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Barbican Syndicate 1955

Syndicate Annual Accounts under UK GAAP

Barbican

31 December 2014

Barbican Syndicate 1955
31 December 2014

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Directors and Administration

Managing Agent

Barbican Managing Agency Limited

Directors

J B Soames	(Chairman)
D M Booth	(appointed 5 August 2014)
W T B Canagaretna	
H N A Colthurst	(appointed 9 October 2014)
C R Cunningham	
K D Curtis	(resigned 19 January 2015)
A D Elliott	(resigned 1 April 2014)
J J S Godfray	
M J Harrington	
R H Hobbs	
D E Reeves	(appointed 20 January 2015)

Managing Agent's registered office

33 Gracechurch Street
London
EC3V 0BT

Managing Agent's registered number

06948515

Company secretary

Stephen Britt

Syndicate Active Underwriter

D M Booth

Bankers

Lloyds TSB plc
Citibank NA
Royal Trust Corporation of Canada
Barclays Bank plc

Investment managers

Lloyd's Treasury Department
General Re - New England Asset Management

Auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Report of the directors of the Managing Agent

The Directors of the Managing Agent present their report for the year ended 31 December 2014 for Syndicate 1955 ("the Syndicate").

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

Managing Agent

From 1 January 2011 the Managing Agent of the Syndicate has been Barbican Managing Agency Limited, whose registered office is 33 Gracechurch Street, London, EC3V 0BT and registered number is 06948515.

Result

The result for calendar year 2014 is a total recognised gain of £5.2m (2013 gain: £7.3m). This is analysed further below.

Taking into account the Special Purpose Syndicate ("SPS") cessions, the Syndicate's key financial performance indicators during the year were as follows:

	2014			2013		
	Total written	SPS cession	Retained	Total written	SPS cession	Retained
	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	273,900		273,900	278,908		278,908
Gross premiums earned	274,319		274,319	253,030		253,030
Net premiums earned	212,014	(54,589)	157,425	206,128	(10,001)	196,127
Net claims incurred	(118,770)	33,865	(84,905)	(115,386)	4,383	(111,003)
Other technical income, net of reinsurance	982	-	982	-	-	-
Investment return	1,943	(403)	1,540	799	(81)	718
Operating expenses	(82,266)	11,824	(70,442)	(77,666)	1,685	(75,981)
Realised and unrealised movements on foreign exchange	1,623	(1,061)	562	(2,920)	396	(2,524)
Total recognised gains and losses relating to the financial year	15,526	(10,364)	5,162	10,955	(3,618)	7,337
Claims ratio	56.0%	62.0%	53.9%	56.0%	43.8%	56.6%
Expense ratio*	38.8%	21.7%	44.7%	37.7%	16.8%	38.7%
Combined ratio	94.8%	83.7%	98.7%	93.7%	60.7%	95.3%

*Expense ratio includes impact of other technical income, net of RI, which comprises consortium income.

Report of the directors of the Managing Agent

Principal activity and review of the business

For 2014 the Syndicate underwrote with an authorised capacity base of £250m (2013: £227m). It underwrote for the retained capital account provided by the Barbican group and also for the account of third party investors who supported the overall Syndicate underwriting via their participation on those SPS's which were also managed by the Barbican managing agency.

In 2014, £33.7m of capacity (2013: £24m) was ceded to SPS 6113, a short tail, catastrophe business focused portfolio.

In addition, £25m of capacity was ceded to SPS 6118, a whole account quota share of the Syndicate which was established in 2014. During the year, a proportion of Syndicate 1955's back year reserves (2008 to 2011 Years of Account) was ceded to SPS 6118. This was calculated as 11.547% of those reserves in accordance with the cession agreement, and amounted to a £15.8m improvement in Syndicate 1955's net reserves.

