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Syndicate Financial Statements Under UK GAAP

Barbican Syndicate 1955

31 December 2016

Barbican Syndicate 1955

31 December 2016

Contents

Barbican
INSURANCE GROUP

DIRECTORS AND ADMINISTRATION

Managing Agent

Barbican Managing Agency Limited

Directors

D M Booth	(Resigned 15 March 2016)
I J Bremner	(Appointed 23 August 2016)
W T B Canagaretna	(Resigned 15 March 2016)
H N A Colthurst	
O R P Corbett	(Resigned 15 March 2016)
C R Cunningham	
A D Elliott	(Appointed 8 September 2016)
J J S Godfray	(Resigned 15 March 2016)
S A Godsave	(Appointed 15 March 2016)
M J Harrington	
J W Heap	(Appointed 15 March 2016)
R H Hobbs	
R A Keers	(Appointed 20 January 2017)
D E Reeves	(Resigned 24 August 2016)

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 of the managing agent "the Agency") present their annual report and financial statements for the year ended 31 December 2016 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").

Principal Activity

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

The result for calendar year 2016 is a profit of £2.7m (2015: £7.8m). This is analysed further below.

Key Performance Indicators

Taking into account the SPA (Special Purpose Arrangement) cessions and cessions to syndicate 1856, the Syndicate's key financial performance indicators during the year were as follows:

	2016	2016	2016	2015	2015	2015
	Total written	SPA /1856 cession	Retained	Total written	SPA cession	Retained
	£m	£m	£m	£m	£m	£m
Gross premiums written	313.1		313.1	328.3		328.3
Gross premiums earned	330.7		330.7	284.0		284.0
Net premiums earned	297.0	(90.1)	206.9	213.4	(41.4)	172.0
Net claims incurred	(178.6)	74.3	(104.3)	(125.3)	32.4	(92.9)
Other technical income, net of reinsurance	2.6	-	2.6	4.6	(1.1)	3.5
Investment return	6.5	(1.3)	5.2	2.5	(0.4)	2.1
Operating expenses	(133.4)	25.2	(108.2)	(85.0)	10.3	(74.7)
Realised and unrealised movements on foreign exchange	0.5	-	0.5	(2.2)	-	(2.2)
(Loss)/profit for the year	(5.4)	8.1	2.7	8.0	(0.2)	7.8
Claims ratio	60.1%	82.5%	50.4%	58.7%	78.3%	54.0%
Expense ratio*	44.0%	28.0%	51.0%	37.7%	22.2%	41.4%
Combined ratio	104.1%	110.5%	101.4%	96.4%	100.5%	95.4%

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

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Review of the Business

For 2016, the Syndicate underwrote with an authorised capacity base of £289.4m (2015: £260m). As part of an overall Group strategic initiative to manage capital, the Syndicate underwrites both for the retained capital account provided by the Barbican Group and those of third party investors who support the overall Syndicate underwriting via Special Purpose Arrangements (SPAs) also managed by the Agency.

In 2016 the Syndicate has continued its arrangements to purchase whole account quota share reinsurance from SPA 6118. This SPA provided a 31.03% whole account quota share for the 2016 year of account (2015: 18.50%).

During 2015, the Agency set up Arcus Syndicate 1856 ("Arcus") which has 100% of its capital provided by third party investors. In 2016, its first year of writing business, Arcus had a capacity of £89.2m, and underwrote a 15.4% whole account quota share from the Syndicate for the 2016 year of account.

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

In 2016, the Syndicate operated through five underwriting divisions writing seventeen different lines of business. In 2016, these divisions produced an aggregate of £313.1m gross written premium (2015: £328.3m). The five 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, Terrorism and Political Risk business. In 2016, this division generated gross written premium of £127.8m (2015: £139.9m).

Energy

In 2016, the energy division generated gross written premium of £14.4m (2015: £30.4m).

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 2016, this division generated gross written premium of £52.4m (2015: £46.9m).

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 2016, this division generated gross written premium of £103.4m (2015: £111.1m).

Facilities

In 2016, the Facilities division generated gross written premium of £15.1m (2015: Nil).

