

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.



Syndicate 1856

31 December 2019

CONTENTS

DIRECTORS AND ADMINISTRATION	3
REPORT OF THE DIRECTORS OF THE MANAGING AGENCY	4
MANAGING AGENT'S RESPONSIBILITIES STATEMENT	9
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARCUS SYNDICATE 1856	10
INCOME STATEMENT	13
STATEMENT OF CHANGES IN MEMBERS' BALANCES	15
STATEMENT OF FINANCIAL POSITION	16
STATEMENT OF FINANCIAL POSITION	17
STATEMENT OF CASH FLOWS	18
NOTES TO THE ANNUAL ACCOUNTS	19

DIRECTORS AND ADMINISTRATION

Barbican Managing Agency Limited

Directors

D M Booth
I J Bremner (Resigned 2 December 2019)
H N A Colthurst
A D Elliott
M J Harrington (Resigned 29 November 2019)
J W Heap
R H Johnson
R A Keers
J A Kittinger (Appointed 3 December 2019)
H R Sturgess (Appointed 3 December 2019)
L G D N Tucker

Managing Agent's Registered Office

33 Gracechurch Street
London
EC3V 0BT

Managing Agent's Registered Number

06948515

Company Secretary

S J Britt (Resigned 28 November 2019)
Z L Nattress (Appointed 18 December 2019)

Syndicate Active Underwriter

A Shepherd (Appointed 11 July 2019)
D Booth (Resigned 11 July 2019)

Bankers

Lloyds Bank plc
Citibank NA
RBC Investor and Treasury Services

Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY

The Directors of the Managing Agent (“the Agency”) present their annual report and accounts for Syndicate 1856 (“the Syndicate”), for the year ended 31 December 2019.

The annual accounts are prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 (“Lloyd’s Regulations 2008”).

Managing Agent

The Managing Agent of the Syndicate since its inception on 1 January 2016 is Barbican Managing Agency Limited (“the Agency”).

Principal Activity

The principal activity of the Syndicate is the transaction of general insurance and reinsurance business as described below in the Review of the Business.

Capacity of the Syndicate for the 2019 year of account is £104.9m (2018 year of account: £104.2m), The capital providers continue to be Iris Low Volatility Plus Corporate Member Limited, Iris Balanced Corporate Member Limited and Humboldt Corporate Member Limited (known collectively as “Corporate Members”).

The result for calendar year 2019 is a loss of £1.8m (2018: £6.6m).

Key Performance Indicators

The Syndicate’s key financial performance indicators during the year were as follows:

	2019	2018
	£000	£000
Gross premiums written	106,530	143,968
Gross premiums earned	104,299	132,734
Net premiums earned	70,053	105,605
Net claims incurred	(48,737)	(92,343)
Investment return	1,638	800
Operating expenses	(25,157)	(19,893)
Realised and unrealised movements on foreign exchange	359	(756)
Loss for the year	<u>(1,844)</u>	<u>(6,587)</u>
Claims ratio	69.6%	87.4%
Expense ratio	35.9%	18.8%
Combined ratio	105.5%	106.2%

Review of the Business

For 2019 Year of Account the Syndicate capacity was £104.9m (2018: £104.2m). It underwrote for third party investors who supported the overall Syndicate underwriting activity through its Corporate Members.

The Syndicate wrote five classes of business in 2019 amounting to £106.5m gross written premium (2018: £111.1m). The Whole Account Quota Share of Syndicate 1955 is now in run-off; 2018 year of account being the last year that the Syndicate wrote this business.

On 29 November 2019, the entire issued and to be issued share capital of Barbican Group Holdings Limited, the then ultimate parent and controlling party of the Managing agency, was acquired by Arch Reinsurance Limited.

Property Reinsurance

Property Reinsurance continues to include proportional treaty, CAT excess of loss and risk excess of loss business in a globally diversified portfolio. Gross written premium in 2019 was £55.2m (2018: £47.3m). The Syndicate benefited from average rate increases of approximately 7% for the US and approximately 2% for non-US business.

Overall Property Reinsurance showed an increase in the US market due to improving market conditions, and we successfully increased our international treaty portfolio with European rates being better than expected.

Energy

The energy class predominantly represents an offshore account with some onshore and renewable risks, comprising a blend of quota share and XL treaties. Gross written premium in 2019 was £16.1m (2018: £13.5m). The rating environment was positive with average rate increases between 5% and 7.5%.

Space

The space class consists of one binding authority agreement. Gross written premium in 2019 was £4m (2018: £3.4m).

Cyber

Arcus successfully partnered with one consortium and three MGAs. Our strategy continues to be to support well respected underwriters rather than writing individual risks ourselves. Gross written premium in 2019 was £12.9m (2018: £4.8m).

Property Insurance

This is a direct property binder book. This class wrote 44 contracts compared to 27 contracts in 2018. Gross written premium in 2019 was £13.5m. (2018: £8.0m).

Whole Account Lloyd's Quota Share

The Whole Account Lloyd's Quota Share was not written for the 2019 year of account. Gross written premium movement in 2019 was £4.8m (2018: £34.1m). The 2017 and prior year of account reserves from Syndicate 1955 will be transferred back into Syndicate 1955 in 2020.

Business Environment

In 2019, the Syndicate performed well and wrote its planned premium income, however Typhoons Faxai and Hagbis adversely impacted the Syndicate's planned profit by £7.0m.

Investment Returns

The Syndicate's funds are held in trust fund and short-term deposit accounts and at the 2019 year end were £79.4m (2018: £76.2m), an increase of 4.2%.

From the 1st March 2019 funds have been invested with the Syndicate's investment manager, New England Asset Management Inc.

Investment yield increased overall in 2019 to 2.11% (2018: 1.13%). The 2019 investment return of £1.6m is above prior year (2018: £0.8m) due to increase of funds and short-term deposits.

Principal Risks and Uncertainties

The Board of the Agency ("Agency Board") sets risk appetite annually as part of the Syndicate's business planning and individual capital assessment process.

The Agency Board has developed a risk and control framework which is built on an Enterprise Risk Management Model that aims to integrate existing risk programmes into a more holistic, embedded risk and capital management framework. This is reviewed annually as part of the Syndicate Business Forecast ("SBF") and Solvency Capital Requirement ("SCR") process.

The future prospects of the UK economy are uncertain as a result of the UK's decision to leave the European Union. Anticipated legal and operational changes emanating from that decision have generated an elevated level of risk for Lloyd's and the London Market. The Syndicate will utilise Lloyd's Brussels as appropriate.

Further analysis of the principal risks and uncertainties can be found in Note 19 in the Notes to the Annual Accounts.

Insurance Risk

Insurance risk includes the risks that a policy will be written for inadequate premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), and that estimates of claims subsequently prove to be insufficient (reserving risk). The Agency Board oversees insurance risk by agreeing its appetite for these risks annually and managing this primarily through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Agency Board then monitors performance against the business plan regularly throughout the year. Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business. Reserve adequacy is monitored through a quarterly review by the Syndicate actuary and reviewed annually by an independent firm of actuaries.

Credit Risk

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers. The Agency Board's policy is that the Syndicate generally reinsures with businesses rated A- or higher by one or more rating agencies. The Syndicate only uses reinsurers with lower ratings or unrated reinsurers where collateral or a claim paying guarantee from a parent undertaking is provided. As at 31 December 2019, the Syndicate had £63.8m of collateral (2018: £86.6m).

Currency Risk

The key aspect of currency risk is the risk of losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency Board's policy is to maintain all assets and liabilities in the core currencies in which they were received or paid. Any surplus or deficit in a core currency is subject to review by the Agency Board, which may result in surplus currencies being sold to make good a deficit on other currencies.

Liquidity Risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk, the Agency Board reviews cash flow projections regularly and ensures the Syndicate holds adequate liquid investments in its portfolios.