For the 2015 Year of Account, the Syndicate has a total authorised capacity of £260m. Of this, £48m has been ceded to SPS 6118. In addition, a further £40m has been ceded to the new SPS 6120, created to allow third party corporate investors to participate in the fortunes of the Syndicate. The cessions for both SPS's will be calculated on the Syndicate's result net of external reinsurance, and as such the cessions to SPS 6118 and SPS 6120 are independent of one another.

SPS 6113 was not renewed for the 2015 Year of Account as the clear preference of the investor community was for whole account rather than a more selective short tail account participation.

The cessions the Syndicate makes to the SPS's are made on a funds withheld basis, whereby the SPS's do not hold any cash. The amounts ceded appear within creditors arising out of reinsurance operations on the Syndicate's balance sheet.

The Syndicate operates through three underwriting divisions covering seventeen different lines of business. In 2014 these divisions produced an aggregate of £273.9m gross written premium (2013: £278.9m). The three underwriting divisions comprise the following:

Marine, Aviation and Transport (MAT)

The MAT division encompasses both Marine Reinsurance and Marine Insurance. It also includes General Aviation and Aerospace, Energy and Terrorism and Political Risk business. In 2014 this division generated gross written premium of £113.0m (2013: £109.3m).

Property

The Property division operates in three classes of business: Property Insurance (featuring Open Market and Binding Authorities), Property Reinsurance and UK P&C Insurance. This division also includes Nuclear Insurance. In 2014 this division generated gross written premium of £53.8m (2013: £59.6m).

Specialty

The Specialty division includes six separate portfolios: Healthcare Liability, Cyber Liability, UK SME PI, Financial & Professional Lines and International Casualty Reinsurance and North American Casualty Reinsurance. In 2014 this division generated gross written premium of £107.1m (2013: £109.7m).

2014 calendar year underwriting performance

The 2014 calendar year experience has been more mixed than the previous year. Whilst the core shorter tail accounts – Marine Reinsurance and US Property – have experienced a benign claims occurrence, the expected headwinds of rate deterioration have started to make themselves felt in earnest across the portfolio. Some niche lines, particularly Aviation and

Political Risk, have seen significant loss experience in the period, and whilst in general prior year reserves continue to hold up well there have been two very specific accounts that have required reserve strengthening.

The MAT division continues to post strong results, with an overall combined ratio of 83% for the year. This division has seen a number of airline-related losses, with claims arising both on MH-17 and the Tripoli airport events. In addition, recognition of the Talisman claim, an emergence of a loss attaching to an historic Year of Account, has been required in the period. The disciplined management of net exposure of these business lines has, however, ensured that overall net underwriting returns continue to be ahead of plan.

The Property division has had a more challenging year. The significant competition in the US Property catastrophe space, both from established reinsurers and newer collateralised markets, has as expected led to significant rate weakening. Against this, the division has nonetheless managed to deliver premium volume broadly as planned in the Reinsurance area, whilst staying within the strict price rating and risk exposure guidelines laid down by management. The current accident year loss ratio has been favourable, reflecting a largely loss-free period; however, increased notifications on the New Zealand earthquake claims have required strengthening of reserves on prior years, leading to a more modest (but still better than plan) 87% combined ratio for the year. This division continues to be an important part of the overall Syndicate portfolio, notwithstanding the challenges posed by the ongoing weakening of the rating environment. The recruitment of a new lead underwriter, John Sawyer, to lead a new Delegated Underwriting Authority account within this division, underlines the commitment to developing and re-balancing this area to maintain positive returns.

The Specialty division continues to be an area of focus for improvement. Performance for 2014 was better than in the prior year but nonetheless was below plan. The Casualty Reinsurance lines have maintained premium levels at acceptable prices against a backdrop of ever-increasing competition, with favourable ongoing reserve run off. Within the Insurance lines, Cyber, Financial Liability and Directors and Officers have delivered solid results; Cyber in particular is an area in which the Syndicate’s expertise is noted. Healthcare and Professional Indemnity – particularly the UK Solicitors’ Professional Indemnity account, which has required some additional reserve strengthening on the older Years of Account – have proven more problematic. The divisional combined ratio of 104%, whilst worse than plan, represents movement in the right direction. Careful management is planned to maintain and improve on this direction of travel.

