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Barbican Syndicate 1955

Syndicate Financial Statements Under UK GAAP

Barbican

31 December 2015

Barbican Syndicate 1955
31 December 2015

Contents

Barbican Syndicate 1955
Directors and Administration

Managing Agent
Barbican Managing Agency Limited

Directors
D M Booth	
W T B Canagaretna	
H N A Colthurst	
O R P Corbett	(Appointed 5 May 2015)
C R Cunningham	
K D Curtis	(Resigned 19 January 2015)
J J S Godfray	
M J Harrington	
R H Hobbs	
D E Reeves	(Appointed 20 January 2015)
J B Soames	(Resigned 26 March 2015)

Managing Agent's Registered Office
33 Gracechurch Street
London
EC3V 0BT

Managing Agent's Registered Number
06948515

Company Secretary
S J Britt

Syndicate Active Underwriter
D M Booth

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

Investment Managers
General Re - New England Asset Management

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

Report of the Directors of the Managing Agency

The directors present their annual report and financial statements for the year ended 31 December 2015 for Syndicate 1955 ("the Syndicate").

These financial statements 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 2011 is Barbican Managing Agency Limited ("the Company"), whose registered office is situated at 33 Gracechurch Street, London, EC3V 0BT and whose registered number is 06948515.

Principal Activity

The principal activity of the Syndicate is the transaction of general insurance business in the Marine, Property and Specialty classes.

For 2015 the Syndicate underwrote with an authorised capacity base of £260m (2014: £250m). It underwrote for the retained capital account provided by the Barbican Group and also for third party investors who supported the overall Syndicate underwriting via their participation on those Special Purpose Syndicates (SPSs) managed by the Company.

In 2014, £33.7m of capacity was ceded to SPS 6113, a short tail, catastrophe business focused portfolio. SPS 6113 was not renewed for the 2015 Year of Account.

In 2015 £48.0m (2014: £25.0m) of capacity was ceded to SPS 6118, an 18.5% whole account quota share of the Syndicate which was established in 2014. During 2014, 11.54% of the Syndicate's back year reserves (2008 to 2013 Years of Account) was ceded to SPS 6118.

A further £40.0m was ceded to SPS 6120, a 15.4% whole account quota share of the Syndicate which was established in 2015. The cessions for SPS 6118 and SPS 6120 have been 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.

For the 2016 Year of Account the Syndicate ceded capacity of £89.8m to SPS 6118 and £44.6m to newly created Arcus Syndicate 1856. SPS 6120 ceased to write business effective 1 January 2016.

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

Review of the Result

The result for calendar year 2015 is a total profit for the year of £7.8m (2014: £5.2m). This is analysed further below.

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

	2015	2015	2015	2014	2014	2014
	Total written	SPS cession	Retained	Total written	SPS cession	Retained
	£000	£000	£000	£000	£000	£000
Gross premiums written	328,302		328,302	273,900		273,900
Gross premiums earned	283,965		283,965	274,319		274,319
Net premiums earned	213,369	(41,340)	172,029	212,014	(54,589)	157,425
Net claims incurred	(125,320)	32,368	(92,952)	(118,770)	33,865	(84,905)
Other technical income, net of reinsurance	4,620	(1,157)	3,463	982	-	982
Investment return	2,541	(399)	2,142	1,943	(403)	1,540
Operating expenses	(85,004)	10,302	(74,702)	(85,296)	11,824	(73,472)
Realised and unrealised movements on foreign exchange	(2,166)	-	(2,166)	4,653	(1,061)	3,592
Total profit for the year	8,040	(226)	7,814	15,526	(10,364)	5,162
Claims ratio	58.7%	78.3%	54.0%	56.0%	62.0%	53.9%
Expense ratio*	37.7%	22.1%	41.4%	39.8%	21.7%	46.0%
Combined ratio	96.4%	100.4%	95.4%	95.8%	83.7%	99.9%

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

Review of the Business

The Syndicate operates through three underwriting divisions covering seventeen different lines of business. In 2015 these divisions produced an aggregate of £328.3m gross written premium (2014: £273.9m). The three underwriting divisions are as follows:

Marine, Aviation and Transport (MAT)

The MAT division encompasses both the Marine Reinsurance and Marine Insurance lines of business. It also includes General Aviation and Aerospace, Energy and Terrorism and Political Risk business. In 2015 this division generated gross written premium of £170.3m (2014: £113.0m).

Property

The Property division operates in three lines of business: Property Insurance (including Open Market and Binding Authorities), Property Reinsurance and UK Property & Casualty Insurance. This division also includes Nuclear Insurance. In 2015 this division generated gross written premium of £46.9m (2014: £53.8m).

Specialty

The Specialty division includes six lines of business: Healthcare Liability, Cyber Liability, UK SME Professional Indemnity, Financial & Professional Lines, International Casualty Reinsurance and North American Casualty Reinsurance. In 2015 this division generated gross written premium of £111.1m (2014: £107.1m).

2015 Calendar Year Underwriting Performance

The 2015 calendar year has presented a number of challenges. For the 2015 current accident year, downwards pressure on ratings – now being seen in all classes, not just Property catastrophe lines, and encompassing both reinsurance and insurance classes – has resulted in a difficult trading environment. Meeting income targets whilst maintaining underwriting discipline has been particularly difficult. Whilst there have been some large losses in certain classes in which the Syndicate operates (notably Pemex and Tianjin), the abundance of capacity in the market has prevented any rate hardening. Notwithstanding these claims, however, the emphasis the Syndicate places on managing its net risk retention through outwards reinsurance has limited the impact of these accident year events to within planned net claims expectations. As a result the 2015 Year of Account remains broadly on plan after 12 months.

The prior accident year experience has been less benign. Deterioration on the earned and booked position on some accounts has had a negative impact on the Syndicate's result for the year. In particular, deterioration on certain Marine Insurance segments has dragged back the performance of this class. Corrective action has now been applied to this account to re-structure its composition and return it to the profitable performance it has historically produced.

The legacy Solicitor's Professional Indemnity portfolio, from which the Syndicate has now exited, also exhibited some deterioration in the first half of the calendar year based on claims development on prior years' exposures. Recent development has been more stable but reserves have nonetheless been strengthened.

The current and prior accident years' experience has resulted in a claims ratio before SPS cessions of 58.7% (2014: 56.0%), a marginal outperformance against plan.

2013 Year of Account Reinsurance to Close

The 2013 underwriting Year of Account ("YOA") of the Syndicate has been reinsured to close into the 2014 YOA of the Syndicate with a total recognised profit of £6.3m.

In addition, the 2013 YOA of SPS 6113 was closed into the 2013 YOA of the Syndicate which in turn closed into the 2014 YOA of the Syndicate. The Syndicate then ceded those liabilities of SPS 6113's 2013 YOA that it had reinsured to close to SPS 6113 as constituted for the 2014 YOA. A premium of £1.3m is payable in respect of this arrangement.

These arrangements were effective as at 31 December 2015.