Business Environment

Overall, most classes of business across the portfolio continued to experience difficult rating conditions, resulting in decreases in written premiums in 2016 on a like-for-like foreign exchange basis. The effects were

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Review of the Business (continued)

Business Environment (continued)

particularly felt in the Energy and Property classes where the Syndicate's focus on writing for profit rather than volume meant that the amount of new business was much reduced compared to 2015.

Investment Returns

The Syndicate's investable funds at the end of December 2016 were £373.1m (2015: £332.9m), an increase of 12.1%. This was driven by movement in the year on foreign exchange rates.

The Syndicate continued to invest on a prudent basis. Funds are held in term cash deposits or 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 2016 was marked by a low interest environment globally.

Principal Risks and Uncertainties

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

The principal risks and uncertainties faced by the Syndicate and Agency were as follows:

Insurance Risk

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

Credit Risk

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers. The Agency's policy is that the Syndicate generally reinsures with businesses rated A- or higher by one or more rating agencies. The Syndicate only uses reinsurers with lower ratings or that are completely unrated where collateral or a claims paying guarantee from a parent undertaking is provided. As at 31 December 2016, the Syndicate had £57.7m of collateral (2015: £83.8m).

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

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 Agency'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 Agency 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 Agency Board reviews cash flow projections regularly and ensures the Syndicate holds adequate liquid investments in its portfolios.

Group Risk

Group risk is the possibility that the operation of one part of the Barbican Group adversely affects another.

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

The Agency'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 formed objectively and clearly understood and observed by all parties.

Operational Risk

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

Regulatory Risk

The Agency is required to comply, inter alia, with the requirements of the Financial Conduct Authority ("FCA"), Prudential Regulation Authority ("PRA"), the Society of Lloyd's (Lloyd's) and certain EU regulations. 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 regulatory intervention owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency Board has appointed the Group Head of Compliance and Risk as its Compliance Officer, who monitors regulatory developments, assesses the impact on the Agency's policies and processes and reports to the Agency Board.

Market Risk

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

The strategy of the Agency is to invest surplus funds in low risk securities in line with the agreed investment guidelines. These are conservative and reflect the Agency's position that investment management is not a

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Principal Risks and Uncertainties (continued)

Market Risk (continued)

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.

For the 2017 underwriting year, the Syndicate will continue to purchase whole account quota share reinsurance from Special Purpose Arrangement 6118 and Syndicate 1856.

The 2014 and prior years of account have Reinsured to Close ("RITC") into the Syndicate's 2015 year of account for an RITC premium of £215.6m. Under Lloyd's Accounting rules, the Syndicate's 2014 year of account closed at the end of 2016, with a return equal to 5.2% of capacity.

Multi-Year Stop Loss

The Stop loss reinsurance arrangement, taken out with Allianz Risk Transfer (ART), covering the 2008 to 2012 underwriting years', was commuted in the year with a net nil impact on the 2016 result.

Disclosure of Information to the Auditor

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

Reappointment of Auditor

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

By order of the Agency Board

C R Cunningham

Deputy Managing Director

15 March 2017

MANAGING AGENT'S RESPONSIBILITIES STATEMENT

The Agency 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 Agency to prepare Syndicate Annual Accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate Annual Accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year. In preparing the Syndicate Annual Accounts, the Agency is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate Annual Accounts; and
- prepare the Syndicate Annual Accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

The Agency is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARBICAN SYNDICATE 1955

We have audited the Syndicate Financial Statements Under UK GAAP of Syndicate 1955 ("the Syndicate") for the year ended 31 December 2016 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 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Managing Agent and the Auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 10, the Agency 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 Agency; 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 2016 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARBICAN SYNDICATE 1955 (CONTINUED)

Opinion on Syndicate Financial Statements Under UK GAAP (continued)

have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on Other Matter Prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion, the information given in the Managing Agent's Report for the financial year in which the 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 Agency 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