Overall, the strong current accident year performance, offset by the back year reserve strengthening, has resulted in a claims ratio for the Syndicate of 54% for the year (2013: 57%). This is a better out-turn than budgeted as part of the 2014 business planning exercise, and whilst there are clear areas requiring improvement, the Directors regard this outcome as satisfactory.

2012 Year of Account Reinsurance to Close

The 2012 underwriting Year of Account (YOA) of the Syndicate has been reinsured to close into the 2013 YOA of the Syndicate with a total recognised profit of £14.2m. This represents an outperformance against plan by some £3m, driven in particular by the favourable net performance of the MAT division lines. The Directors regard this result as satisfactory.

Investment returns

The Syndicate’s funds continued to grow in 2014, with investible funds at the end of December 2014 being £298.9m (2013: £218.0m), an increase of 37%. This was partly due to benign claims settlements (lower than forecast for the year), and partly driven by the ongoing increase in scale of funds associated with the growing whole account, pre-cession business.

The Syndicate continues to invest on a highly prudent basis. Funds are held in term cash deposits or are invested by the Syndicate's investment manager, General Re - New England Asset Management, in comparatively short duration government bonds or highly rated corporate bonds. The investment climate in 2014 has been marked by an extremely low interest environment globally, with effective yield actually negative for parts of the year in key haven investment areas. Overall investment yield for 2014 has shown an increase in performance against the previous year, at 0.6% (2013: 0.5%).

Principal risks and uncertainties

The Board of the Managing Agent sets risk appetite annually as part of the Syndicate's business planning and Individual Capital Assessment process. The agency has established a Risk and Capital Committee which meets at least quarterly to review and update the risk register and to monitor performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties facing the Syndicate are as follows:

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Board manages 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 Board then monitors performance against the business plan at least quarterly through the year. The agency uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business. Reserve adequacy is monitored through quarterly review by the Syndicate actuary and is 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 Board's policy is that the Syndicate will only reinsure with businesses rated in the A Range or higher. The agency has established a Security Committee which assesses and is required to approve all new reinsurers before business is placed with them.

Market risk

The key aspect of market risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Board's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Board, which may instruct surplus currencies to be sold to reduce the 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 Board reviews cash flow projections regularly and ensures the Syndicate holds very liquid investments in its portfolios.

Group risk

Group risk is the possibility that the operation of part of the Group adversely affects operations.

Group risks include: 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/or financial restraint leading to shortcomings in core activities such as reinsurance purchasing.

The overall strategy is to minimise any Group risk by ensuring there are clear lines of authority and communication between related parties, that Intra-Group reinsurance is placed at arm's length and that any Intra-Group agreements are clearly understood by all parties.

Operational risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The Board seeks to manage this risk through the use of detailed procedures manuals and a structured programme of testing processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

Regulatory risk

The Managing Agency is required to comply with the requirements of the Financial Conduct Authority, Prudential Regulation Authority and Lloyd's of London. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Board has appointed a Group Head of Compliance and Risk who monitors regulatory developments, assesses the impact on agency policy and reports to the Board.

Future developments

The Syndicate will continue to transact the current classes of general insurance and reinsurance business for the foreseeable future. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

The Syndicate has committed a significant level of resource to the implementation of the European Solvency II regime over this and prior years, achieving a solid 'Green' rating from Lloyd's as part of its readiness assessment. The Syndicate intends to remain active on all aspects of risk management including Solvency II now that this project has moved into a "business as usual" state.