Investment Returns

The Syndicate's funds continued to grow in 2015, with investible funds at the end of December 2015 being £332.9m (2014: £298.9m), an increase of 11.4%. This was partly due to lower than forecast claims settlements (lower than forecast for the year), and partly driven by the ongoing increase in the scale of funds associated with the growing whole account, pre-cession business.

The Syndicate continues to invest on a 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 investment grade corporate bonds. The investment climate in 2015 has been marked by an extremely low interest environment globally, with effective yields negative for parts of the year in key investment areas.

Overall investment yield for 2015 has shown an increase in performance against the previous year, at 0.7% (2014: 0.6%).

Principal Risks and Uncertainties

The Board of the Managing Agent ("Board") sets risk appetite annually as part of the Syndicate's business planning and Individual Capital Assessment process. A Risk and Capital Committee generally meets quarterly to review and update the Syndicate's risk register and to monitor performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties faced by the Company are as follows:

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 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 regularly throughout the year. Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business. Reserve adequacy is monitored through 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 Board's policy is that the Syndicate will only reinsure with businesses rated A or higher. Where this is not the case, reinsurers are required to post collateral in accordance with the terms of the relevant reinsurance contract.

Principal Risks and Uncertainties (continued)

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 Board's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid (as the case may be). Any surplus or deficit in a core currency is subject to review by the Board, which may instruct surplus currencies to be sold to reduce any 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 liquid investments in its portfolios.

Group Risk

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

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 Company'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 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 place and are regularly updated.

Regulatory Risk

The Company is required to comply with the requirements of the Financial Conduct Authority ("FCA"), 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. 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 the Group Head of Compliance and Risk as its Compliance Officer, who monitors regulatory developments, assesses the impact on Company policy and reports to the 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 business.

The strategy of the Company is to invest surplus funds in low risk securities in line with the agreed investment guidelines. These are conservative and reflect the Syndicate's position that investment management is not a core activity. The investment strategy is such that the underlying portfolio of assets is spread across a number of government and corporate bonds with fixed and variable rates of interest.

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 receive due consideration.

The Company and the Syndicate have committed a significant level of resource and attention to the implementation of arrangements to comply with the EU Solvency II regime. The Solvency II regime and related PRA rules, EU regulation, and EIOPA guidelines too effect on 1 January 2016. The Company and Syndicate remain committed to operating to the regulatory and Lloyd's standards required of risk management, solvency, and governance on a continuing basis.

On 1 January 2016, Arcus Syndicate 1856, which comes under the management of the Company, commenced trading. The Syndicate has ceded 15.4% of its whole account on the 2016 YOA to Arcus Syndicate 1856.

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 Company 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

S J Britt
Company Secretary
15 March 2016

Managing Agent's Responsibilities Statement

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 Members of Barbican Syndicate 1955

We have audited the Syndicate Financial Statements Under UK GAAP of Syndicate 1955 ("the Syndicate") for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Members' Balances, the Statement of Cash Flows and the related notes 1 to 25. 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 10, the Managing Agent is responsible for the preparation of Syndicate Financial Statements Under UK GAAP which give a true and fair view. Our responsibility is to audit and express an opinion on the Syndicate Financial Statements Under UK GAAP 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 Financial Statements Under UK GAAP

An audit involves obtaining evidence about the amounts and disclosures in the Syndicate Financial Statements Under UK GAAP sufficient to give reasonable assurance that the Syndicate Financial Statements Under UK GAAP 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 Syndicate Financial Statements Under UK GAAP. In addition, we read all the financial and non-financial information in the Syndicate Financial Statements Under UK GAAP to identify material inconsistencies with the audited Syndicate Financial Statements Under UK GAAP 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 Financial Statements Under UK GAAP

In our opinion the Syndicate Financial Statements Under UK GAAP:

- give a true and fair view of the Syndicate's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'; 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 Syndicate Financial Statements Under UK GAAP are prepared is consistent with the Syndicate Financial Statements Under UK GAAP.

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 Financial Statements Under UK GAAP 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

15 March 2016

Barbican Syndicate 1955

Income Statement

Technical Account – General Business

For the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Gross premiums written	2	328,302	273,900
Outward reinsurance premiums		(143,691)	(125,924)
Net premiums written		184,611	147,976
Change in the provision for unearned premiums:			
- Gross amount		(44,337)	419
- Reinsurers' share		31,755	9,030
Change in the net provision for unearned premiums	10	(12,582)	9,449
Earned premiums, net of reinsurance	10	172,029	157,425
Allocated investment return transferred from non-technical account	3	2,142	1,540
Other technical income, net of reinsurance	4	3,463	982
Claims paid			
- Gross amount		(137,735)	(114,829)
- Reinsurers' share		57,382	51,253
Net claims paid		(80,353)	(63,576)
Change in claims outstanding			
- Gross amount		(46,253)	(48,113)
- Reinsurers' share		33,654	26,784
Change in the net provision for claims	11	(12,599)	(21,329)
Claims incurred, net of reinsurance	11	(92,952)	(84,905)
Net operating expenses	5	(74,702)	(73,472)
Balance on the technical account for general business		9,980	1,570

Barbican Syndicate 1955

Income Statement

Non-Technical Account - General Business

For the year ended 31 December 2015

	Notes	2015	2014
		£000	£000
Balance on the general business technical account		9,980	1,570
Investment income	3	4,434	2,603
Unrealised losses on investments	3	(1,707)	(178)
Realised losses on investments	3	(297)	(815)
Investment expenses and charges	3	(288)	(70)
Allocated investment return transferred to general business technical account		(2,142)	(1,540)
Foreign exchange (losses) / gains		(2,166)	3,592
Profit for the year		7,814	5,162

Barbican Syndicate 1955

Statement of Changes in Members' Balances

For the year ended 31 December 2015

	Profit and loss account	Total members' balances
	£000	£000
At 1 January 2014	(1,153)	(1,153)
Profit for the year	5,162	5,162
Transfer from member in respect of underwriting participation (Note 16)	7,267	7,267
At 31 December 2014	11,276	11,276
Profit for the year	7,814	7,814
Profit distribution	(6,140)	(6,140)
At 31 December 2015	12,950	12,950

Barbican Syndicate 1955

Statement of Financial Position

Assets

As at 31 December 2015

	Notes	2015 £000	2014 £000
Investments			
Financial investments	9	280,044	261,531
Reinsurers' share of technical provisions			
Provision for unearned premiums	10	73,305	39,033
Claims outstanding	11	192,352	153,581
		265,657	192,614
Debtors			
Debtors arising out of direct insurance operations - intermediaries	12	155,437	120,738
Debtors arising out of reinsurance operations		46,321	45,304
Other debtors		5,598	1,475
		207,356	167,517
Other assets			
Cash at bank and in hand	13	38,653	23,515
Other deposits	13	14,183	13,860
Claims floats		3,326	2,667
		56,162	40,042
Prepayments and accrued income			
Deferred acquisition costs	14	48,415	32,416
Other prepayments and accrued income	15	7,695	13,953
		56,110	46,369
Total assets		865,329	708,073