Group Risk

Group risk is the possibility that the operation of one part of the Arch Group, of which the Managing Agency is a member, adversely affects another.

Group risk includes negative publicity, inadequate communication within the organisation, undue influence from fellow subsidiaries, holding companies or stakeholders, financial pressures to make funds available to the Group, and financial restraint leading to shortcomings in core activities such as reinsurance purchasing.

The Agency Board's strategy is to minimise any Group risk by ensuring that there are clear lines of authority and communication between related parties, that intra-Group reinsurance is placed on arm's length terms and that any intra-Group agreements are clearly understood and observed by all parties.

Operational Risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The Agency Board seeks to manage this risk through the use of policies, procedures, management controls, risk-based compliance monitoring, and a structured programme of testing processes and systems by internal audit. Business continuity and disaster recovery plans are in operation and are regularly updated.

Regulatory Risk

The Agency is required to comply internally with the requirements of the Financial Conduct Authority ("FCA"), the Prudential Regulation Authority ("PRA"), and the Society of Lloyd's (Lloyd's). Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business and certain EU regulators. Regulatory risk is the risk of regulatory intervention owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency Board has appointed the Agency Compliance Officer to monitor regulatory developments, assess the impact on the Agency's policies and processes and report to the Agency Board.

Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a Syndicate.

Future Developments

The various catastrophes in 2019 following the events of 2018 and 2017 have improved the rating environment across the whole market but only moderately in certain classes. The Syndicate intends to develop further its direct insurance activities and improve the efficiency of its outwards reinsurance programme in order to maintain overall profitability and ensure a sensible risk retention in the Syndicate.

For 2020 Arcus will continue to focus on the same lines of business, the only change at a class level will be to move proportional treaty business from Property Reinsurance into a new standalone class Property Proportional.

Property Reinsurance we expect property cat and risk excess of loss to grow modestly as a result of rate increases and some new business opportunities.

Energy will reduce in income as we focus on core methods of acceptance with the result that all business will be written through either insurance binding authorities or reinsurance proportional.

Space will increase as a result of significant rate increases. We will continue to support only one cover holder in this class.

Cyber will increase slightly as we look to support one or two new portfolios.

Property Insurance will grow in terms of income but reduce materially in terms of number of contracts. This is down to a shift in strategic focus from a large number of small contracts to a small number of large contracts. We believe this will better allow us to manage the book and provide a deeper level of ongoing due diligence and interaction with cover holders.

Property Proportional will grow a small amount with the non-renewal of one contract and the writing of one or two new contracts.

The 2017 year of account has Reinsured to close ("RITC") into the Syndicate's 2018 Year of Account for an RITC premium of £66.5m. Under Lloyd's Accounting rules, the Syndicate's 2017 year of account closed at the end of 2019, with a return equal to 7.35% loss.

The future prospects of the UK economy are uncertain as a result of the UK's departure from the European Union. Lloyd's and the London Market are currently experiencing an increased level of risk relating to the unknown but anticipated changes within the insurance industry. The Syndicate will utilise Lloyd's Brussels capabilities as appropriate.

Disclosure of Information to the Auditor

So far as each person who was a Director of the Agency 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 is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Reappointment of Auditor

Ernst & Young LLP are deemed reappointed as auditor of the Syndicate.

By order of the Board

R A Keers
Agency Finance Director
5 March 2020

MANAGING AGENT'S RESPONSIBILITIES STATEMENT

The Agency is responsible for preparing the Managing Agent Report and Syndicate Annual Accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Agency 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 Syndicate 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 Agency is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate Annual Accounts; and
- prepare the Syndicate 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 Agency 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 Agency is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. 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 ARCUS SYNDICATE 1856

Opinion

We have audited the syndicate annual accounts of Syndicate 1856 ('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 24, 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 directors of 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 directors of 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.

Other information

The other information comprises the information included in the annual report, other than the syndicate annual accounts and our auditor's report thereon. The directors of 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; or
- certain disclosures of the managing agents' emoluments specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the directors of the managing agent

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

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

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 the annual accounts 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.

Robert Bruce (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	106,530	143,968
Outward reinsurance premiums		(37,399)	(33,260)
Net premiums written		69,131	110,708
Change in the provision for unearned premiums:			
- Gross amount		(2,231)	(11,234)
- Reinsurers' share		3,153	6,131
Change in the net provision for unearned premiums	10	922	(5,103)
Earned premiums, net of reinsurance		70,053	105,605
Allocated investment return transferred from non-technical account	3	1,638	800
Claims paid			
- Gross amount	11	(85,042)	(63,186)
- Reinsurers' share	11	38,085	11,804
Net claims paid		(46,957)	(51,382)
Change in claims outstanding			
- Gross amount		(5,511)	(85,436)
- Reinsurers' share		3,731	44,475
Change in the net provision for claims	11	(1,780)	(40,961)
Claims incurred, net of reinsurance	11	(48,737)	(92,343)
Net operating expenses	4	(25,157)	(19,893)
Balance on the technical account for general business		(2,203)	(5,831)

Income Statement

Non-Technical Account – General Business

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Balance on the general business technical account		(2,203)	(5,831)
Investment income	3	1,324	800
Unrealised gains/(losses) on investments		206	-
Realised gains/(losses) on investments		128	-
Investment expenses and charges		(20)	-
		<u>1,638</u>	<u>800</u>
Allocated investment return transferred to general business technical account		<u>(1,638)</u>	<u>(800)</u>
Foreign exchange gain/loss		359	(756)
Loss for the year		<u><u>(1,844)</u></u>	<u><u>(6,587)</u></u>

STATEMENT OF CHANGES IN MEMBERS' BALANCES

For the year ended 31 December 2019

	2019	2018
	£000	£000
At 1 January	(15,741)	(9,154)
Loss for the year	<u>(1,844)</u>	<u>(6,587)</u>
Distribution Profit	<u>(194)</u>	<u>-</u>
At 31 December	<u>(17,779)</u>	<u>(15,741)</u>

STATEMENT OF FINANCIAL POSITION

ASSETS

As at 31 December 2019

	Notes	2019 £000	2018 £000
Investments			
Financial investments	8	62,766	37,501
Reinsurers' share of technical provisions			
Provision for unearned premiums	10	15,778	13,221
Claims outstanding	11	75,293	74,386
		91,071	87,607
Debtors			
Debtors arising out of direct insurance operations - intermediaries	16	16,445	10,583
Debtors arising out of reinsurance operations	14	37,111	55,856
Other debtors	18	626	587
		54,182	67,026
Other assets			
Cash at bank and in hand	12	16,638	38,730
Other deposits	8	1,413	807
		18,051	39,537
Deferred acquisition costs	13	9,098	9,846
Total assets		<u>235,168</u>	<u>241,517</u>

STATEMENT OF FINANCIAL POSITION

MEMBERS' BALANCES AND LIABILITIES

As at 31 December 2019

	Notes	2019 £000	2018 £000
Members' balances and liabilities			
Members' balances		(17,779)	(15,741)
Liabilities			
Technical provisions			
Provision for unearned premiums	10	46,268	45,667
Claims outstanding	11	184,673	185,769
		230,941	231,436
Creditors due within one year			
Creditors arising out of reinsurance operations	17	20,524	18,555
Other creditors	15	1,482	7,267
		22,006	25,822
Accruals and deferred income			
		-	-
Total liabilities		252,947	257,258
Total members' balances and liabilities		235,168	241,517

The Annual Accounts on pages 12 to 48 were approved by the Board of Barbican Managing Agency Limited on 3 March 2020 and were signed on its behalf by

R A Keers

Agency Finance Director

5 March 2020

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Cash flows from operating activities			
Loss for the financial year		(1,844)	(6,587)
Adjustments for			
Movement in general insurance unearned premiums and outstanding claims	10, 11	(495)	107,269
Movement in reinsurers' share of unearned premiums and outstanding claims	10, 11	(3,464)	(55,109)
Investment return	3	(1,638)	(800)
Movements in other assets/liabilities		15,823	(23,299)
Net cash from operating activities		<u>8,382</u>	<u>21,474</u>
Cash flows from investing activities			
(Purchase) /Sale of equity and debt instruments		(24,920)	5,777
Investment income received		1,613	836
Other		(951)	(396)
Net cash used in investing activities		<u>(24,258)</u>	<u>6,217</u>
Cash flows from financing activities			
Other		(6,216)	(6,622)
Net cash from financing activities		<u>(6,216)</u>	<u>(6,622)</u>
Net increase in cash and cash equivalents		<u>(22,092)</u>	<u>21,069</u>
Cash and cash equivalents at the beginning of the year		38,730	17,661
Cash and cash equivalents at the end of the year	12	<u>16,638</u>	<u>38,730</u>

NOTES TO THE ANNUAL ACCOUNTS

1. Significant Accounting Policies

a. Statement of Compliance

The annual accounts have been prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards and the “Insurance Accounts Directive” (Lloyd’s Syndicate Accounts) Regulations 2008.