Disclosure of information to the auditor

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

On behalf of the Board

C R Cunningham

Director

13 March 2015

Statement of Managing Agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The 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 Managing Agent 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 Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' 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 member of Barbican Syndicate 1955

We have audited the syndicate annual accounts of Syndicate 1955 for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an 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's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Managing Agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 9, the Managing Agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

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

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Independent auditor's report
to the members Barbican Syndicate 1955

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

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

Matters on which we are required to report by exception

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

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

Benjamin Gregory (Senior statutory auditor)

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

London

13 March 2015

Barbican Syndicate 1955
Profit and loss account

Technical account - General business

For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	273,900	278,908
Outward reinsurance premiums		(125,924)	(61,402)
Net premiums written		147,976	217,506
Change in the provision for unearned premiums:			
Gross amount		419	(25,878)
Reinsurers' share		9,030	1,405
Change in the net provision for unearned premiums		9,449	(24,473)
Earned premiums, net of reinsurance		157,425	193,033
Other technical income, net of reinsurance	12	982	-
Allocated investment return transferred from the non-technical account		1,540	718
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(114,829)	(111,142)
Reinsurers' share		51,253	47,495
Net claims paid		(63,576)	(63,647)
Change in the provision for claims			
Gross amount		(48,113)	(58,170)
Reinsurers' share		26,784	10,814
Change in the net provision for claims	4	(21,329)	(47,356)
Claims incurred, net of reinsurance		(84,905)	(111,003)
Net operating expenses	5	(73,472)	(72,682)
Balance on the technical account for general business		1,570	10,066

All the amounts above are in respect of continuing operations.

Barbican Syndicate 1955

Profit and loss account

Non-technical account

For the year ended 31 December 2014

	Notes	2014	2013
		£000	£000
Balance on the general business technical account		1,570	10,066
Investment income	9	2,603	767
Unrealised losses on investments	9	(178)	(754)
Realised gains on investments	9	(815)	837
Investment expenses and charges	9	(70)	(132)
Allocated investment return transferred to general business technical account		(1,540)	(718)
Profit for the financial year		1,570	10,066

Statement of total recognised gains and losses

For the year ended 31 December 2014

	2014	2013
	£000	£000
Profit for the financial year	1,570	10,066
Currency translation differences on foreign currency net investment	3,592	(2,729)
Total recognised gains relating to the financial year	5,162	7,337

Barbican Syndicate 1955
Balance sheet
Assets
As at 31 December 2014

	Notes	2014 £000	2013 £000
Investments			
Financial investments	11	261,531	179,225
Reinsurers' share of technical provisions			
Provision for unearned premiums		39,033	28,752
Claims outstanding		153,581	107,576
		192,614	136,328
Debtors			
Debtors arising out of direct insurance operations	12	120,738	119,989
Debtors arising out of reinsurance operations		45,304	52,148
Other debtors		1,475	2,179
		167,517	174,316
Other assets			
Cash at bank and in hand		23,515	22,278
Other deposits	13	13,860	16,467
Other assets		2,667	-
		40,042	38,745
Prepayments and accrued income			
Deferred acquisition costs		32,416	26,376
Other prepayments and accrued income	14	13,953	6,366
		46,369	32,742
Total assets		708,073	561,356

Barbican Syndicate 1955

Balance sheet

Liabilities

As at 31 December 2014

	Notes	2014 £000	2013 £000
Capital and reserves			
Member's balance	15, 22	11,276	(1,153)
Technical provisions			
Provision for unearned premiums		137,813	134,218
Claims outstanding		418,878	361,783
		556,691	496,001
Creditors			
Creditors arising out of direct insurance operations	16	560	270
Creditors arising out of reinsurance operations	17	102,835	30,853
Other creditors		86	42
		103,481	31,165
Accruals and deferred income		5,434	5,506
Creditors due after one year			
Creditors arising out of reinsurance operations		31,191	29,837
Total liabilities		708,073	561,356

The annual accounts on pages 12 to 31 were approved by the Board of Barbican Managing Agency Limited on 13 March 2015 and were signed on its behalf by

C R Cunningham

Finance Director

13 March 2015

Barbican Syndicate 1955

Statement of cash flows

For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Net cash (outflow) / inflow from operating activities	18	(23,254)	43,670
Transfer from member in respect of underwriting participations	15	7,267	29,967
Movement arising from cash flows	20	(15,987)	73,637
Cash flows were invested as follows:			
Increase in cash holdings	20	1,820	8,070
Decrease in deposits	20	(1,999)	(5,965)
(Decrease) / increase in portfolio investments	20	(15,808)	71,532
Net investment of cash flows	20	(15,987)	73,637