Barbican Syndicate 1955

Statement of Financial Position

Members' Balances and Liabilities

As at 31 December 2015

	Notes	2015 £000	2014 £000
Capital and reserves			
Members' balance	16	12,950	11,276
Technical provisions			
Provision for unearned premiums	10	187,688	137,813
Claims outstanding	11	476,174	418,878
		663,862	556,691
Creditors due within one year			
Creditors arising out of direct insurance operations	17	513	560
Creditors arising out of reinsurance operations	18	118,938	102,835
Other creditors		277	86
		119,728	103,481
Accruals and deferred income		4,836	5,434
Creditors due after one year			
Creditors arising out of reinsurance operations	18	63,953	31,191
Total liabilities		865,329	708,073

The Annual Accounts on pages 13 to 62 were approved by the Board of Barbican Managing Agency Limited on 15 March 2016 and were signed on its behalf by

C R Cunningham

Deputy Managing Director

15 March 2016

Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Cash flows from operating activities			
Profit for the financial year		7,814	5,162
Adjustments for			
Movement in general insurance unearned premiums and outstanding claims	10, 11	107,171	60,690
Movement in reinsurers' share of unearned premiums and outstanding claims	10, 11	(73,043)	(56,286)
Investment return	3	(2,142)	(1,540)
Movements in other assets/liabilities		(1,827)	64,104
Net cash from operating activities		37,973	72,130
Cash flows from investing activities			
Purchase of equity and debt instruments		(320,663)	(357,985)
Sale of equity and debt instruments		299,337	281,686
Investment income received		4,494	2,614
Unrealised losses		(2,047)	(257)
Net cash from investing activities		(18,879)	(73,942)
Cash flows from financing activities			
Profit distribution / cash call		(6,140)	7,265
Other		2,507	(6,823)
Net cash from financing activities		(3,633)	442
Net increase/(decrease) in cash and cash equivalents		**15,461**	**(1,370)**
Cash and cash equivalents at the beginning of the year		37,375	38,745
Cash and cash equivalents at the end of the year	13	**52,836**	**37,375**

1. Significant Accounting Policies

a. Statement of Compliance

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

The Syndicate transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2014. An explanation of how transition to FRS 102 and FRS 103 has affected the reported financial position and financial performance is given in note 25.

b. Basis of Preparation

The financial statements for the year ended 31 December 2015 were approved for issue by the Board on 15 March 2016.

The financial statements are prepared in Sterling which is the presentation and functional currency of the Syndicate and rounded to the nearest £000.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard, for its insurance contracts.

The Syndicate has taken out quota share contracts with SPS 6113, SPS 6118 and SPS 6120. 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 account at 36 months. As such, the balance of amounts ceded by the Syndicate to the SPSs is recognised as a liability on the balance sheet.

Amounts ceded from the Syndicate to the SPSs are taken net of external reinsurance, and are recognised as reinsurance balances in the Syndicate, then are in turn recognised as gross balances in the SPSs. The SPSs' share of the Syndicate's external outward reinsurance is recognised as reinsurance balances in the SPSs. The SPSs also take a share of investment income, consortium income and expenses, which are stripped out of the Syndicate and recognised in the equivalent accounts in the SPSs.

c. Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the key sources of estimation uncertainty:

Insurance Contract Technical Provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

1. Significant Accounting Policies (continued)

c. Judgements and Key Sources of Estimation Uncertainty (continued)

Insurance Contract Technical Provisions (continued)

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 claims 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 number 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.

Further details are given in note 19.

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 financial statements.

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

1. Significant Accounting Policies (continued)

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.

The Syndicate classifies its financial investments as financial assets at fair value through profit or loss and determines the classification of its financial assets at initial recognition.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as fair value through profit or loss because the Syndicate's documented investment strategy is to manage financial investments acquired on fair value basis.

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 market place.

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1. Significant Accounting Policies (continued)

d. Financial Instruments (continued)

Fair Value of Financial Assets

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- **Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.
- **Level 2:** when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are observable such as interest rates and yield curves observable at commonly quoted intervals, implied volatility or credit spreads and market-corroborated inputs.
- **Level 3:** when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

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

Derecognition of Financial Assets

A financial asset or, when applicable, a part of a financial asset is derecognised 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.

1. Significant Accounting Policies (continued)

d. Financial Instruments (continued)

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 at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

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

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

e. 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.

Interest income is recognised on a time proportionate basis taking into account effective interest yield.

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

An allocation of actual investment return on investments supporting the general insurance 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.

1. Significant Accounting Policies (continued)

f. Insurance Contracts

Product Classification

Insurance contracts are those contracts when the Syndicate (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

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 to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a remeasurement of the initial premium. Gross written premiums are stated gross of commission.

Written premiums include an estimate for pipeline premiums (i.e. premiums written in respect of policies which have not incepted by the reporting date) 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, 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 remeasurement taking account of such a reduction is made as soon as there is an obligation to the policyholder.

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 Space having more complex earnings profiles. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

1. Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

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

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.

The Syndicate has taken out a multi-year stop loss reinsurance arrangement with Allianz Risk Transfer (“ART”) covering certain lines written by the Syndicate across the 2008 to 2013 underwriting years. 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 is 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 SPS 6113, SPS 6118 and SPS 6120 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 account at 36 months. As such, the balance of amounts ceded by the Syndicate to the SPSs is recognised as a liability on the balance sheet.

1. Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

Fees and Commission Income

Insurance policyholders 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.

Claims Floats

Claims floats represent funds given to third parties by the Syndicate to allow them to have cash readily available for paying out claims below agreed thresholds. These are measured at the contractual value which represents the level to which the fund must be topped up.

Technical Provisions

Technical provisions comprise claims outstanding, provisions for unearned premiums, 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.

1. Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

Technical Provisions (continued)

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. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The provision for unearned premiums is predominantly calculated on a monthly pro rata basis with some classes of business such as Space having more complex earnings profiles. 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 2015 and 31 December 2014 the Syndicate did not have an unexpired risks provision.

1. Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

Deferred Acquisition Costs

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

The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement.

Commissions receivable on outwards reinsurance contracts are deferred and amortised on the same basis as the related reinsurance premium is 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 derecognised when the derecognition criteria for financial assets have been met.

Insurance Payables

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

1. Significant Accounting Policies (continued)

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 balance sheet 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 retranslation of opening balance sheet items at the closing balance sheet rate and the retranslation of the Income Statement for the year from the average rate to the closing balance sheet 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 Company 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 of the Syndicate on underwriting results.

1. Significant Accounting Policies (continued)

j. Pension Costs

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

k. Profit Commission

Profit commission is charged by the Company at a rate of 17.5% on the 2015 Year of Account (15% on the 2014 and prior Years of Account) on the cumulative profit. 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.

l. Consortia Income

Consortia income is charged by the Syndicate on certain lines of business, at a rate of 5.0%, 7.5% or 10.0% of gross written premium (depending on the consortium) on a Year of Account basis. This is charged by the Syndicate as incurred and becomes payable quarterly based on the premium written that quarter.

