,955	(4,613)	(613)	2,575	42,853
Pecuniary loss	52	52	464	(581)	160	95	325
	4,018	980	11,631	(6,328)	(1,307)	4,976	57,366
Reinsurance	1,383	738	3,753	(1,644)	128	2,975	23,465
Total	5,401	1,718	15,384	(7,972)	(1,179)	7,951	80,831

2013

	Gross Written Premiums	Gross Earned Premiums	Gross Claims Incurred	Gross Operating Expenses	Re-insurance Balance	Total	Net Technical Provisions
	£000	£000	£000	£000	£000	£000	£000
Direct insurance							
Accident and health	(2)	(2)	1,498	(638)	(5)	853	16,603
Motor (third party liability)	42	42	363	(16)	11	400	244
Motor (other classes)	(15)	(15)	332	(42)	(266)	9	604
Marine	14	14	529	(67)	(547)	(71)	518
Aviation	1	1	219	(7)	388	601	115
Transport	-	-	22	(1)	(3)	18	52
Energy - Marine	-	-	87	-	(6)	81	23
Energy - Non Marine	-	-	19	(2)	(16)	1	216
Fire & other damage to property	(46)	(46)	883	(8)	(92)	737	919
Third party liability	223	223	10,684	(3,793)	(1,053)	6,061	52,720
Pecuniary loss	243	243	(1,936)	(2,159)	2,702	(1,150)	2,120
	460	460	12,700	(6,733)	1,113	7,540	74,134
Reinsurance	809	809	4,176	(1,087)	(741)	3,157	38,742
Total	1,269	1,269	16,876	(7,820)	372	10,697	112,876

Commissions on direct insurance gross premiums earned during 2014 were £171k (2013: nil)

All premiums were concluded in the UK.

*Gross operating expenses are the same as net operating expenses shown in the profit and loss account, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2014.

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

	2014 £000	2013 £000
UK	**1,072**	416
Other EU countries	**402**	62
US	**3,339**	134
Other	**1,027**	78
	5,840	690

4. Claims outstanding

The contribution from gross reserve releases on the RITC business was £16.2 million (2013: £16.9 million).

5. Other Income / Charges

	2014 £000	2013 £000
Dividend receivable from liquidation of debtor	**-**	1,142
Write-off of change in dividend received from liquidation debtor	**(49)**	-
Commutation balance write-offs	**(310)**	-
	(359)	1,142

6. Net Operating Expenses

	2014 £000	2013 £000
Brokerage and commissions	**1,141**	-
Other acquisition costs	**2,432**	2,422
Change in deferred acquisition costs	**(920)**	-
	2,653	2,422
Administrative expenses	**5,531**	2,836
Profit /(Loss) on exchange	**(212)**	2,562
	7,972	7,820

	2014 £000	2013 £000
Members standard personal expenses	**216**	158
	216	158

7. Auditors' Remuneration

	2014 £000	2013 £000
Audit of syndicate annual accounts	**138**	135
Other services pursuant to Regulations and Lloyd's Byelaws	**37**	36
Audit of managing agent's annual accounts	**22**	21
	197	192

8. Staff Costs

There were no staff employed by the syndicate or managing agency other than the non executive directors, as follows:

	2014	2013
Non executive directors	**3**	3

Recharges from IMSL in respect of staff costs were as follows:

	2014 £000	2013 £000
Wages & salaries	**3,412**	2,445
Social security and pension costs	**923**	584

The average number of employees employed by IMSL but working for the syndicate during the year was as follows:

	2014 No.	2013 No.
Claims	12	21
Administration	12	16
Underwriting	3	-

Underwriting began in July so the numbers of underwriting staff were only for part of the year. At year end there was a total of 6 underwriting staff.