1. Basis of preparation

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

2. Accounting policies

Premiums written

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums on contracts incepted in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Premiums include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Unearned premiums

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

Reinsurance premium ceded

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

During 2010 management took out a multi-year stop loss reinsurance arrangement with Allianz Risk Transfer ("ART") covering the various casualty lines written by the Syndicate across the 2008 to 2011 underwriting years. During 2012 the contract was extended a further year to 2013 and was also amended to cover all classes of business from 2012 onwards. The premium payable to ART by each relevant year of account is recognised as ceded written premium and is earned in line with the underlying net applicable premiums. The contract operates on a "funds withheld basis" whereby a proportion of ceded premiums are considered as combined funds from which loss recoveries are first drawn, although ART are responsible for ultimate recoveries beyond the value of the funds withheld. For the 2012 and 2013 underwriting years, a no claims bonus payable under the contract is deducted from the funds withheld until the account is exhausted, or so deemed. The contract is subject to profit commission arrangements and amounts not drawn down from the funds withheld via loss recoveries are recoverable in the form of a profit commission (duly earned in accordance with the Syndicate's premium earning profile).

The Syndicate has also taken out quota share contracts with Special Purpose Syndicates (SPS) 6113 and 6118. The contracts operate on a "funds withheld basis" whereby the proportion of the ceded premiums are considered as combined funds from which loss recoveries will be drawn. The associated cash flows are expected to occur following the closure of the years of accounts at 36 months. As such, the balance of amounts ceded by the Syndicate to the SPSs' are recognised as a liability on the balance sheet.

Claims provisions and related recoveries

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

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

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The 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.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

Deferred acquisition costs

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

2. Accounting policies (continued)

Foreign currencies

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

Monetary and non-monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date.

Exchange differences arising on the retranslation of opening balance sheet items at the closing balance sheet rate and the retranslation of the profit and loss account for the year from the average rate to the closing balance sheet rate are taken to reserves and included in the Statement of Total Recognised Gains and Losses.

All other exchange differences are dealt with in the technical account and included within operating expenses.

Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value (bid value) and deposits with credit institutions and overseas deposits are stated at cost.

Investment return

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

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

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

Taxation

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

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

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

2. Accounting policies (continued)

Pension costs

The Barbican insurance group of companies, of which Barbican Managing Agency Limited is a member, operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Profit commission

Profit commission is charged by the Managing Agent at a rate of 15% of the profit (excluding investment income) on a year of account basis. 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. In the event that a year of account is loss making, a deficit clause permits losses to be carried forward against future year of account profits (up to two years) in order to reduce future year of account profit commission payments.

Profit commission receivable in respect of the ART stop loss contract is accounted on amounts not drawn down from the funds withheld account.

Consortia income

Consortia income is charged by the Managing Agent on certain lines of business, at a rate of 5%, 7.5% or 10% of gross written premium (depending on the consortium) on a year of account basis. This is charged to the Syndicate as incurred and becomes payable quarterly based on the premium written that quarter.

3. Segmental analysis

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

2014	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses* £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Direct insurance:							
Energy-marine	16,602	9,077	(4,463)	(2,415)	(1,839)	360	4,086
Energy-non marine	793	307	-	(98)	(102)	107	108
Marine, aviation and transport	41,193	25,428	(34,122)	(7,149)	6,083	(9,760)	31,437
Fire and other damage to property	35,214	27,117	(12,707)	(6,907)	(6,336)	1,167	12,110
Third party liability	71,110	76,490	(50,531)	(18,655)	(12,391)	(5,087)	125,355
Accident and health	825	110	(27)	(33)	(33)	17	271
Pecuniary loss	8,310	6,077	(2,257)	(1,772)	(1,219)	829	9,812
Total direct	174,047	144,606	(104,107)	(37,029)	(15,837)	(12,367)	183,179
Reinsurance	99,853	129,713	(58,835)	(37,483)	(20,998)	12,397	180,898
	273,900	274,319	(162,942)	(74,510)	(36,837)	30	364,077