2. Segmental Analysis

a. Analysis by Class of Business

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

2015	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	14,072	12,171	(4,006)	(3,053)	(4,300)	812	977
Energy-non marine	3,283	2,840	(1,840)	(712)	(922)	(634)	120
Marine, aviation and transport	52,597	45,494	(46,442)	(11,413)	6,451	(5,910)	2,180
Fire and other damage to property	19,304	16,697	(9,189)	(4,189)	(3,049)	270	13,245
Third party liability	77,154	66,735	(53,686)	(16,742)	(238)	(3,931)	37,445
Accident and health	164	142	(55)	(36)	(28)	23	975
Pecuniary loss	3,513	3,038	(2,859)	(762)	687	104	4,874
Total direct	170,087	147,117	(118,077)	(36,907)	(1,399)	(9,266)	59,816
Reinsurance	158,215	136,848	(65,911)	(34,332)	(19,501)	17,104	338,389
	328,302	283,965	(183,988)	(71,239)	(20,900)	7,838	398,205

2. Segmental Analysis (continued)

a. Analysis by Class of Business (continued)

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)	(35,461)	(23,020)	12,397	180,898
	273,900	274,319	(162,942)	(72,490)	(38,857)	30	364,077

2. Segmental Analysis (continued)

a. Analysis by Class of Business (continued)

The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions including items recorded as reinsurance commissions and profit participation.

Gross operating expenses include consortia income of £3.5m (2014: £1.0m) per note 4 and are gross of reinsurance commission of £1.0m (2014: £2.2m).

Commissions on direct insurance gross premiums earned during 2015 were £34.4m (2014: £31.6m).

Reinsurance balance includes reinsurance commission receivable.

All premiums were written in the UK.

b. Analysis by Geographical Location

Geographical analysis of gross premiums written is based on the location of policyholders, which is not materially different from revenue by source. The geographical analysis of premiums by location of risk is as follows:

	2015	2014
	£000	£000
UK	138,271	112,963
EU member states	37,644	32,887
US	103,699	87,049
Other	48,688	41,001
Gross premiums written	328,302	273,900

3. Investment Return

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

	2015	2014
	£000	£000
Investment income		
Income from investments	4,434	2,603
Losses on realisation of investment	(297)	(815)
Unrealised losses on investments at fair value through the profit and loss	(1,707)	(178)
Total investment income	2,430	1,610
Investment expenses and charges		
Investment management expenses, including interest	(288)	(70)
Net investment income	2,142	1,540

4. Other Technical Income

Other technical income of £3.5m (2014: £1.0m) represents consortium income. Consortium contracts between the Syndicate and other Lloyd's syndicates are in place for various underwriting years on Financial and Professional Lines, for the 2014 and 2015 underwriting years on the Cyber class, and for the 2015 underwriting year on the Energy class.

The Syndicate is the lead on these consortia and receives a fee for providing various underwriting and administrative services. The Syndicate cedes out a share of the consortium income to the SPSs.

5. Net Operating Expenses

	2015	2014
	£000	£000
Acquisition costs	72,709	58,397
Reinsurers' commissions and profit participations	(976)	(3,718)
Change in deferred acquisition costs	(13,494)	(5,008)
Administrative expenses	16,463	23,801
	74,702	73,472

Administrative expenses include:

	2015	2014
	£000	£000
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	3,359	2,918

Commissions in respect of direct insurance business amounted to £34.4m (2014: £31.6m).

Gains and losses arising on translation of monetary assets and liabilities at the reporting date of £2.2m (2014: £3.6m) are included in other income in the non-technical account.

Included in administrative expenses are staff costs of £9.1m (2014: £7.9m). This is further broken down in note 7 below.

6. Auditor's Remuneration

	2015	2014
	£000	£000
Audit of the Syndicate Annual Accounts	163	170
Audit of the Managing Agent's Annual Accounts	14	15
Other services pursuant to regulations and Lloyd's byelaws	43	46
	220	231

The above represents the Syndicate's share of the total audit fee. The SPSs have their own audit fees which are recharged from the Syndicate to the SPSs.

Auditors' remuneration is included as part of the administrative expenses in note 5 to the financial statements.

7. Staff Costs and Directors' Remuneration

a. Staff Costs

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

	2015	2014
	£000	£000
Wages and salaries	7,946	7,110
Social security costs	639	483
Other pension costs	478	334
	9,063	7,927

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

	2015	2014
	No.	No.
Administration and Finance	29	79
Underwriting	63	53
Claims	11	6
	103	138

b. Directors' Remuneration

The seven executive directors of the Company, six of whom served throughout the year, received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2015	2014
	£000	£000
Aggregate remuneration in respect of qualifying services	1,974	1,268

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

	2015	2014
	£000	£000
Aggregate remuneration in respect of qualifying services	412	336

The highest paid director received the following remuneration charged as a Syndicate expense:

	2015	2014
	£000	£000
Aggregate remuneration in respect of qualifying services	412	336

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

8. Calendar Year Investment Yield

The average amount of Syndicate funds available for investment during 2015 and the investment return and yield for that calendar year were as follows:

	2015	2014
	£000	£000
Average Syndicate funds available		
Sterling	109,979	83,031
Euro	31,024	29,196
United States dollars	137,927	121,897
Canadian dollars	12,103	14,356
Australian dollars	14,793	15,343
	305,826	263,823
Investment return for the year		
Sterling	901	605
Euro	(47)	63
United States dollars	704	334
Canadian dollars	270	131
Australian dollars	314	407
	2,142	1,540
Analysis of calendar year investment yield by fund	%	%
Sterling	0.82	0.73
Euro	(0.15)	0.21
United States dollars	0.51	0.29
Canadian dollars	2.23	0.92
Australian dollars	2.12	2.54

The overall investment yield is £2.1m (2014: £1.5m) representing an average yield of 0.7% (2014: 0.6%) on average funds of £263.8m (2014: £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.

9. Financial Instruments

	Carrying value 2015 £000	Carrying value 2014 £000	Purchase price 2015 £000	Purchase price 2014 £000
Shares and other variable yield securities and units in unit trusts	4,395	13,504	4,395	13,504
Debt securities and other fixed-income securities	272,799	224,455	273,133	223,389
Participation in investment pools	2,850	23,572	2,850	23,460
	280,044	261,531	280,378	260,353

All "Shares and other variable yield securities and units in unit trusts" and "Debt securities and other fixed-income securities" are listed and are designated at fair value through profit or loss. These comprise 99.0% (2014: 91.0%) of the total market value of the Syndicate's financial investments.

There was no material change in fair value for financial instruments held at fair value attributable to credit risk in the current or comparative period.

Debt securities designated at fair value through profit or loss with a fair value of £272.8m (2014: £224.5m) are callable convertible debt instruments. There have been no day 1 profits recognised in respect of financial investments designated at fair value through the profit and loss account.