The annual accounts are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

b. Basis of Preparation

The annual accounts for the year ended 31 December 2019 were approved for issue by the Board on 3 March 2020. The annual accounts are prepared in Sterling (rounded to the nearest £000) which is the presentational and functional currency of the Syndicate.

The Syndicate has a quota share contract with Syndicate 1955. The Whole Account Lloyd’s Quota Share consists of business written by Syndicate 1955 on a whole account net basis (net of reinsurance spend, claims and expenses). The contract operates on a “net settlement basis” whereby receivable and payable balances are recorded in the Syndicate on a net basis.

c. Judgements and Key Sources of Estimation Uncertainty

The preparation of the annual accounts requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the date of the annual accounts and the amounts reported for revenues and expenses during the year under review. However actual outcomes may differ from those estimates. The following are the key sources of estimation uncertainty:

Insurance Contract Technical Provisions

For insurance contracts, estimates are made for both the expected ultimate cost of claims reported at the reporting date and the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It may 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 reported in the annual accounts.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by underwriting years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claim’s development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the most likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

A range of judgements and assumptions are used in assessing salvage and subrogation recoveries.

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 earnings methodology on an insurance contract requires amortisation of unearned premium on a basis other than time apportionment.

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 being recorded in the annual accounts.

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

d. Financial Instruments

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.

All regular 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 purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Cash and Cash Equivalents

Cash and cash equivalents in the annual accounts comprise cash at banks and in hand and Shares and other variable yield securities 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 Syndicate 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. Level 3 assets are valued at historic cost.

A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement.

See note 9 for details of financial instruments classified by fair value hierarchy.

Collateral Arrangements

The Syndicate has cash collateral held in third party trusts, in respect of reinsurance arrangements with unrated counterparties. The rights and obligations are not with the Syndicate, but with the provider of the collateral and as such are not recognised as financial assets. There are no non-cash collateral arrangements in place. The Syndicate is not required to provide collateral for counterparties for which it is acting as the reinsurer.

De-recognition of Financial Assets

A financial asset or, when applicable, a part of a financial asset is de-recognised when:

- The rights to the cash flows from the asset have expired; or
- The Syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the Syndicate's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Syndicate could be required to repay. In that case, the Syndicate also recognises an associated liability.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial Liabilities

The Syndicate's financial liabilities include trade and other payables, borrowings and insurance payables.

All financial liabilities are recognised initially net of directly attributable transaction costs.

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

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

A financial liability is de-recognised 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in profit or loss.

e. Investment Return

Investment return comprises of interest income.

Interest income is recognised on an accruals basis based on the effective interest rate.

The actual investment return on investments supporting the technical provisions is made from the non-technical account to the technical account. Investment return related to non-insurance business is attributed to the non-technical account.

f. Insurance Contracts

Product Classification

Insurance contracts are those contracts when the Syndicate (the insurer) has accepted significant insurance risk from another party (the insured) by agreeing to compensate the insured if a specified uncertain future event (the insured event) adversely affects the insured. As a general guideline, the agency 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.

Gross Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments to such premiums receivable arising in the reporting period 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 commission.

Gross written premiums include an estimate for pipeline premiums (i.e. premiums due but not yet received or notified to the Syndicate by intermediaries) relating only to those underlying contracts of insurance where the period of cover has commenced prior to the reporting date. The most significant assumption in this estimate is that current year experience will be consistent with prior year experience.

Under some policies, gross 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 insured.

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 provision for unearned premiums is predominantly calculated on a monthly pro rata basis with some classes of business such as Energy and Space having more complex earnings profiles. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance Premiums

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

Under some policies, reinsurance premium payable is adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is recognised as soon as there is an obligation to the insured.

Reinsurance premiums under a Risks Attaching During ("RAD") contract are earned typically over two years based on inception and expiry dates. Year of Account allocation is based on the inception and expiry dates that the

contract relates to. This results in a triangular earnings pattern, where earnings increase towards the middle of the policy period then decrease until the policy expires.

Reinsurance premiums under a Losses Occurring During (“LOD”) contract are earned on a straight-line basis over the period of the reinsurance contract, based on inception and expiry dates. Losses that occur during the length of the contract could relate to the current, prior or following year of account, therefore an allocation to Year of Account is applied to this type of policy. The allocation is based on historical class level monthly earnings for the underlying gross policies.

Fees and Commission Income

Insureds are charged for policy administration services, investment management services, policy surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services to be provided in future periods, then they are deferred and recognised over those future periods.

Claims

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

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

Technical Provisions

Technical provisions comprise claims outstanding, provisions for unearned premiums and provisions for unexpired risks.

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 and therefore, the ultimate cost of these claims 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.

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.

Technical Provisions

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 reinsurers 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 rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

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 Annual Accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

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. 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 provision for unearned premiums is calculated on a monthly pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of reinsurance premiums 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, and premiums receivable.

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 advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

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

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

Reinsurance Assets

The Syndicate cedes insurance risk in the normal course of business for all of its lines of business. Reinsurance assets represent balances due from reinsurance companies and other Lloyd's syndicates. 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 in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently should an indication of impairment arise 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.

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

Insurance Receivables

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

Insurance receivables are de-recognised when the de-recognition criteria for financial assets have been met.

Insurance Payables

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

g. Provisions

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.

h. Foreign Currencies

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

Transactions in US dollars, Canadian dollars, Euros, Australian dollars and Japanese Yen are initially recorded in the functional currency at the average rates of exchange for the period where for practical purposes it is not possible to use the actual rate at the date of transaction. 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 (which include unearned premiums and deferred acquisition costs) denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date. 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 arising on the re-translation of opening statement of financial position items at the closing statement of financial position rate and the retranslation of the Income Statement for the year from the average rate to the closing statement of financial position rate are recorded in the non-technical account.

i. Taxation

Under Schedule 19 of the Finance Act 1993 managing agents at Lloyd's 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 the Agency 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 are included in the statement of financial position under the heading "other debtors".

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

j. Pension Costs

The Arch Group of companies, of which the Agency is a member, operates a defined contribution pension scheme. Pension contributions relating to agency staff are charged to the Syndicate and included within net operating expenses.

k. Profit Commission

Profit commission is payable to the Agency at a rate of 17.5% on the Whole Account 1955 quota share and 10% on the Syndicate's other five classes of business. With the exception of the 1955 quota share business, profit commission is only calculated when the Syndicate's profit is 4% or more of capital. This is charged to the Syndicate as incurred but does not become payable until after the appropriate Year of Account closes, normally at 36 months.