17 March 2017

INCOME STATEMENT

Technical Account – General Business

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Gross premiums written	2	313.1	328.3
Outward reinsurance premiums		(135.3)	(143.7)
Net premiums written		177.8	184.6
Change in the provision for unearned premiums:			
- Gross amount		17.6	(44.3)
- Reinsurers' share		11.5	31.7
Change in the net provision for unearned premiums	11	29.1	(12.6)
Earned premiums, net of reinsurance	11	206.9	172.0
Allocated investment return transferred from non-technical account	3	5.2	2.1
Other technical income, net of reinsurance	4	2.6	3.5
Claims paid			
- Gross amount		(160.0)	(137.7)
- Reinsurers' share		60.7	57.4
Net claims paid		(99.3)	(80.3)
Change in claims outstanding			
- Gross amount		(90.2)	(46.3)
- Reinsurers' share		85.2	33.7
Change in the net provision for claims	12	(5.0)	(12.6)
Claims incurred, net of reinsurance	12	(104.3)	(92.9)
Net operating expenses	5	(108.2)	(74.7)
Balance on the technical account for general business		2.2	10.0

INCOME STATEMENT (CONTINUED)

Non-Technical Account – General Business

For the year ended 31 December 2016

	Notes	2016	2015
		£m	£m
Balance on the general business technical account		2.2	10.0
Investment income	3	4.8	4.4
Unrealised losses on investments	3	(0.1)	(1.7)
Realised gains/(losses) on investments	3	0.7	(0.3)
Investment expenses and charges	3	(0.2)	(0.3)
Allocated investment return transferred to general business technical account		(5.2)	(2.1)
Foreign exchange gains/(loss)		0.5	(2.2)
Profit for the year		2.7	7.8

STATEMENT OF CHANGES IN MEMBERS' BALANCES

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
At 1 January		13.0	11.3
Profit for the year		2.7	7.8
Profit distribution	21	(6.3)	(6.1)
At 31 December		9.4	13.0

STATEMENT OF FINANCIAL POSITION

Assets

As at 31 December 2016

	Notes	2016 £m	2015 £m
Investments			
Financial investments	9	311.4	280.0
Reinsurers' share of technical provisions			
Provision for unearned premiums	11	97.4	73.3
Claims outstanding	12	309.3	192.4
		406.7	265.7
Debtors			
Debtors arising out of direct insurance operations - intermediaries	13	167.0	155.4
Debtors arising out of reinsurance operations		31.5	46.3
Other debtors		9.2	5.6
		207.7	207.3
Other assets			
Cash at bank and in hand	14	36.2	38.7
Other deposits	14	25.5	14.2
Claims floats		3.5	3.3
		65.2	56.2
Prepayments and accrued income			
Deferred acquisition costs	15	48.6	48.4
Other prepayments and accrued income	16	4.4	7.7
		53.0	56.1
Total assets		1,044.0	865.3

STATEMENT OF FINANCIAL POSITION (CONTINUED)

Member's Balances and Liabilities

As at 31 December 2016

	Notes	2016 £m	2015 £m
Member's balances and liabilities			
Member's balances	21	9.4	13.0
Liabilities			
Technical provisions			
Provision for unearned premiums	11	196.2	187.7
Claims outstanding	12	632.7	476.2
		828.9	663.9
Creditors due within one year			
Creditors arising out of direct insurance operations	17	4.9	0.5
Creditors arising out of reinsurance operations	18	83.1	118.9
Other creditors		3.0	0.3
		91.0	119.7
Accruals and deferred income		3.7	4.8
Creditors due after one year			
Other creditors Arising out of reinsurance Operations	18	110.5	63.9
Other Creditors		0.5	-
Total liabilities		111.0	63.9
Total members' balances and liabilities		1,044.0	865.3

The Annual Accounts on pages 13 to 63 were approved by the Board of Barbican Managing Agency Limited on 13 March 2017 and were signed on its behalf by

C R Cunningham

Deputy Managing Director

15 March 2017

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the financial year		2.7	7.8
Adjustments for			
Movement in general insurance unearned premiums and outstanding claims	11, 12	165.1	107.1
Movement in reinsurers' share of unearned premiums and outstanding claims	11, 12	(141.0)	(73.1)
Investment return	3	(5.2)	(2.1)
Movements in other assets/liabilities		19.7	(1.8)
Net cash from operating activities		41.3	37.9
Cash flows from investing activities			
Purchase of equity and debt instruments		(156.8)	(320.7)
Sale of equity and debt instruments		159.3	299.3
Investment income received		5.0	4.5
Foreign Exchange movements on Investments		(33.6)	0.5
Net cash from investing activities		(26.1)	(16.4)
Cash flows from financing activities			
Profit distribution		(6.3)	(6.1)
Net cash from financing activities		(6.3)	(6.1)
Net increase in cash and cash equivalents		8.8	15.4
Cash and cash equivalents at the beginning of the year		52.9	37.5
Cash and cash equivalents at the end of the year	14	61.7	52.9

NOTES TO THE FINANCIAL STATEMENTS

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.

b. Basis of Preparation

The financial statements for the year ended 31 December 2016 were approved for issue by the Agency Board on 13 March 2017.