3. Segmental analysis

2013	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses* £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Direct insurance:							
Energy-marine	5,447	4,272	(3,568)	(1,247)	343	(200)	3,192
Energy-non marine	144	141	(17)	(39)	(30)	55	85
Marine, aviation and transport	41,905	33,573	(20,938)	(9,380)	(884)	2,371	24,554
Fire and other damage to property	32,002	27,800	(13,216)	(7,753)	(2,226)	4,605	15,974
Third party liability	74,277	70,052	(67,758)	(20,110)	7,697	(10,119)	122,769
Accident and health	160	123	(147)	(33)	17	(40)	266
Pecuniary loss	5,797	3,242	(858)	(881)	(528)	975	9,609
Total direct	159,732	139,203	(106,502)	(39,443)	4,389	(2,353)	176,449
Reinsurance	119,176	113,827	(62,810)	(30,962)	(8,354)	11,701	556,691
	278,908	253,030	(169,312)	(70,405)	(3,965)	9,348	359,673

Gross operating expenses include consortia income of £1.0m (2013: £0.4m) and are gross of reinsurance commission of £2.2m (2013: £2.2m).

Commissions on direct insurance gross premiums earned during 2014 were £31.6m (2013: £25.6m).

Reinsurance balance includes reinsurance commission receivable.

All premiums were concluded in the UK.

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

	2014	2013
	£000	£000
UK	112,963	130,900
Other EU countries	32,887	36,311
US	87,049	80,812
Other	41,001	30,885
Gross premiums written	273,900	278,908

4. Claims Outstanding

The movement in the net provision for claims includes a deterioration of £11.1m in respect of claims outstanding at the previous year end (2013: release of £6.2m).

5. Net operating expenses

	2014	2013
	£000	£000
Acquisition costs	58,397	50,447
Reinsurers' commissions and profit participations	(3,718)	2,277
Change in deferred acquisition costs	(5,008)	(4,465)
Administrative expenses	20,771	24,628
Profit on exchange	3,030	(205)
Net operating expenses	73,472	72,682

Administrative expenses include:

	2014	2013
	£000	£000
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	2,918	6,145

6. Auditor's remuneration

	2014	2013
	£000	£000
Audit of the Syndicate annual accounts	170	157
Audit of the Managing Agent's annual accounts	15	14
Other services pursuant to regulations and Lloyd's byelaws	46	50
	231	221

7. Staff costs

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

	2014	2013
	£000	£000
Wages and salaries	7,110	7,333
Social security costs	483	631
Other pension costs	334	459
	7,927	8,423

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

	2014	2013
	No.	No.
Administration and Finance	79	64
Underwriting	53	55
Claims	6	5
	138	124

8. Emoluments of the Directors of Barbican Managing Agency Limited

The five Executive Directors of Barbican Managing Agency Limited, four of whom served throughout the year, received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2014	2013
	£000	£000
Emoluments	1,268	1,276

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

	2014	2013
	£000	£000
Emoluments	336	347

No advances or credits granted by the Managing Agent to any of its Directors subsisted during the year.