2. Segmental Analysis

Analysis by Class of Business

An analysis of the underwriting result before investment is set out below:

2019	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
Direct insurance:							
Aviation	7,279	5,753	(5,339)	(1,394)	667	(313)	(12,326)
Energy-Marine	2,341	1,390	(1,315)	(367)	169	(123)	(3,126)
Energy Non-Marine	7,709	6,573	(6,074)	(1,561)	754	(308)	(13,928)
Fire and Other damage to Property	14,444	11,795	(11,063)	(2,851)	1,475	(644)	(27,255)
Third party liability	7,631	6,361	(5,886)	(1,519)	732	(312)	(13,523)
Total Direct	39,404	31,872	(29,677)	(7,692)	3,797	(1,700)	(70,158)
Reinsurance	67,126	72,427	(60,876)	(17,465)	3,773	(2,141)	(69,712)
	106,530	104,299	(90,553)	(25,157)	7,570	(3,841)	(139,870)
2018	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
Direct insurance:							
Marine	74	43	(50)	(12)	13	(6)	(63,297)
Aviation	4,490	2,609	(3,038)	(724)	780	(373)	(3,848)
Energy-Marine	1,376	799	(931)	(222)	239	(115)	(1,179)
Energy Non-Marine	4,390	2,551	(2,971)	(708)	762	(366)	(3,762)
Fire and Other damage to Property	6,520	4,157	(4,690)	(1,092)	1,154	(471)	(5,692)
Third party liability	6,348	3,689	(4,295)	(1,023)	1,102	(527)	(5,440)
Total Direct	23,198	13,848	(15,975)	(3,781)	4,050	(1,858)	(19,984)
Reinsurance	120,770	118,886	(132,647)	(16,112)	25,100	(4,775)	(123,845)
	143,968	132,734	(148,622)	(19,893)	29,150	(6,631)	(143,829)

The reinsurance balance is the aggregate total of reinsurance outwards balances included in the technical account.

All premiums were written in the UK.

Analysis by Geographical Location

The geographical analysis of premiums by destination (or location of risk) is as follows:

	2019	2018
	£000	£000
UK	1,215	3,948
EU member states	6,035	7,455
US	42,982	48,615
Other	56,298	83,950
Gross premiums written	<u>106,530</u>	<u>143,968</u>

3. Investment Return

All of the Syndicate's investments are recognised at fair value through the profit and loss.

	2019	2018
	£000	£000
Investment income		
Income from investments, cash and other deposits	1,324	800
Gains on realisation of investments	128	-
Total Investment Income	<u>1,452</u>	<u>800</u>
Unrealised gains on investments at fair value through profit or loss	206	-
Investment management expenses, including interest	(20)	-
Net investment income	<u>1,638</u>	<u>800</u>

4. Net Operating Expenses

	2019	2018
	£000	£000
Acquisition costs	19,245	19,992
Change in deferred acquisition costs (Note 13)	287	(5,373)
Administrative expenses	5,625	5,274
	<u>25,157</u>	<u>19,893</u>

Administrative expenses include:

	2019	2018
	£000	£000
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	2,549	3,657

The gain on the translation of monetary assets and liabilities at the reporting date of 31 December 2019 was £0.4m (2018: £0.7m loss). Included in administrative expenses are staff costs of £3.4m (2018: £2.2m), which is analysed in note 6.

5. Auditor's Remuneration

	2019	2018
	£000	£000
Audit of the Syndicate Annual Accounts	72	64
Audit related services	42	39
	<u>114</u>	<u>103</u>

The above represents the Syndicate's share of the total audit fee.

Auditors' remuneration is included as part of the administrative expenses in note 4 to the annual accounts.

6. Staff Costs and Directors' Remuneration

a. Staff Costs

All staff in the Barbican Group are employed by Barbican Holdings (UK) Limited ("BHUK"), the immediate parent company of the Agency. The following amounts were recharged to the Syndicate in respect of salary costs:

	2019	2018
	£000	£000
Wages and salaries	2,989	1,866
Social security costs	334	267
Other pension costs	115	84
	<u>3,438</u>	<u>2,217</u>

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

	2019	2018
	No.	No.
Administration and Finance	13	8
Underwriting	7	6
	<u>20</u>	<u>14</u>

b. Directors' Remuneration

The seven executive Directors of the Agency, three of whom served throughout the year, received no remuneration in the year charged to the Syndicate.

The Active Underwriter received the following remuneration:

	2019	2018
	£000	£000
Aggregate remuneration in respect of qualifying services	<u>645</u>	<u>562</u>

No advances or credits granted by the Agency to any of its directors subsisted during the year. This includes non-cash benefits.

7. Calendar Year Investment Yield

The average amount of Syndicate funds available for investment during 2019 and the investment return and yield for that calendar year were as follows:

	2019 £000	2018 £000
Average Syndicate funds available		
Sterling	13,599	7,716
Euro	8,265	10,015
United States dollars	42,841	40,298
Canadian dollars	2,384	1,672
Australian dollars	4,737	4,545
Japanese Yen	5,885	6,505
	<u>77,711</u>	<u>70,751</u>

	£'000	£'000
Investment return for the year		
Sterling	116	47
Euro	(20)	-
United States dollars	1,434	668
Canadian dollars	40	25
Australian dollars	70	60
Japanese Yen	(2)	-
	<u>1,638</u>	<u>800</u>

	2019 %	2018 %
Analysis of calendar year investment yield by fund		
Sterling	0.85	0.60
Euro	-	-
United States dollars	3.35	1.66
Canadian dollars	1.68	1.49
Australian dollars	1.48	1.33
Japanese Yen	-	-
	-	-

The overall investment return for 2019 was £1.6m (2018: £0.8m) representing an average yield of 2.11% (2018: 1.13%) on average funds of £77.7m (2018: £70.8m).

“Average funds” is the average of bank balances and overseas deposits held at the beginning and end of the calendar year.

8. Financial Investments

	Carrying Value 2019 £000	Carrying Value 2018 £000	Purchase Price 2019 £000	Purchase price 2018 £000
Shares and other variable yield securities	14,331	37,501	14,331	37,501
Debt Securities and other fixed income securities	48,435	-	47,155	-
	<u>62,766</u>	<u>37,501</u>	<u>61,486</u>	<u>37,501</u>

All “Shares and other variable yield securities” are designated at fair value through profit or loss. These comprise 23% (2018: 100%) of the total market value of the Syndicate’s financial investments.

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

31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities	13,986	-	345	14,331
Debt Securities and other fixed income securities	14,046	34,389	-	48,435
Other deposits	-	1,413	-	1,413
	<u>28,032</u>	<u>35,802</u>	<u>345</u>	<u>64,179</u>
31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities	37,501	-	-	37,501
Other deposits	-	807	-	807
	<u>37,501</u>	<u>807</u>	<u>-</u>	<u>38,308</u>

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

Included in the level 2 category are other deposits which consist of overseas deposits presented separately in other assets in the statement of financial position. These are financial assets measured using valuation technique based on assumptions that are supported from observable current market transactions.

Included in the Level 3 category, for which inputs for the asset are unobservable (i.e. for which market data is unavailable), is the Loan to the Lloyd’s Central guarantee fund which is valued at historic cost.