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

	2015 £000	2014 £000
Financial assets at fair value through profit and loss		
Shares and other variable yield securities and units in unit trusts	4,395	13,504
Debt securities and other fixed-income securities	272,799	224,455
Participation in investment pools	2,850	23,572
Financial assets that are debt instruments measured at amortised cost		
Debtors arising out of direct insurance operations - intermediaries	155,437	120,738
Debtors arising out of reinsurance operations	46,321	45,304
Financial liabilities measured at amortised cost		
Creditors arising out of direct insurance operations - intermediaries	513	560
Creditors arising out of reinsurance operations	182,891	134,026

9. Financial Instruments (continued)

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

31 December 2015	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	4,395	-	-	4,395
Debt securities and other fixed-income securities	62,300	210,499	-	272,799
Participation in investment pools	2,850	-	-	2,850
	69,545	210,499	-	280,044

31 December 2014	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	13,504	-	-	13,504
Debt securities and other fixed-income securities	100,811	123,644	-	224,455
Participation in investment pools	23,572	-	-	23,572
	137,887	123,644	-	261,531

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 financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions.

There are no financial instruments which fall into the level 3 category.

The Syndicate measures the fair value of its financial assets monthly based on prices provided by third party investment managers General Re - New England Asset Management (who obtain market data from independent pricing services). The pricing services used by the third party investment manager obtain the actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models.

10. Provisions for Unearned Premiums

2015	Gross	Reinsurer's share	Net
	£000	£000	£000
At 1 January 2015	137,813	(39,033)	98,780
Premiums written in the year	328,302	(143,691)	184,611
Premiums earned in the year	(283,965)	111,936	(172,029)
Foreign exchange	5,538	(2,517)	3,021
At 31 December 2015	187,688	(73,305)	114,383

2014	Gross	Reinsurer's share	Net
	£000	£000	£000
At 1 January 2014	134,218	(28,752)	105,466
Premiums written in the year	273,900	(125,924)	147,976
Premiums earned in the year	(274,319)	116,894	(157,425)
Foreign exchange	4,014	(1,251)	2,763
At 31 December 2014	137,813	(39,033)	98,780

11. Claims Outstanding

2015	Gross	Reinsurer's share	Net
	£000	£000	£000
At 1 January 2015	418,878	(153,581)	265,297
Claims incurred in current accident year	473,976	(234,475)	239,501
Claims incurred in prior accident years	(289,988)	143,439	(146,549)
Claims paid during the year	(137,735)	57,382	(80,353)
Foreign exchange	11,043	(5,117)	5,926
At 31 December 2015	476,174	(192,352)	283,822

2014	Gross	Reinsurer's share	Net
	£000	£000	£000
At 1 January 2014	361,783	(107,576)	254,207
Claims incurred in current accident year	54,747	(26,349)	28,398
Claims incurred in prior accident years	108,195	(51,688)	56,507
Claims paid during the year	(114,829)	51,253	(63,576)
Foreign exchange	8,982	(19,221)	(10,239)
At 31 December 2014	418,878	(153,581)	265,297

12. Debtors Arising out of Direct Insurance Operations

	2015	2014
	£000	£000
Due within one year – intermediaries	151,974	119,754
Due after one year – intermediaries	-	2
Consortium fee income receivable (note 4)	3,463	982
	155,437	120,738

13. Cash at Bank and in Hand and Other Deposits

Cash at bank and in hand comprises cash amounts sitting in bank accounts held in various currencies with Barclays Bank, Lloyd's Bank, Citibank and RBC Dexia.

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

Together these balances comprise cash and cash equivalents, which were £52.8m (2014: £37.4m) as at 31 December 2015.

14. Deferred Acquisition Costs

	2015	2014
	£000	£000
At 1 January	32,416	26,376
Change in deferred acquisition costs	13,494	5,008
Foreign exchange	2,505	1,032
At 31 December	48,415	32,416

15. Other Prepayments and Accrued Income

	2015	2014
	£000	£000
Prepayments	7,466	10,642
Managing Agency expenses	229	3,311
	7,695	13,953

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

16. Reconciliation of Members' Balance

	2015 £000	2014 £000
Members' balance brought forward at 1 January	11,276	(1,153)
Total profit for the year	7,814	5,162
Transfer from member in respect of underwriting participation	(6,140)	7,267
Members' balance carried forward at 31 December	12,950	11,276

The transfer from member in respect of underwriting participation represents the distribution in respect of the closing of the 2012 Year of Account made during 2015 (2014: early profit distribution of £8.2m in respect of 2012 Year of Account and cash call of £15.4m in respect of 2011 Year of Account).

17. Creditors Arising out of Direct Insurance Operations

	2015 £000	2014 £000
Due to intermediaries	513	560
	513	560

18. Creditors Arising out of Reinsurance Operations

	2015 £000	2014 £000
Due to SPS 6113	17,034	24,928
Due to SPS 6118	64,991	45,958
Due to SPS 6120	24,255	-
Due under ART Stop Loss	32,668	31,181
Due to external reinsurers	43,943	31,959
	182,891	134,026

The balance relating to SPSs represents the amounts ceded from the Syndicate, on a funds withheld basis, to SPS 6113 of £21.5m (2014: £30.5m), SPS 6118 of £64.2m (2014: £45.6m) and SPS 6120 of £24.2m (2014: £nil).

Under the ART Stop Loss, a net loss of £1.6m (2014: £3.6m) was recognised in the Income Statement.

19. Risk Management

a. Governance Framework

The primary objective of the Syndicate'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 Company has established a risk management function with clear terms of reference from the Board, its committees and the associated executive management committees. The Company has adopted the terms of reference of the 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 Board to executive management committees. Lastly, a policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for Syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate.

The Board approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies 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 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 Syndicate has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Syndicate thereby providing a degree of security to policyholders,
- 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 policyholders, regulators and stakeholders.

The operations of the Syndicate are also subject to regulatory requirements within the jurisdictions in which it operates, in particular compliance with FCA rules, PRA rules, Lloyd's standards and byelaws, relevant EU regulations, and 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 insurance companies to meet unforeseen liabilities as these arise.

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

19. Risk Management (continued)

b. Capital Management Objectives, Policies and Approach (continued)

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 Company's capital management policy for its insurance business is to hold sufficient capital to cover the statutory requirements based on the requirements of the PRA and Lloyd's, the FCA, including any additional amounts required by the regulators.

c. Approach to Capital Management

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

The Syndicate's approach to managing 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 Board.

The Syndicate has developed a Lloyd's Internal Model ("LIM") framework 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. 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. The Syndicate's Solvency Capital Requirement under Solvency II as at 31 December 2015 is £72.5m (2014: £73.9m).

19. Risk Management (continued)

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. In consequence, all Lloyd's managing agents are required 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. During 2015, the Company continued to build upon its preparations for the Solvency II regime, which 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 Company's risk management framework will further enhance the definition of the risk standards and risk tolerances which guide the Company's and Syndicate's day-to-day business decision making and processes and 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 Company. In addition, the Society of Lloyd's supervises certain activities performed by Lloyd's managing agents.

19. Risk Management (continued)

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.