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

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 SPA 6113, SPA 6118 and SPA 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 SPAs is recognised as a liability on the statement of financial position.

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

The Syndicate has early adopted 'Amendments to FRS 102: Fair value hierarchy disclosures' issued by the Financial Reporting Council in March 2016.

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 statement of financial position 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant Accounting Policies (continued)

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. **Significant Accounting Policies (continued)**

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

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 receivable in the financial statements.

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

d. **Financial Instruments**

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 - Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

All regular purchases and sales of financial assets are recognised on the trade date i.e. the date the Syndicate commits to purchase or sell the asset. Regular purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the 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 on initial recognition.

Investments classified as held for trading are typically bought with the intention to sell in the near future. The Syndicate does not classify any investments as held for trading.

For investments designated as at fair value through profit or loss on initial recognition, one of 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.

All financial assets except for receivables have been designated as fair value through profit or loss on initial recognition. This has been deemed the most appropriate classification for these assets as this reflects the fact that the investment portfolios are managed, and their performance evaluated, on a fair value basis.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. **Significant Accounting Policies (continued)**

   d. **Financial Instruments (continued)**

Cash and Cash Equivalents

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

Fair Value of Financial Assets

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

- **Level 1:** The unadjusted quoted price in an active market for identical assets or liabilities that the Syndicate can access at the measurement date.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- **Level 3:** Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. **Significant Accounting Policies (continued)**

   d. **Financial Instruments (continued)**

Collateral Arrangements

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

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 an accruals basis based on the effective interest rate. Dividend income is recognised when the shareholder's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant Accounting Policies (continued)

e. Investment Return (continued)

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

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.

f. Insurance Contracts

Product Classification

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

Gross 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, gross written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. **Significant Accounting Policies (continued)**

   f. **Insurance Contracts (continued)**

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 insured.

Gross 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.

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 insured.

Reinsurance premiums under a Risks Attaching During ("RAD") contract are earned typically over two years based on inception and expiry dates. Year of Account allocation is based on the inception and expiry dates that the contract relates to. This results in a triangular earnings pattern, where earnings increase towards the middle of the policy period then decrease until the policy expires.

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

Fees and Commission Income

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

Claims

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. **Significant Accounting Policies (continued)**

f. **Insurance Contracts (continued)**

Technical Provisions (continued)

Provisions for Unearned Premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The provision for unearned premiums is calculated on a monthly pro rata basis with. 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 2016 and 31 December 2015 the Syndicate did not have an unexpired risks provision.

Deferred Acquisition Costs

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

Deferred Acquisition Costs (continued)

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 insureds.

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 de-recognition criteria for financial assets have been met.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant Accounting Policies (continued)

Insurance Payables

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

g. Provisions

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

h. Foreign Currencies

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

Transactions in US dollars, Canadian dollars, Euros, Australian dollars and Japanese Yen are initially recorded in the functional currency at the average rates of exchange for the period where for practical purposes it is not possible to use the actual rate at the date of transaction. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities (which include unearned premiums and deferred acquisition costs) denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences arising on the retranslation of opening statement of financial position items at the closing statement of financial position rate and the retranslation of the Income Statement for the year from the average rate to the closing statement of financial position rate are recorded in the non-technical account.