9. Financial Instruments

A breakdown of how the Syndicate's financial instruments are measured is given below:

	2019 £000	2018 £000
Financial assets at fair value through profit and loss		
Shares and other variable yield securities	14,331	37,501
Debt securities and other fixed income securities	48,435	-
Financial assets that are debt instruments measured at amortised cost		
Debtors arising out of direct insurance operations	16,445	10,583
Debtors arising out of reinsurance operations	37,111	55,856
Financial liabilities measured at amortised cost		
Creditors arising out of reinsurance operations	20,524	18,555

10. Provisions for Unearned Premiums

2019	Gross £000	Reinsurer's share £000	Net £000
At 1 January 2019	45,667	(13,221)	32,446
Premiums written in the year	106,530	(37,399)	69,131
Premiums earned in the year	(104,299)	34,246	(70,053)
Foreign Exchange	(1,630)	596	(1,034)
At 31 December 2019	<u>46,268</u>	<u>(15,778)</u>	<u>30,490</u>
 2018	 Gross £000	 Reinsurer's share £000	 Net £000
At 1 January 2018	32,136	(6,353)	25,783
Premiums written in the year	143,968	(33,260)	110,708
Premiums earned in the year	(132,734)	27,129	(105,605)
Foreign Exchange	2,297	(737)	1,560
At 31 December 2018	<u>45,667</u>	<u>(13,221)</u>	<u>32,446</u>

11. Claims Outstanding

2019	Gross £000	Reinsurer's share £000	Net £000
At 1 January 2019	185,769	(74,386)	111,383
Claims incurred in current accident year	90,553	(41,816)	48,737
Claims paid during the year	(85,042)	38,085	(46,957)
Foreign Exchange	(6,607)	2,824	(3,783)
At 31 December 2019	<u>184,673</u>	<u>(75,293)</u>	<u>109,380</u>
2018	Gross £000	Reinsurer's share £000	Net £000
At 1 January 2018	92,031	(26,145)	65,886
Claims incurred in current accident year	148,622	(56,279)	92,343
Claims paid during the year	(63,186)	11,804	(51,382)
Foreign Exchange	8,302	(3,766)	4,536
At 31 December 2018	<u>185,769</u>	<u>(74,386)</u>	<u>111,383</u>

12. Cash at bank and in hand

	2019 £000	2018 £000
Cash at bank and in hand	<u>16,638</u>	<u>38,730</u>
	<u>16,638</u>	<u>38,730</u>

This balance comprises the cash and cash equivalents presented in the Statement of Cash Flows.

13. Deferred Acquisition Costs

	2019 £000	2018 £000
At 1 January	9,846	3,100
Change in deferred acquisition costs	(287)	5,373
Foreign Exchange	(461)	1,373
At 31 December	<u>9,098</u>	<u>9,846</u>

14. Debtors arising out of reinsurance operations

	2019 £000	2018 £000
1955 Quota share reinsurance debtor	8,929	21,638
Due from intermediaries	<u>28,182</u>	<u>34,218</u>
	<u>37,111</u>	<u>55,856</u>

15. Other Creditors

Within 1 year	Note	2019 £000	2018 £000
Working Capital Loan – Humboldt Re		-	-
Working Capital Loan – Iris Balanced		-	3,011
Working Capital Loan – Iris Low		-	3,011
Amounts due to Barbican Group Companies		<u>1,482</u>	<u>1,245</u>
	20	<u>1,482</u>	<u>7,267</u>

The working capital loans were repaid in 2019.

16. Debtors arising out of direct insurance operations – Intermediaries

	2019 £000	2018 £000
Gross premium due	<u>16,445</u>	<u>10,583</u>
	<u>16,445</u>	<u>10,583</u>

17. Creditors arising out of reinsurance operations

	2019 £000	2018 £000
Reinsurance Premium Due	<u>20,524</u>	<u>18,555</u>
	<u>20,524</u>	<u>18,555</u>

18. Other Debtors

	Note	2019 £000	2018 £000
VAT Control Account		36	23
Refund due from Lloyd's		475	493
Inter Company with Arcus 1856 Limited	20	<u>115</u>	<u>71</u>
		<u>626</u>	<u>587</u>

19. Risk Management

a. Governance Framework

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

The Agency has established a risk management framework and has adopted the terms of reference of the Barbican Group's Risk Management function and approves the annual plans of that function to support its risk management framework. The risk management framework is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Agency Board to the Managing Director and executive management committees. Lastly, a policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations has been put in place.

The Agency Board approves risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies relevant to the Syndicate and their implementation. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. Significant emphasis is placed on the assessment and documentation of risks and controls, including the articulation of risk appetite.

b. Capital Management Objectives, Policies and Approach

In line with the Lloyd's capital framework, Lloyd's capital setting process and provision of capital by members, the Agency has established the following capital management objectives, policies and approach to managing the risks that affect the Syndicate's capital position:

- To maintain the required level of stability of the Syndicate thereby providing a degree of security to insureds;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its members;
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- To align the profile of assets and liabilities taking account of risks inherent in the business, and
- To maintain financial strength to support new business growth and to satisfy the requirements of the insureds, regulators and stakeholders.

The operations of the Agency, which manages the underwriting of the Syndicate, are subject to regulatory requirements within the jurisdictions in which it operates, in particular compliance with Financial Conduct Authority ("FCA") rules, Prudential Regulation Authority ("PRA") rules, the Society of Lloyd's standards and by-laws, and relevant EU regulations and European Insurance and Occupational Pensions Authority ("EIOPA") guidelines. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimise the risk of default and insolvency on the part of insurers to meet unforeseen liabilities as they arise.

The Syndicate has met all of these requirements throughout the financial year.

In reporting financial strength, capital and solvency are principally measured using the rules prescribed by the PRA as applicable to the Society of Lloyd's and Lloyd's managing agents. These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written.

The Agency's capital management policy is to hold sufficient capital to cover the statutory requirements based on the requirements of the PRA and Lloyd's, including any additional amounts required by the regulators.

c. Approach to Capital Management

The Agency seeks to optimise the structure and sources of capital to ensure that it consistently maximises capital resources.

The Agency's approach to managing Syndicate capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to manage the capital position of the Syndicate in the light of changes in economic conditions and risk characteristics. An important aspect of the Syndicate's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Syndicate is focused on the creation of value for members.

The primary sources of capital used by the Syndicate are members' balances and bank letters of credit.

The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analyses. The process is ultimately subject to approval by the Agency Board.

The Agency has developed a Lloyd's Internal Model ("LIM") framework on behalf of the Syndicate to identify risks and quantify their impact on economic capital. The LIM estimates how much capital is required to reduce the risk of insolvency to a remote degree of probability under Solvency II requirements. The LIM has also been considered in assessing the capital requirement.

The Syndicate has had no significant changes in its policies and processes to its capital structure during the past year.

d. Capital Resources Requirement

The Syndicate is subject to capital requirements imposed by Lloyd's. Throughout the year the Syndicate has complied with the Lloyd's risk-based LIM methodology under Solvency II, which is used to calculate the Syndicate's capital requirement. Lloyd's capital setting use a capital requirement set at syndicate level as a starting point. The requirement to meet Solvency II & Lloyd's capital requirements apply at overall member level respectively, not at syndicate level. Accordingly, the capital requirement of Syndicate 1856 is not disclosed in these annual accounts.

e. Solvency II Capital Requirements

Under the Solvency II regime, there are two prescribed methods for assessing an insurer's regulatory capital requirements – using either a standard formula set by the regulator or an Internal Model specific to that insurer which is subject to regulatory approval.

The Syndicate operates within the Lloyd's market. The PRA has determined that the Society of Lloyd's is the relevant insurer for the Lloyd's market. The Society of Lloyd's has chosen to operate an Internal Model, and this was approved by the PRA in December 2015. The Society of Lloyd's require all managing agents to operate an internal model for each managed syndicate that is structured on Solvency II lines and which (when aggregated) ensures the integrity and effectiveness of the Society of Lloyd's Internal Model. The Solvency II regime became effective on 1 January 2016.

The Society of Lloyd's not only oversees the approval and monitoring of each syndicate's internal model, but also imposes certain restrictive provisions to minimise the risk of non-compliance with regulatory capital requirements.

The effective management of risk and capital is a key strategic priority. The Agency's risk management framework enhances the definition of the risk standards and risk tolerances which guide the day-to-day business decision making and processes and aim to ensure that the risk appetite is not exceeded.

Economic capital is calculated for the Syndicate considering the complete spectrum of risks identified by the risk framework, ensuring that the capital requirement reflects the risk profile and enabling capital to be allocated and returns measured on a risk adjusted basis.