9. Emoluments of the Directors of Vibe Syndicate Management Limited

The executive directors of Vibe Syndicate Management Limited (Vibe SM) are paid by IMSL and a proportion of their remuneration is charged to the syndicate and included within net operating expenses. The non executive directors are paid by Vibe SM and their remuneration is also charged to the syndicate and included within net operating expenses:

	2014 £000	2013 £000
Emoluments		
Executive Directors	**1,237**	621
Non Executive Directors	**225**	209

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

Emoluments	**128**	6
Loss of office	**-**	82
	128	88

In January 2013 the then Active Underwriter left the Company, and a Run–Off Manager was appointed in his place. As the Syndicate was granted approval to write live business in 2014 a new Active Underwriter was then appointed.

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

10. Investment Return

	2014 £000	2013 £000
Investment income		
Income from investments	**2,538**	3,953
Gains on the realisation of investments	**399**	1,163
Losses on the realisation of investments	**(552)**	(3,156)
	2,385	1,960
Investment expenses and charges		
Investment management expenses	**(118)**	(273)

11. Calendar Year Investments Yield

The average amount of syndicate funds available for investment during 2014 and the investment return and yield for that calendar year were as follows:

	2014 £000	2013 £000
Average fund	**110,738**	154,379
Investment return	**2,337**	1,960
Reporting year investment yield	**2.11%**	1.27%
Average funds available for investments by currency		
Sterling	**25,773**	37,276
Euro	**10,681**	15,255
Canadian dollars	**5,548**	7,115
United States Dollars	**68,721**	94,732
Australian Dollars	**17**	-
Investment return for investments by currency		
Sterling	**571**	303
Euro	**340**	339
Canadian dollars	**161**	197
United States Dollars	**1,265**	1,121
Australian Dollars	**-**	-
Reporting year investment yield by currency		
Sterling	**2.22%**	0.81%
Euro	**3.18%**	2.22%
Canadian dollars	**2.91%**	2.77%
United States Dollars	**1.84%**	1.18%
Australian Dollars	**0.44%**	0.00%

Average Fund is the average of bank balances, overseas deposits and investments, including accrued income held at the end of each reporting year. Average results in currency are then converted at year end rates of exchange for that reporting year. Reporting year returns are converted at average rates of exchange for that reporting year. Returns include bank charges and investment management charges.

12. Financial Investments

	Market Value 2014 £000	Cost 2014 £000	Market Value 2013 £000	Cost 2013 £000
Shares and other variable yield securities	**10,549**	**10,549**	21,546	21,546
Debt securities and other fixed income securities	**71,922**	**71,873**	88,358	89,370
Deposits with credit institutions	**4,190**	**4,190**	4,768	4,768
	86,661	**86,612**	114,672	115,684

All "shares and other variable yield securities" and "Debt securities and other fixed income securities" are listed. These comprise 95% of the total market value of investments.

13. Debtors

	2014 £000	2013 £000
Debtors arising out of direct insurance operations		
Due from intermediaries within one year	**4,174**	2,373
Debtors arising out of reinsurance operations		
Due within one year	**473**	4,174

14. Other Debtors

	2014 £000	2013 £000
Dividend due from New Cap Re scheme	**-**	1,074
Overseas tax	**153**	23
Vibe Syndicate Management	**28**	26
Due from names of RITC'd syndicates	**11**	14
Unsettled investment trades	**90**	9
VAT	**7**	1
	289	1,147

15. Other Assets

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

16. Reconciliation of Member's Balance

	2014 £000	2013 £000
Member's balance brought forward at 1 January	**12,321**	27,170
Profit for the financial year	**9,819**	12,321
Distribution to member	**(12,321)**	(27,170)
Member's balance carried forward at 31 December	**9,819**	12,321

Member participates on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

17. Creditors

	2014 £000	2013 £000
Creditors arising out of direct insurance operations		
Due to intermediaries within one year	**799**	1,456
Creditors arising out of re-insurance operations		
Due to intermediaries within one year	**4,075**	1,040
Other Creditors		
Amounts owed to Vibe Syndicate Management Ltd	**1,251**	1,034
Canadian tax	**21**	42
Profit Commissions Payable	**-**	1,177
Forward Foreign Exchange Contract	**-**	89
	1,272	2,342