9. Investment income and expenses

	2014	2013
	£000	£000
Investment income		
Income from investments	2,603	767
(Loss) / gains on realisation of investment	(815)	837
Unrealised losses on investments	(178)	(754)
	1,610	850
Investment expenses and charges		
Investment management expenses, including interest	(70)	(132)
Net investment income	1,540	718

10. Calendar year investment yield

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

	2014	2013
	£000	£000
Average Syndicate funds available		
Sterling	83,031	35,812
Euro	37,663	25,725
United States dollars	190,160	156,621
Canadian dollars	25,985	19,082
Australian dollars	29,306	30,407
Investment return for the year		
Sterling	605	45
Euro	78	25
United States dollars	555	28
Canadian dollars	238	241
Australian dollars	745	1,023
Analysis of calendar year investment yield by fund	%	%
Sterling	0.73	0.13
Euro	0.21	0.10
United States dollars	0.29	0.02
Canadian dollars	0.92	1.26
Australian dollars	2.54	3.36

The overall investment yield is £1.5m (2013: £0.7m) representing an average yield of 0.6% (2013: 0.5%) on average funds of £263.8m (2013: £178.9m).

"Average fund" is the average of bank balances, overseas deposits and investments held at the end of each month during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

11. Financial investments

	Market Value 2014 £000	Market Value 2013 £000	Cost 2014 £000	Cost 2013 £000
Shares and other variable yield securities and units in unit trusts	13,504	10,755	13,504	10,755
Debt securities and other fixed-income securities	224,455	69,512	223,389	68,683
Participation in investment pools	23,572	98,958	23,460	96,655
	261,531	179,225	260,353	176,093

All "Shares and other variable yield securities and units in unit trusts" and "Debt securities and other fixed-income securities" are listed. These comprise 91.0% (2013: 45%) of the total market value of the Syndicate's financial investments.

12. Debtors arising out of direct insurance operations

	2014 £000	2013 £000
Due within one year - intermediaries	119,754	119,563
Due after one year - intermediaries	2	1
Consortium fee income receivable	982	425
	120,738	119,989

A consortium contract between Syndicate 1955 and Syndicate 5151 is in place for various underwriting years. Syndicate 1955 is the lead on this consortium and receives a fee for providing various underwriting and administrative services. In the current year this fee income has been shown separately on the face of the income statement (previously included in operating expenses).

13. Other deposits

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

14. Other prepayments and accrued income

	2014 £000	2013 £000
Prepayments	10,642	3,896
Managing agency expenses	3,311	2,470
Member's balance carried forward at 31 December	13,953	6,366

Managing agency expenses represent members' subscriptions and fees, and other expenses paid to Lloyd's which will be recovered from the Agency after the relevant reporting date.

15. Reconciliation of member's balance

	2014 £000	2013 £000
Member's balance brought forward at 1 January	(1,153)	(38,457)
Profit for the financial year	1,570	10,066
Currency translation differences in reserves	3,592	(2,729)
Transfer from member in respect of underwriting participations	7,267	29,967
Member's balance carried forward at 31 December	11,276	(1,153)

Members participate on Syndicates by reference to years of account and their ultimate result; assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

16. Creditors arising out of direct insurance operations

	2014 £000	2013 £000
Due to intermediaries	560	270
	560	270

17. Creditors arising out of reinsurance operations

	2014 £000	2013 £000
Due to SPS's	76,101	12,138
Due to external reinsurers	26,734	18,715
	102,835	30,853

The balance relating to SPS's represents the amounts ceded from the Syndicate, on a funds withheld basis, to SPS 6113 of £30.5m (2013: £12.1m) and to SPS 6118 of £45.6m (2013: £nil).

18. Reconciliation of operating profit to net cash inflow from operating activities

	2014 £000	2013 £000
Operating profit on ordinary activities	1,570	10,066
Realised and unrealised investments losses	(96,923)	8,514
Increase in net technical provisions	4,404	62,644
Increase in debtors and prepayments	(9,496)	(34,439)
Increase / (Decrease) in creditors and accruals	73,599	(386)
Currency translation differences on foreign currency net investment	3,592	(2,729)
Net cash (outflow) / inflow from operating activities	(23,254)	43,670

19. Movement in opening and closing portfolio investments net of financing

	2014 £000	2013 £000
Net cash inflow for the year	1,820	8,070
Cash flow		
Decrease in deposits	(1,999)	(5,965)
(Decrease) / increase in portfolio investments	(15,808)	71,532
Movement arising from cash flows	(15,987)	73,637
Changes in market value and exchange rates	96,923	(8,514)
Total movement in portfolio investments	80,936	65,123
Portfolio at 1 January	217,970	152,847
Portfolio at 31 December	298,906	217,970