The Solvency II Directive has been transposed into UK legislation through PRA rules and guidance. In addition, Solvency II firms are obligated to comply with relevant EU regulations and EIOPA guidelines. The PRA authorises and regulates both the Society of Lloyd's and Lloyd's managing agents, including the Agency. In addition, the Society of Lloyd's supervises certain activities performed by Lloyd's managing agents.

The Syndicate submitted its Quarterly Solvency Return (QSR) for 31 December 2019 to Lloyd's on 21 January 2020, and will submit its Annual Solvency Return (ASR) for 31 December 2019 to Lloyd's on 10 March 2020.

f. Insurance Risk

Insurance risk refers to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Syndicate at the time of underwriting.

Some specific examples of insurance risk include variations in the severity or frequency of claims or the unexpected occurrence of multiple claims arising from a single cause. More generally, insurance risk includes the potential for claims overruns relative to pricing or reserving assumptions.

Insurance risk is a concern in a prudential context because inadequate systems and controls for its management can create a threat to the PRA's regulatory objectives of maintaining market confidence and consumer protection. Inadequately managed insurance risk may result in:

1. The inability of a syndicate to meet its contractual insurance liabilities as they fall due; and
2. The inability of a syndicate to treat its insureds fairly and consistently with the Syndicate's obligations.

The Syndicate's underwriting strategy is to write a book of business with a focus on building a composite portfolio with a high level of diversification, thus creating a business with low volatility and a good opportunity for consistent profit across the underwriting cycle. The Syndicate's appetite is governed by market conditions and management undertakes a continuous assessment of its portfolio against this background.

Tolerance - Risk Appetite

The Syndicate's tolerance by class of business is covered within the business plan. The Syndicate operated within defined exception criteria as follows:

1. Stamp capacity was £104.9m for the 2019 year of account (2018 year of account: £104.2m);
2. Maximum realistic disaster scenario net exposure for the 2019 year of account of 69% (2018 year of account: 28%) of stamp capacity; and
3. Usual maximum gross line size for 2019 of £15.0m (2018: £15.0m).

Claims

Open market claims are settled by the claim's management team. The claims department operates to approved claims handling guidelines which reflect Lloyd's minimum standards.

Claims development tables shown on an underwriting year basis and are set out below and the key assumptions underlying liability estimates are set out in the Key Assumptions section.

Gross insurance ultimate contract outstanding claims provisions as at 31 December 2019:

Gross Ultimate Claims

Development Year	1	2	3	4	5	6	Total
	£000	£000	£000	£000	£000	£000	£000
Year of Account							
2016	57,735	59,926	117,918	117,508			117,508
2017	90,017	94,087	95,054				95,054
2018	94,956	101,012					101,012
2019	85,674						85,674
Current estimate of ultimate claims							399,248
Cumulative payments							(181,228)
Gross unearned claims							(33,347)
Gross claims reserve							184,673

Net insurance ultimate contract outstanding claims provisions as at 31 December 2019:

Net Ultimate Claims

Development Year	1	2	3	4	5	6	Total
	£000	£000	£000	£000	£000	£000	£000
Year of Account							
2016	39,555	41,789	84,029	85,338			85,338
2017	55,696	56,323	57,189				57,189
2018	46,890	47,756					47,756
2019	45,964						45,964
Current estimate of ultimate claims							236,247
Cumulative payments							(106,933)
Gross unearned claims							(19,934)
Gross claims reserve							109,380

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

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and members' balances.

31 December 2019	Change in assumptions	Impact on gross liabilities £000	Impact on net liabilities £000	Impact on profit and members' balances £000
Average claim cost	+10%	17,952	6,583	(6,583)
Average number of claims	+10%	18,275	9,065	(9,065)
31 December 2018	Change in assumptions	Impact on gross liabilities £000	Impact on net liabilities £000	Impact on profit and members' balances £000
Average claim cost	+10%	18,211	6,862	(6,862)
Average number of claims	+10%	18,379	7,655	(7,655)

The syndicate has material exposure to Typhoons Faxai and Hagibis on the 2019 year of account. This increases the uncertainty of the Syndicate's total reserves, but not beyond the normal range of uncertainty for insurance liabilities at this stage of development. By performing a sensitivity analysis to the 2019 Catastrophe losses, the Syndicate determined that a 10% increase on the gross reserves amount of £33.0m will have a minimal impact on the net reserves due to the reinsurance programme covering the affected classes of business.

The Agency uses both its own and commercially available proprietary risk management software to assess Syndicate 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 un-modelled event are greater than those arising from a modelled event.

The following table shows hypothetical claims arising for the largest realistic disaster scenarios based on the Syndicate's average risk exposures during 2019.

	Estimated gross loss \$m	Estimated net loss \$m
US earthquake	135	32
US windstorm	220	95
Japan earthquake	73	8
Japan windstorm	30	18
Europe windstorm	44	20
	<u>502</u>	<u>173</u>

The following table shows hypothetical claims arising for the largest realistic disaster scenarios based on the Syndicate's average risk exposures during 2018.

	Estimated gross loss \$m	Estimated net loss \$m
US earthquake	86	25
US windstorm	150	37
Japan earthquake	53	18
Japan windstorm	29	18
Europe windstorm	77	20
	<u>395</u>	<u>118</u>

There are agreed documented outwards reinsurance procedures in place covering the purchase of reinsurance and the recovery process. There is also a policy for the approval of reinsurers to minimise credit risk.

The Agency assesses the Syndicate's need for reinsurance on a continuous basis. The structure of the reinsurance programme is part of the annual planning process and broad estimates of reinsurance spend are made. The programme is subject to extension or modification as the year progresses. Procedures for purchasing approval and transactions processing are set out in a procedure's manual.

The table below sets out the concentration of outstanding claim liabilities by business segment:

31 December 2019	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
Marine	-	-	-
Aviation	(16,274)	6,635	(9,639)
Energy marine	(4,127)	1,683	(2,444)
Energy non-marine	(18,390)	7,498	(10,892)
Fire and other damage to property	(35,985)	14,672	(21,313)
Third party liability	(17,855)	7,279	(10,576)
Reinsurance	(92,042)	37,526	(54,516)
Total	(184,673)	75,293	(109,380)

31 December 2018	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
Marine	(82)	33	(49)
Aviation	(4,970)	1,990	(2,980)
Energy marine	(1,523)	610	(913)
Energy non-marine	(4,859)	1,946	(2,913)
Fire and other damage to property	(7,351)	2,944	(4,407)
Third party liability	(7,026)	2,813	(4,213)
Reinsurance	(159,958)	64,050	(95,908)
Total	(185,769)	74,386	(111,383)

The geographical concentration of the outstanding claim liabilities is noted below. The disclosure is based on the countries where the risk is located. The analysis would not be materially different if based on the countries in which the counterparties are situated.

31 December 2019	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
United Kingdom	(2,107)	859	(1,248)
EEA	(10,462)	4,265	(6,197)
USA	(74,511)	30,379	(44,132)
International	(97,593)	39,790	(57,803)
Total	(184,673)	75,293	(109,380)

31 December 2018	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
United Kingdom	(5,094)	2,040	(3,054)
EEA	(9,620)	3,852	(5,768)
USA	(62,730)	25,118	(37,612)
International	(108,325)	43,376	(64,949)
Total	(185,769)	74,386	(111,383)

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 accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors such as public attitude to claiming; economic conditions and 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.

g. Credit Risk

Credit risk arises where one party is exposed to a loss through another party failing to perform its financial obligations to the other party, including failure to perform in a timely manner. Examples of credit risk arising in insurance are from premium debtors, where cover under contracts of insurance may either commence before premiums become due or continue after their non-payment. It can also arise if a reinsurer fails to fulfil its obligation to pay where a valid claim has been made.

Credit risk is not limited to those risks arising in insurance but also in financial investments where the Syndicate is exposed to potential failure by investment counterparties.