For general insurance business 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 regulatory objectives of maintaining market confidence and consumer protection. Inadequately managed insurance risk may result in:

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

The Syndicate's underwriting strategy is to write a diverse 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:

- Stamp capacity was £260.0m for the 2015 year of account (2014 year of account: £250.0m);
- Maximum realistic disaster scenario net exposure for the 2015 Year of Account of 10.4% of stamp capacity (2014 Year of Account: 6.5%); and
- Usual maximum gross line size for 2015 of £23.8m (2014: £23.3m).

Claims

Open market claims are settled by the claims management team. The claims department has produced claims handling guidelines which incorporate Lloyd's minimum standards.

Claims development tables are shown on an underwriting year basis on page 46, and the key assumptions underlying liability estimates are set out under Key Assumptions on page 50.

19. Risk Management (continued)
f. Insurance Risk (continued)

Gross insurance ultimate contract outstanding claims provisions as at 31 December 2015:

Underwriting Year	2011 & Prior	2012	2013	2014	2015	Total
Estimate of ultimate gross claims:	£000	£000	£000	£000	£000	£000
At end of underwriting year	438,186	144,696	156,045	168,323	203,040	203,040
One year later	445,668	156,045	146,291	172,783		172,783
Two years later	470,502	164,872	158,302			158,302
Three years later	471,863	164,624				164,624
Four years later	471,544					471,544
Current estimate of ultimate claims	471,544	164,624	158,302	172,783	203,040	1,170,293
Cumulative payments	372,991	81,968	67,570	46,975	6,496	576,000
Gross claims reserve	98,553	82,656	90,732	125,808	196,544	594,293

Net insurance ultimate contract outstanding claims provisions as at 31 December 2015:

Underwriting Year	2011 & Prior	2012	2013	2014	2015	Total
Estimate of ultimate net claims:	£000	£000	£000	£000	£000	£000
At end of underwriting year	315,784	92,890	115,667	110,964	98,125	98,125
One year later	308,214	84,140	106,512	108,801		108,801
Two years later	318,846	79,079	112,782			112,782
Three years later	320,611	76,475				76,475
Four years later	317,156					317,156
Current estimate of ultimate claims	317,156	76,475	112,782	108,801	98,125	713,339
Cumulative payments	256,872	34,724	46,615	25,928	4,099	368,238
Net claims reserve	60,284	41,751	66,167	82,873	94,026	345,101

19. Risk Management (continued)

f. Insurance Risk (continued)

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 2015	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit and members' balances
		£000	£000	£000
Average claim cost	+10%	47,184	27,773	(27,773)
Average number of claims	+10%	47,184	28,828	(28,828)

31 December 2014	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit and members' balances
		£000	£000	£000
Average claim cost	+10%	41,520	30,412	(30,412)
Average number of claims	+10%	41,520	30,576	(30,576)

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

The Syndicate uses both its own and commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an un-modelled event are greater than those arising from a modelled event.

19. Risk Management (continued)

f. Insurance Risk (continued)

The following table shows hypothetical claims arising for the largest realistic disaster scenarios based on the Syndicate's average risk exposures during 2015.

	Gross Aggregate Exposure $m	Estimated gross loss $m	Estimated net loss $m
US earthquake	541	202	23
US windstorm	190	83	35
Japan earthquake	78	78	10
Japan windstorm	32	32	8
Europe windstorm	11,382	74	13

The following table shows hypothetical claims arising for the largest realistic disaster scenarios based on the Syndicate's average risk exposures during 2014.

	Gross Aggregate Exposure $m	Estimated gross loss $m	Estimated net loss $m
US earthquake	525	203	20
US windstorm	562	192	20
Japan earthquake	76	74	13
Japan windstorm	37	27	6
Europe windstorm	18,879	83	25

19. Risk Management (continued)
f. Insurance Risk (continued)

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

The Company 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 procedures manual.

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

31 December 2015	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
Energy - marine	16,897	(6,826)	10,071
Energy - non-marine	5,156	(2,083)	3,073
Marine, aviation and transport	155,211	(62,698)	92,513
Fire and other damage to property	59,344	(23,972)	35,372
Third party liability	208,096	(84,061)	124,035
Accident and health	13,135	(5,306)	7,829
Pecuniary loss	18,335	(7,406)	10,929
Total	**476,174**	**(192,352)**	**283,822**

31 December 2014	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
Energy - marine	19	(7)	12
Energy - non-marine	14,406	(5,282)	9,124
Marine, aviation and transport	146,917	(53,867)	93,050
Fire and other damage to property	70,590	(25,882)	44,708
Third party liability	158,360	(58,062)	100,298
Accident and health	11,586	(4,248)	7,338
Pecuniary loss	17,000	(6,233)	10,767
Total	**418,878**	**(153,581)**	**265,297**

19. Risk Management (continued)

f. Insurance Risk (continued)

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

31 December 2015	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
United Kingdom	200,550	(81,013)	119,537
EEA	54,599	(22,056)	32,543
USA	150,407	(60,757)	89,650
International	70,618	(28,526)	42,092
Total	**476,174**	**(192,352)**	**283,822**

31 December 2014	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
United Kingdom	172,756	(63,341)	109,415
EEA	50,294	(18,440)	31,854
USA	133,125	(48,810)	84,315
International	62,703	(22,990)	39,713
Total	**418,878**	**(153,581)**	**265,297**

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: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

19. Risk Management (continued)

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 financial 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 instruments where the Syndicate is exposed to potential failure by investment counterparties.

Credit risk is a concern in a prudential context because inadequate systems and controls for credit risk management within Syndicates can create a threat to the regulatory objectives of maintaining market confidence and ensuring consumer protection by:

- The erosion of a Syndicate's capital due to persistent credit losses so threatening its viability as a going concern; or
- Hampering the Syndicate's ability to meet its own obligations to policyholders or other market counterparties due to capital erosion.

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

The overall responsibility of approval 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, approves the use of intermediaries and reinsurers and reviews any late settlement or reputational issues of the counterparties. The compliance department performs regular checks to ensure no unapproved parties are used. 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.

19. Risk Management (continued)

g. Credit risk (continued)

Credit risk from exposure to investment counterparties is controlled by having 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 above at 31 December 2015 and 2014 is the carrying amount as presented in the note Financial Assets at Fair Value through the Profit and Loss.

The Syndicate does not consider that there is a significant concentration of risk with respect to its insurance receivables accounts.

A ratings table for the Syndicate's financial assets is given below.