20. Net cash outflow on portfolio investments

Analysis of movement in cash and portfolio investments

	At 1 January 2014	Cash flow	Changes to market value and currencies	At 31 December 2014
	£000	£000	£000	£000
Cash at bank and in hand	22,278	1,820	(584)	23,515
Deposits				
Overseas deposits	16,467	(1,999)	(609)	13,860
Total deposits	38,745	(179)	(1,193)	37,375
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	10,755	7,902	(5,154)	13,503
Debt securities and other fixed income securities	69,512	75,248	103,267	248,027
Participation in investment pools	98,958	(98,958)	-	-
Total portfolio investments	179,225	(15,808)	98,113	261,531
Total cash, portfolio investments and financing	217,970	(15,987)	96,920	298,906

	2014	2013
	£000	£000
Purchase of shares and other variable yield securities and units in unit trusts	(34,751)	(2,366)
Purchase of debt securities and other fixed-income securities	(330,902)	(107,735)
Purchase of participation in investment pools	-	(99,990)
	(365,653)	(210,091)
Sale of shares and other variable yield securities and units in unit trusts	26,848	166
Sale of debt securities and other fixed income securities	255,654	101,321
Sale of participation in investment pools	98,958	37,072
	381,461	138,559
Net cash outflow on portfolio investments	15,808	(71,532)

21. Related Parties

SPS Cessions

The Syndicate cedes reinsurance to SPS 6113 and SPS 6118 on a funds withheld basis, with £33.7m of the Syndicate's £250m capacity ceded to SPS 6113 and £25m ceded to SPS 6118 for the 2014 Year of Account (2013: £24m ceded to SPS 6113, £nil ceded to SPS 6118).

For the 2013 Year of Account, 42.4% of the Property Insurance, Property Treaty, Aviation and Space and Malicious Acts portfolios were ceded from the Syndicate to SPS 6113.

For the 2014 Year of Account, the Marine Energy book was also ceded to SPS 6113. The quota share was increased to 50% for all classes ceded, excepting Malicious Acts, where a 33.3% cession was applied. The Syndicate's cession to SPS 6118 was 11.547% across all classes of business net of cession to SPS 6113.

For the 2015 Year of Account, the Syndicate's capacity is £260m. Of this, £48m has been ceded to SPS 6118, and £40m has been ceded to the new SPS 6120.The cessions for both SPS's will be calculated on the Syndicate's result net of external reinsurance – 18.5% quota share for SPS 6118 and 15.4% quota share for SPS 6120.

Barbican Companies

The Syndicate, along with SPS 6113 and SPS 6118, is managed by Barbican Managing Agency Limited, whose parent company is Barbican Holdings (UK) Limited. The ultimate parent company is Barbican Group Holdings Limited, a Guernsey registered company which consolidates the Syndicate result. A managing agency fee of £2.5m (2013 £4.0m) was payable from the Syndicate to Barbican Managing Agency Limited during the year.

During the year the Syndicate entered into an arrangement whereby Barbican Reinsurance Company Ltd ("BRCL") provided between 2%-10% of the Syndicate's reinsurance protection for the 2014 Year of Account. This contract provides the Syndicate with cover within the normal course of business and the transaction was carried out at arm's length.

During 2014, the following group service companies contributed towards the Syndicate's gross written premium: Professional Indemnity Protect Limited wrote £8.4m (2013: £8.8m); Castel Underwriting Agencies Limited wrote £6.2m (2013: £nil); Barbican Underwriting Limited wrote £13.8m (2013: £9.2m) and Barbican Channel Islands (a branch of BRCL) wrote £1.4m (2013: £1.3m).

22. 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 Syndicate, no amount has been shown in these annual accounts by way of such capital resources. However, the Syndicate is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

23. Off-balance sheet items

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

24. 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.