Credit risk is a concern in a prudential context because of the risk of erosion of capital due to persistent credit losses so threatening its viability as a going concern and hampering the Syndicate's ability to meet its own obligations to its insureds.

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers. The Agency's policy is that the Syndicate generally reinsures with businesses rated A- or higher by one or more rating agencies. The Syndicate only uses reinsurers with lower ratings or that are completely unrated where collateral or a claim paying

guarantee from a parent undertaking is provided. As at 31 December 2019, the Syndicate had £63.8m of collateral (2018: £86.6m).

The Agency has adopted a prudent investment policy. Exposure to investment counterparty risk has been minimised by appointing experienced third-party investment managers and operating to agreed investment guidelines which determine the investments to which the Syndicate is exposed. Investments performance is overseen by the Investment Committee.

The overall responsibility for the oversight of intermediaries and reinsurers has been delegated to the Risk and Capital Committee. The Risk and Capital Committee reviews the credit ratings of reinsurers on a quarterly basis and reports to the Agency Board, which approves the use of intermediaries and reinsurers and reviews any late settlement or reputational issues of the counterparties. The Agency finance and compliance functions support the formation and renewal of intermediary relationships to help ensure that inappropriate parties are not used by the Syndicate.

The policy for approving reinsurers includes limits on counterparty exposure in order to limit the total credit risk the Syndicate may be exposed to in respect of any one reinsurer.

Credit risk from exposure to investment counterparties is controlled by operating to very prudent investment guidelines. Investments are managed by a third-party investment manager, appointed under the terms of an Investment Management Agreement. The Syndicate's maximum exposure to credit risk to the assets below at 31 December 2019 is the carrying amount as presented in the note.

A ratings table for the Syndicate's financial assets that are neither due nor impaired is given below.

At 31 December 2019	AAA	AA	A and Below	Unrated	Total
	£000	£000	£000	£000	£000
Financial Investments	17,675	30,998	14,093	-	62,766
Cash at bank and in hand	-	-	16,638	-	16,638
Overseas deposits	713	125	534	41	1,413
Reinsurer' share of claims outstanding	-	10,458	41,829	23,006	75,293
Debtors arising out of reinsurance operations	-	5,155	20,617	11,339	37,111
Total	18,388	46,736	93,711	34,386	193,221

	AAA	AA	A and Below	Unrated	Total
At 31 December 2018					
	£000	£000	£000	£000	£000
Financial Investments	-	-	-	37,501	37,501
Cash at bank and in hand	-	-	38,730	-	38,730
Overseas deposits	420	84	299	4	807
Reinsurer' share of claims outstanding	-	-	30,343	44,043	74,386
Debtors arising out of reinsurance operations	-	-	21,638	34,218	55,856
Total	420	84	91,010	115,766	207,280

The source for ratings is Standard and Poor's.

The Syndicate does not consider that there is a significant concentration of risk with respect to its insurance receivables accounts. Of the total assets, none have been impaired.

The ageing of the Syndicate's assets is disclosed below:

At 31 December 2019	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£000	£000	£000	£000	£000	£000
Financial investments	62,766	-	-	-	-	62,766
Overseas Deposits	1,413	-	-	-	-	1,413
Cash at bank and in hand	16,638	-	-	-	-	16,638
Reinsurer' share of claims outstanding	75,293	-	-	-	-	75,293
Insurance Debtors	16,445	-	-	-	-	16,445
Reinsurer share of unearned premiums	15,778	-	-	-	-	15,778
Debtors arising out of reinsurance operations	35,650	378	1,083	-	-	37,111
Other Assets	9,724	-	-	-	-	9,724
Total	233,707	378	1,083	-	-	235,168

At December 2018	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
Financial investments	37,501	-	-	-	-	37,501
Overseas Deposits	807	-	-	-	-	807
Cash at bank and in hand	38,730	-	-	-	-	38,730
Reinsurer' share of claims outstanding	74,386	-	-	-	-	74,386
Insurance Debtors	10,583	-	-	-	-	10,583
Reinsurer share of unearned premiums	13,221	-	-	-	-	13,221
Debtors arising out of reinsurance operations	55,303	100	453	-	-	55,856
Other Assets	10,433	-	-	-	-	10,433
Total	240,964	100	453	-	-	241,517

h. Market Risk

Market risk is defined as the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business. This includes the possibility that changes in market factors, foreign currency exchange rates or interest rates will adversely affect the value of the Syndicate's financial assets, liabilities or expected future cash flows.

The intention of the Agency is for the Syndicate to invest surplus funds in low risk securities in line with the agreed investment guidelines.

i. Foreign Currency Risk

In order to minimise market risk arising from foreign exchange the Syndicate matches the currency of anticipated liabilities to its assets. Shortfalls of sterling to settle expenses are managed by the sale of surplus currencies as required.

Cash flow reports form part of monthly accounting. Cash flow forecasts are performed regularly to ensure currencies are matched and to minimise any foreign exchange risk.

The Syndicate maintains ledger balances in six main currencies: Sterling, Euros, US Dollars, Japanese Yen, Australian Dollars and Canadian Dollars.

The most important non-sterling currency exposure relates to the US dollar. As well as the US Situs business, exposures arise from a number of classes of business transacted outside of the USA, mainly Property. Maintenance of currency ledgers enables the Agency to monitor foreign exchange risk.

Notes to the Annual Accounts

The carrying value of total assets and liabilities by currency is as follows:

At 31 December 2019	GBP £000	US \$ £000	Euro € £000	CAD \$ £000	Other £000	Total £000
Reinsurers' share of technical provisions	3,477	80,366	7,020	60	148	91,071
Insurance and reinsurance receivables	6,715	46,618	(178)	27	374	53,556
Financial investments	9,784	50,519	-	2,463	-	62,766
Cash at bank and in hand	2,625	329	6,228	-	7,456	16,638
Other deposits	336	341	-	280	456	1,413
Other assets	(17,068)	26,118	13,573	199	(13,098)	9,724
Total assets	5,869	204,291	26,643	3,029	(4,664)	235,168
Technical Provisions Insurance and Reinsurance	(23,729)	(143,054)	(16,698)	(2,092)	(45,368)	(230,941)
Payables	186	(14,939)	(5,503)	(132)	(136)	(20,524)
Other creditors	(1,473)	-	(9)	-	-	(1,482)
Total Liabilities	(25,016)	(157,993)	(22,210)	(2,224)	(45,504)	(252,947)
Currency Adjustments	19,282	(19,032)	(13,307)	(136)	13,193	-
Members' balances	135	27,266	(8,874)	669	(36,975)	(17,779)

At 31 December 2018	GBP £000	US \$ £000	Euro € £000	CAD \$ £000	Other £000	Total £000
Reinsurers' share of technical provisions	4,193	81,311	1,795	93	215	87,607
Insurance and reinsurance receivables	2,011	57,153	2,587	583	4,105	66,439
Financial investments	-	35,637	-	1,864	-	37,501
Cash at bank and in hand	14,275	-	10,951	-	13,504	38,730
Other deposits	177	215	-	140	275	807
Other assets	(22,051)	23,352	8,150	(765)	1,747	10,433
Total assets	(1,395)	197,668	23,483	1,915	19,846	241,517
Technical Provisions Insurance and reinsurance	(27,004)	(151,706)	(18,638)	(2,726)	(31,362)	(231,436)
Payables	29	(16,718)	(1,866)	-	-	(18,555)
Other creditors	(1,244)	(6,023)	-	-	-	(7,267)
Total Liabilities	(28,219)	(174,447)	(20,504)	(2,726)	(31,362)	(257,258)
Currency Adjustments	23,848	(16,401)	(7,207)	829	(1,069)	-
Members' balances	(5,766)	6,820	(4,228)	18	(12,585)	(15,741)

The Syndicate has sufficient free funds available in other currencies, which can be translated at any point to cover expenses payable and any other liabilities incurred.

j. Sensitivity Analysis

Sensitivity analysis is carried out on the underwriting/investment portfolio in relation to key parameters such as: exchange rates, market rating cycles, coverage cycles and catastrophe model output. At 31 December 2019, the Syndicate used closing rates of exchange of £1: \$1.32 and £1: €1.18 (31 December 2018: £1: \$1.27 and £1: €1.11).