Rating source	**Tier 1**	**Tier 2**	**Tier 3**
Standard & Poor's	Government/AAA	AA	A and below

At 31 December 2015	**Tier 1**	**Tier 2**	**Tier 3**	**Unrated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Financial investments	60,813	146,231	73,000	-	280,044
Deposits with credit institutions		-	14,183	-	14,183
Cash at bank and in hand	38,653	-	-	-	38,653
Reinsurer' share of claims outstanding	-	44,111	98,088	50,153	192,352
Debtors arising out of reinsurance operations	-	10,622	23,621	12,078	46,321
Total	**99,466**	**200,964**	**208,892**	**62,231**	**571,553**

At 31 December 2014	**Tier 1**	**Tier 2**	**Tier 3**	**Unrated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Financial investments	79,827	138,072	43,632	-	261,531
Deposits with credit institutions		-	13,860	-	13,860
Cash at bank and in hand	23,515	-	-	-	23,515
Reinsurer' share of claims outstanding	-	18,027	114,214	21,340	153,581
Debtors arising out of reinsurance operations	-	6,793	31,777	6,734	45,304
Total	**103,342**	**162,892**	**203,483**	**28,074**	**497,791**

19. Risk Management (continued)
g. Credit risk (continued)

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

At 31 December 2015	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	280,044	-	-	-	-	280,044
Deposits with credit institutions	14,183		-	-	-	14,183
Cash at bank and in hand	38,653	-	-	-	-	38,653
Reinsurer' share of claims outstanding	186,587	3,305	1,718	609	133	192,352
Debtors arising out of direct insurance operations	150,563	3,494	1,380	-	-	155,437
Debtors arising out of reinsurance operations	44,932	796	414	147	32	46,321
Other debtors	5,598	-	-	-	-	5,598
Total	**720,560**	**7,595**	**3,512**	**756**	**165**	**732,588**

At 31 December 2014	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	261,531	-	-	-	-	261,531
Deposits with credit institutions	13,860		-	-	-	13,860
Cash at bank and in hand	23,515	-	-	-	-	23,515
Reinsurer' share of claims outstanding	139,461	7,862	3,322	2,059	877	153,581
Debtors arising out of direct insurance operations	114,866	4,201	1,671	-	-	120,738
Debtors arising out of reinsurance operations	40,582	2,187	924	795	816	45,304
Other debtors	1,475	-	-	-	-	1,475
Total	**595,290**	**14,250**	**5,917**	**2,854**	**1,693**	**620,004**

Of the total assets, none (2014: £0.2m) has been impaired.

19. Risk Management (continued)

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 strategy of the Company is to invest surplus funds in low risk securities in line with the agreed investment guidelines. These are conservative and reflect the Syndicate's position that investment management is not a core activity. The investment strategy is such that the underlying portfolio of assets is spread across a number of government and corporate bonds with fixed and variable rates of interest.

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 currently 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 Company to monitor foreign exchange risk.

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

19. Risk Management (continued)

i. Foreign Currency Risk

At 31 December 2015	GBP £000	US $ £000	Euro € £000	CAD $ £000	Other £000	Total £000
Reinsurance assets	79,031	163,634	15,677	2,181	5,134	265,657
Insurance receivables	67,835	129,732	33	967	3,191	201,758
Financial Investments	90,511	152,157	27,284	10,092	-	280,044
Cash and cash equivalents	39,036	-	1,676	-	12,124	52,836
Other Assets	(115,695)	146,146	21,650	989	11,944	65,034
Total assets	**160,718**	**591,669**	**66,320**	**14,229**	**32,393**	**865,329**
Technical Provisions	(204,963)	(388,361)	(40,002)	(8,457)	(22,079)	(663,862)
Insurance & reinsurance payables	(79,676)	(85,289)	(8,281)	(2,621)	(7,537)	(183,404)
Other creditors	(5,113)	-	-	-	-	(5,113)
Total Liabilities	**(289,752)**	**(473,650)**	**(48,283)**	**(11,078)**	**(29,616)**	**(852,379)**
Members' balances	**(129,034)**	**118,019**	**18,037**	**3,151**	**2,777**	**12,950**

At 31 December 2014	GBP £000	US $ £000	Euro € £000	CAD $ £000	Other £000	Total £000
Reinsurance assets	59,049	114,540	11,565	2,674	4,786	192,614
Insurance receivables	58,850	94,335	5,854	2,116	4,887	166,042
Financial Investments	89,043	129,755	30,212	12,521	-	261,531
Cash and cash equivalents	12,332	3,021	2,244	1,940	17,838	37,375
Other Assets	(78,877)	101,162	29,669	(4,935)	3,492	50,511
Total assets	**140,397**	**442,813**	**79,544**	**14,316**	**31,003**	**708,073**
Technical Provisions	(181,916)	(296,498)	(43,865)	(9,265)	(25,147)	(556,691)
Insurance & reinsurance payables	(69,809)	(48,840)	(5,914)	(1,950)	(8,073)	(134,586)
Other creditors	(5,520)	-	-	-	-	(5,520)
Total Liabilities	**(257,245)**	**(345,338)**	**(49,779)**	**(11,215)**	**(33,220)**	**(696,797)**
Members' balances	**(116,848)**	**97,475**	**29,765**	**3,101**	**(2,216)**	**11,276**

Negative assets are shown in GBP as the result of conversion accounts.

19. Risk Management (continued)

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.

As at 31 December 2015, the Syndicate used closing rates of exchange of £1:€1.36 and £1:$1.47 (31 December 2014: 1:€1.29 and £1:$1.56). The Syndicate 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.

There is no impact on taxes due to the availability of tax losses carried forward. Also the impact of foreign exchange on non-monetary items is assumed to be nil.

Increase/(decrease) on members' balances	2015	2014
	£000	£000
Strengthening of US dollar	13,139	10,715
Weakening of US dollar	(4,368)	(8,767)
Strengthening of Euro	3,561	3,309
Weakening of Euro	(2,913)	(2,707)

k. Interest Rate Risk

The following table shows the average duration at the reporting date of financial instruments held by the Syndicate.

31 December 2015	< 1 yr £000	1-3 yrs £000	3-5 yrs £000	> 5 yrs £000	Total £000
Financial assets at fair value through profit and loss	22,402	150,626	59,370	61,829	294,227
Cash at bank and in hand	38,653	-	-	-	38,653
Total	61,055	150,626	59,370	61,829	332,880

31 December 2014	< 1 yr £000	1-3 yrs £000	3-5 yrs £000	> 5 yrs £000	Total £000
Financial assets at fair value through profit and loss	32,499	99,589	77,475	65,828	275,391
Cash at bank and in hand	23,515	-	-	-	23,515
Total	56,014	99,589	77,475	65,828	298,906

19. Risk Management (continued)

k. Interest Rate Risk (continued)

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 debt securities. 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 2015 and takes into account the full effect of mark to market movements, but without recognising running yield benefit.

	Impact on profit before tax for the year		Impact on members' balances	
	2015	2014	2015	2014
	£000	£000	£000	£000
Shift in yield (basis points)				
50 basis points decrease	3,770	3,508	3,770	3,508
50 basis points increase	(3,123)	(2,319)	(3,123)	(2,319)

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 Company'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 near liquid funds and/or cash and cash equivalents. The Syndicate also has a revolving credit facility available through its bankers. These safeguards are intended to ensure that financial obligations can be met as they fall due. The guidelines provided to the third party investment managers include the spread and maturity of investments so that funds can be realised if needed without having to break deposits or sell investments.

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

Multi-Year Stop Loss

During 2010 a multi-year stop loss reinsurance arrangement was taken out with 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 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 is responsible for ultimate recoveries beyond the value of the funds withheld.