18. Reconciliation of Operating Profit to Net Cash Outflow from Operating Activities

	2014 £000	2013 £000
Operating profit on ordinary activities	**9,819**	12,321
Realised and unrealised investments gains/(losses)	**(3,482)**	5,124
Profit release	**(12,321)**	(27,775)
(Decrease) in net technical provisions	**(32,044)**	(42,897)
(Increase) in debtors	**(1,680)**	(2,902)
Increase in creditors and accruals and deferred income	**1,253**	1,661
FX movement on balance due to members	**-**	605
Net cash outflow from operating activities	**(38,453)**	(53,862)

19 Movement in Opening and Closing Portfolio Investments Net of Financing

	2014 £000	2013 £000
Net cash inflow from the year	**290**	(1,055)
(Decrease) in overseas deposits	**(7,387)**	(7,521)
(Decrease) in portfolio investments	**(31,356)**	(45,286)
Movement arising from cash flows	**(38,453)**	(53,862)
Changes in market value and exchange rates	**3,481**	(5,124)
Total movement in portfolio investments	**(34,972)**	(58,986)
Portfolio at 1st January	**126,226**	185,212
Portfolio at 31st December	**91,254**	126,226

Analysis of movement in Cash, Portfolio Investments and Financing

	At January 2014 £000	Cash Flow £000	Changes to market value and currencies £000	At December 2014 £000
Cash at bank and in hand	**701**	**290**	**(13)**	**978**
Deposits:				
Overseas deposits	**10,853**	**(7,387)**	**149**	**3,615**
Total Deposits	**10,853**	**(7,387)**	**149**	**3,615**
Portfolio investments:				
Shares and other variable yield securities	**21,545**	**(10,631)**	**(365)**	**10,549**
Debt securities and other fixed income securities	**88,359**	**(19,841)**	**3,404**	**71,922**
Deposits with credit institutions	**4,768**	**(884)**	**306**	**4,190**
Total Portfolio Investments	**114,672**	**(31,356)**	**3,345**	**86,661**
Total cash, portfolio investments and financing	**126,226**	**(38,453)**	**3,481**	**91,254**

20. Net Cash Outflow on Portfolio Investments

	2014 £000	2013 £000
Purchase of debt securities and other fixed income and variable yield securities and investment pools	**141,514**	188,174
Sale of Debt securities and other fixed income and variable yield securities and investment pools	**(171,986)**	(233,081)
Net decrease in deposits with credit institutions	**(884)**	(379)
Net cash (outflow) on portfolio investments	**(31,356)**	(45,286)

21. Related Parties

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

Managing agency fees of £161,471 (2013: £157,500) were paid by the syndicate to Vibe SM. In addition to this, expenses of £10.3m (2013: £7.5m), of which £2.4m (2013: £0.4m) relates to acquisition costs, were paid by Vibe SM on behalf of the syndicate and were recharged to the syndicate.

Insurance Management Services Limited is a wholly-owned subsidiary of Syndicate Re A.I. It provides management services to Vibe SM, these figures are included in the recharges above.

Syndicate Re, A.I.Is the immediate parent Company of Vibe SM and is 100% owned by Syndicate Holding Corp. (the ultimate controlling party), a company registered in Puerto Rico. This company provided 90% quota share reinsurance on the 2012 year of account to Vibe Corporate Member Ltd, the single corporate member of Syndicate 5678.

22. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulatory Authority requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

23. Derivatives

The syndicate holds an investment in a Black Rock managed UCITS fund (BGF Euro Short Duration Bond Fund) that invests in a mix of sovereign and corporate fixed income securities. At least 80% of total assets is required to be investment grade (currently over 90%) and the average duration is required not to exceed 3 years (currently 2.5 years). This fund may use derivatives up to a maximum of 5% of the fund's NAV.

The Syndicate held two forward foreign exchange contracts at 31 December 2013 to reduce exposure to foreign exchange movements or known future settlements. No such contracts were in place at 31 December 2014.

The fair value of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows:-

	2014 £000	2013 £000
Forward foreign currency contracts	-	(89)
	-	(89)

24. 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.