The Agency performs sensitivity analysis based on a 10% strengthening or weakening of Pound Sterling against the Euro and US Dollar. This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The process of deriving the undernoted estimates takes account of the linear retranslation movements of foreign currency monetary assets and liabilities.

Increase/(decrease) on members' balances	2019 £000	2018 £000
Strengthening of US dollar	1,073	338
Weakening of US dollar	(995)	(308)
Strengthening of Euro	(393)	(242)
Weakening of Euro	<u>361</u>	<u>217</u>

k. Interest Rate Risk

The Syndicate holds financial assets that are exposed to interest rate risk. Changes in interest yields, with all other variables constant, would result in changes in the capital value of financial investments and cash. This would affect reported profits and members' balances as indicated in the stress test below. This is applied to the position as at 31 December 2018 and considers the full effect of mark to market movements, but without recognising any running yield benefit.

	Impact on loss for the year		Impact on members' balances	
	2019 £000	2018 £000	2019 £000	2018 £000
Shift in yield (basis points)				
50 basis points decrease	264	33	264	33
50 basis points increase	<u>(262)</u>	<u>(33)</u>	<u>(262)</u>	<u>(33)</u>

l. Liquidity Risk

Liquidity risk is the risk that a Syndicate, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The Agency's liquidity risk policy covers only those aspects of liquidity risk which do not fall under the heading of insurance risks. Broadly, it is the management of risk arising from short-term cash-flows, rather than the risk arising from longer term matching of assets and liabilities. Nevertheless, it covers the risk of shock loss events and the risk of having insufficient liquid funds to settle liabilities.

Liquidity risk arises if assets prove to be worth substantially less than anticipated when they have to be realised i.e. there is a mismatch between planning to realise assets and actual events. Liquidity risk is closely related to market and credit risks though these are covered by separate risk policies. Market risk arises where the value of the fund/investments proves to be significantly less than anticipated due to deterioration/flux in the general economy or from currency exchange rate movement. The credit risk policy seeks to ensure that the Syndicate is in a position to meet all payments as they fall due by ensuring that inwards funds are paid promptly.

Additionally, the Syndicate aims to maintain minimum and maximum amounts of its investments in liquid funds and/or cash and cash equivalents.

The credit risk policy covers key reinsurance contracts into which the Syndicate enters, with details given below of complex reinsurance arrangements:

Future Cash Flows

The table below presents the undiscounted value of monetary liabilities of the Syndicate into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates for insurance contract liabilities.

At 31 December 2019	< 1 year	1-3 years	3-5 years	> 5 years	Total
	£000	£000	£000	£000	£000
Claims outstanding	69,546	95,158	15,577	4,392	184,673
Creditors arising out of reinsurance operations	20,467	57	-	-	20,524
Other Creditors	1,482	-	-	-	1,482
Total Liabilities	91,495	95,215	15,577	4,392	206,679

At 31 December 2018	< 1 year	1-3 years	3-5 years	> 5 years	Total
	£000	£000	£000	£000	£000
Claims outstanding	56,006	102,259	20,314	7,190	185,769
Creditors arising out of reinsurance operations	18,555	-	-	-	18,555
Other Creditors	7,267	-	-	-	7,267
Total Liabilities	81,828	102,259	20,314	7,190	211,591

m. Operational Risk

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is inclusive of all internal processes, manual and computerised, and all systems; internal and external fraud; and employee competence. Employee relations and culture are included in people risks.

An assessment of operational risk is important as it can affect a Syndicate's solvency or lead to unfair treatment of consumers or lead to financial crime. The Syndicate should consider all operational risk events that may affect these matters in establishing and maintaining its systems and controls.

The Agency's strategy is to implement and maintain a high level of operational processes and procedures. These are subject to ongoing review and update. This will help reduce and control operational risk more effectively and make any subsequent loss more manageable. The operational controls are designed to meet the requirements of relevant regulatory bodies and agreed best practice. All operational controls are monitored on a regular basis to ensure that they remain fit for purpose.

n. Dependencies between Risk Categories

Under certain conditions, the outcome with respect to one risk category could influence the outcome of another. There are two such specific dependencies which the Agency has identified:

1. A major loss event could lead to widespread failures within the reinsurance market. The loss would need to be very large since the reinsurance market, particularly that part of the market to which the Syndicate is exposed, has in the past shown itself to be robust enough to withstand losses such as World Trade Center and major hurricane losses.
2. There are a number of operational risks that have the potential to correlate with major natural catastrophe losses. For example, the consequences of inadequately monitoring liquidity are only likely to be suffered should there be a significant call on liquidity (likely to happen after a major loss event).

Major loss events may have an effect on investment markets; however, the effect tends to be felt principally in equity markets to which the Syndicate has no current direct exposure.

In terms of other loss types, an aggregation of casualty claims might coincide with a weak economy. Historically, although more commonly a weak economy has coincided with a period of lower interest rates, this relationship varies depending upon the cause of the weak economy and in some instances can be accompanied by higher interest rates. The timing of the claims experience is also far from clear; in some instances, recessionary claims emerge with clarity only with a sufficient time lag (even under claims-made cover) such that the economy is improving again, and interest rates might be rising. Therefore, although there is an argument for some degree of positive correlation, it is not clear how significant this might be.

20. Related parties

a. Whole Account 1955 Quota Share

Syndicate 1955 ceded £4.8m of premium to Syndicate 1856 in 2019 for the 2018 and prior years of account, (2018 £16.3m).

The whole account quota share balance with Syndicate 1955 as at 31st December 2019 is £8.9m (2018: £21.6m).

b. Key Management Personnel Compensation

The key management personnel are deemed to be the Directors of the Agency or the Active Underwriter.

The Directors' remuneration has been disclosed separately in note 6 to the annual accounts.

c. Barbican Companies

The Syndicate is managed by the Agency, whose parent company is Barbican Holdings (UK) Limited. The Syndicate had an outstanding creditor balance held with the Agency at 31st December 2019 of £Nil (2018: £0.01m). At 31st December 2019 the Syndicate had an outstanding creditor balance with Barbican Holdings (UK) Limited of £1.5m (2018: £1.23m).

d. Arcus 1856 Limited

Arcus 1856 Limited provides services to the Syndicate paying and recharging expenses to the Syndicate, the Syndicate provides a monthly float of £0.07m to Arcus 1856 Limited, as at 31st December 2019 the Syndicate had a debtor balance of £0.1m (2018: £0.1m).

e. Working Capital Loans

In December 2016 and October 2017 Arcus Syndicate 1856 received working capital loans from the Syndicate's Corporate Members. The loans were repaid in 2019.

	2019	2018
		£000
Balance as at 1 January	6,022	12,357
Repaid during the year	(6,050)	(7,119)
Interest accrued in year	27	214
FX movement in year	1	570
Balance as at 31 December	-	6,022

21. Funds at Lloyd's

Every member of Lloyd's 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 PRA 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 Agency or the Syndicate, no amount has been shown in these Annual Accounts by way of such capital resources.

However, the Agency is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

22. Off-statement of financial position items

As at 31 December 2019, the Syndicate had received £63.8m of collateral (2018: £86.6m) from reinsurers with ratings lower than A-.

The Syndicate has not been party to any other arrangement, not reflected in its annual accounts, where material risks or benefits accrue to the Syndicate.

23. Derivatives

The Syndicate has not purchased any forward foreign currency contracts to hedge currency exposure or entered into any other derivative contracts within the period.

24. Post Reporting Date Events

There are no post financial statement events which will impact the Syndicate's 2019 result or financial position.