19. Risk Management (continued)
l. Liquidity Risk (continued)

Adverse Development Cover

During the year, the Syndicate took out an Adverse Development Cover ("ADC") contract with ART which came into effect from 1 July 2015, although the agreement was not signed until February 2016. The ADC is part of an aggregate excess of loss reinsurance contract which covers all casualty claim reserves (both outstanding and IBNR) for Years of Account 2008 to 2014 inclusive. The 2014 Year of Account is covered on an earned basis as at 30 June 2015. The 2013 and prior Years of Account are covered on an underwriting year basis. The cover is designed to provide capital relief for the 2016 year of account.

SPS Cessions

The Syndicate has taken out quota share contracts with SPS 6113, SPS 6118 and SPS 6120. 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 account at 36 months.

Future Cash Flows

A summary of the balance sheet showing the expected timing of future cash flows is shown below. The ART stop loss and SPS cessions are included within the "Creditors arising out of reinsurance operations" balance.

At 31 December 2015	< 1 year	1-3 years	3-5 years	> 5years	Total
	£000	£000	£000	£000	£000
Claims outstanding	91,450	99,494	108,888	176,342	476,174
Creditors arising out of reinsurance operations	181,327	1,564	-	-	182,891
Accruals and deferred income	4,836	-	-	-	4,836
Total Liabilities	**277,613**	**101,058**	**108,888**	**176,342**	**663,901**

At 31 December 2014	< 1 year	1-3 years	3-5 years	> 5years	Total
	£000	£000	£000	£000	£000
Claims outstanding	80,447	87,523	95,786	155,122	418,878
Creditors arising out of reinsurance operations	62,486	71,540	-	-	134,026
Accruals and deferred income	5,434	-	-	-	5,434
Total Liabilities	**148,367**	**159,063**	**95,786**	**155,122**	**558,338**

19. Risk Management (continued)

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. A Syndicate should consider all operational risk events that may affect these matters in establishing and maintaining its systems and controls.

The Company'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. Group Risk

Group risk is the risk that the operation of part of the Barbican Group adversely affects operations. 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 Barbican Group; and/or
- Financial restraint leading to shortcomings in core activities such as reinsurance purchase.

The Company's 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.

o. Dependencies Between Risk Categories

Under certain conditions, the outcome with respect to one risk category can be expected to influence another. There are two such specific dependencies which the Company has identified:

- 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; and
- 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 the 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

SPS Cessions

The Syndicate cedes reinsurance to SPS 6113, SPS 6118, and SPS 6120 on a funds withheld basis, with £48.0m of the Syndicate's £260.0m capacity ceded to SPS 6118 and £40.0m ceded to SPS 6120 for the 2015 Year of Account (2014: £33.7m ceded to SPS 6113, and £25m ceded to SPS 6118). SPS 6113 was ceased to write business from 1 January 2015.

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 11.5% across all classes of business net of cession to SPS 6113.

For the 2015 Year of Account, the cessions for both SPS 6118 and SPS 6120 were 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.

For the 2016 Year of Account, the total managed capacity of the Company will be £378.6m, split between the Syndicate and Arcus Syndicate 1856 with capacity of £289.4m and £89.2m respectively. The Syndicate will cede £89.8m to SPS 6118 on the basis of a 31.0% cession of all classes of business, whilst SPS 6120 ceased to write business effective 1 January 2016. The Syndicate will cede £44.6m to Arcus Syndicate 1856 on the basis of a 15.4% cession of all classes of business.

A summary of premiums ceded during the year from the Syndicate to the SPSs, and the creditor balance held with each of them on a funds withheld basis, is given below:

	Reinsurance premium ceded	Reinsurance creditor	Reinsurance premium ceded	Reinsurance creditor
	2015	2015	2014	2014
	£000	£000	£000	£000
6113	(1,039)	17,034	27,505	24,928
6118	47,508	64,991	71,478	45,958
6120	40,151	24,255	-	-
Total	**86,620**	**106,280**	**98,983**	**70,886**

The reinsurance premium ceded to SPS 6113 during 2015 is negative because of EPI revisions and return premium on the 2013 and 2014 Years of Account.

Effective 31 December 2015, the 2013 Year of Account of SPS 6113 was closed into the 2013 Year of Account of the Syndicate; which in turn closed into the 2014 Year of Account of the Syndicate, with a quote share contract put in place to transfer the risk back to the 2014 Year of Account of SPS 6113. A premium of £1.3m is payable in respect of this arrangement.

Directors' Emoluments

Directors' emoluments have been disclosed separately in note 7 to the financial statements.

20. Related Parties (continued)

Barbican Companies

The Syndicate, along with SPS 6113, SPS 6118 and SPS 6120, is managed by the Company, 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 £2.6m (2014 £2.5m) was payable from the Syndicate to the Company 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 2013 and 2014 Years 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 2015, the following Group companies contributed towards the Syndicate’s gross written premium: Professional Indemnity Protect Limited wrote £10.3m (2014: £8.4m); Castel Underwriting Agencies Limited wrote £9.6m (2014: £6.2m); Barbican Underwriting Limited wrote £15.9m (2014: £13.8m) and Barbican Channel Islands (a trading name of BRCL) wrote £1.0m (2014: £1.4m).

The Syndicate recharged £1.3m (2014: £1.9m) to BHUK during the year in respect of salaries and expenses, where all staff are employed by BHUK. Note 7 discloses the amounts recharged to the Syndicate from BHUK in respect of salary costs, and the average monthly number of employees employed by BHUK, but working for the Syndicate during the year.

The directors consider the ultimate controlling party to be Carlson Capital L.P.

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

22. Post Reporting Date Events

On 1 January 2016, Arcus Syndicate 1856, which comes under the management of the Company, and to which the Syndicate cedes premium on the 2016 Year of Account, commenced trading. The Syndicate will cede £44.6m to Arcus Syndicate 1856 on the basis of a 15.4% cession of all classes of business.

The Syndicate also took out an ADC contract with ART which came into effect from 1 July 2015 but was signed in February 2016. The ADC is part of an aggregate excess of loss reinsurance contract which covers all casualty claim reserves (both outstanding and IBNR) for Years of Account 2008 to 2014 inclusive. Total proposed reinsurance premium payable by the Syndicate under this contract is £1.2m.

These events do not have any impact on the Syndicate's 2015 result or financial position.

23. Off-balance Sheet Items

The Syndicate has not been party to any arrangement, 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.

25. Transition to FRS 102 and FRS 103

The Syndicate transitioned to FRS 102 and FRS 103 from previously extant UK GAAP as at 1 January 2015. As unearned premium and deferred acquisition costs were already treated as monetary items, there was no impact on member's balances. The only accounting change arising from transition to FRS 102 and FRS 103 was that foreign exchange losses arising on retranslation of the balance sheet of £2.2m (2014: £3.6m gain) previously recorded in the statement of recognised gains and losses are now recorded in the Income Statement within the non-technical account.

The profit for the year ended 31 December 2014 has accordingly been re-stated from £1.6m to £5.2m, where the £3.6m currency translation difference previously recorded in other comprehensive income is now recorded in the non-technical account.

This is in effect a re-classification and has a net nil impact on the result for the 2015 or 2014 financial year, or on member's balances as at 31 December 2015.