i. Taxation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant Accounting Policies (continued)

j. Pension Costs

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

k. Profit Commission

Profit commission is payable to the Agency at a rate of 17.5% on the 2016 Year of Account (17.5% on the 2015 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Segmental Analysis

a. Analysis by class of Business

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

2016	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m	Net technical provisions £m
Direct insurance:							
Energy-marine	8.4	17.7	(12.9)	(3.3)	(1.8)	(0.3)	18.2
Energy-non marine	7.1	6.4	(4.4)	(3.3)	(1.0)	(2.3)	15.6
Marine, aviation and transport	43.5	45.2	(39.9)	(12.7)	1.2	(6.2)	95.0
Fire and other damage to property	39.0	40.8	(30.8)	(10.4)	(5.6)	(6.0)	85.1
Third party liability	64.4	70.6	(52.8)	(38.2)	17.1	(3.3)	140.9
Accident and health	0.2	0.1	-	(0.1)	-	-	0.4
Pecuniary loss	7.9	6.8	(4.6)	(2.4)	(1.2)	(1.4)	17.2
Total direct	170.5	187.6	(145.4)	(70.4)	8.7	(19.5)	223.0
Reinsurance	142.6	143.1	(104.8)	(35.2)	13.4	16.5	192.2
	313.1	330.7	(250.2)	(105.6)	22.1	(3.0)	422.2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Segmental Analysis (continued)

a. Analysis by class of Business (continued)

2015	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m	Net technical provisions £m
Direct insurance:							
Energy-marine	14.1	12.2	(4.0)	(3.1)	(4.3)	0.8	1.0
Energy-non marine	3.3	2.9	(1.8)	(0.7)	(0.9)	(0.5)	0.1
Marine, aviation and transport	52.6	45.5	(46.4)	(11.4)	6.4	(5.9)	2.2
Fire and other damage to property	19.3	16.7	(9.2)	(4.2)	(3.1)	0.2	13.2
Third party liability	77.1	66.7	(53.7)	(16.7)	(0.2)	(3.9)	37.4
Accident and health	0.2	0.1	(0.1)	-	-	-	1.0
Pecuniary loss	3.5	3.0	(2.9)	(0.8)	0.7	-	4.9
Total direct	170.1	147.1	(118.1)	(36.9)	(1.4)	(9.3)	59.8
Reinsurance	158.2	136.9	(65.9)	(34.3)	(19.5)	17.2	338.4
	328.3	284.0	(184.0)	(71.2)	(20.9)	7.9	398.2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 £2.6m (2015: £3.5m) per note 4 and are gross of reinsurance commission of £(22.9m) (2015: £1.0m).

Reinsurance balance includes reinsurance commission receivable.

All premiums were concluded in the UK.

b. Analysis by Geographical Location

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

	2016	2015
	£m	£m
UK	131.6	138.3
EU member states	35.4	37.6
US	99.1	103.7
Other	47.0	48.7
Gross premiums written	313.1	328.3

3. Investment Return

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

	2016	2015
	£m	£m
Investment income		
Income from investments	4.8	4.4
Gains/(losses) on realisation of investment	0.7	(0.3)
Unrealised losses on investments at fair value through the income statement	(0.1)	(1.7)
Total investment income	5.4	2.4
Investment expenses and charges		
Investment management expenses, including interest	(0.2)	(0.3)
Net investment income	5.2	2.1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other Technical Income

Other technical income of £2.6m (2015: £3.5m) 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, 2015 and 2016 underwriting years on the Cyber class, and for the 2015 and 2016 underwriting years 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 SPAs, for all years of account prior to 2016.

5. Net Operating Expenses

	2016	2015
	£m	£m
Acquisition costs	61.4	72.7
Reinsurers' commissions and profit participations	22.9	(1.0)
Change in deferred acquisition costs (note 15)	6.0	(13.5)
Administrative expenses	17.9	16.5
	108.2	74.7

Administrative expenses include:

	2016	2015
	£m	£m
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	3.0	3.4

Commissions in respect of direct insurance business amounted to £29.0m (2015: £34.4m).

Gains and losses arising on translation of monetary assets and liabilities at the reporting date of £0.5m (2015: loss of £2.2m) are included in other income in the non-technical account.

Included in administrative expenses are staff costs of £3.7m (2015: £9.1m). This is further broken down in note 7.

Reinsurers' commissions of £22.9m relates to the commutation of the ART stop loss during 2016 (see also note 19. I)

6. Auditor's Remuneration

	2016	2015
	£m	£m
Audit of the Syndicate Annual Accounts	0.3	0.2
	0.3	0.2

The above represents the Syndicate's share of the total audit fee. The SPAs incur audit fees as part of the whole account quota share arrangements between the Syndicate and the SPAs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Auditor's Remuneration (continued)

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

	2016	2015
	£m	£m
Wages and salaries	2.7	8.0
Social security costs	0.1	0.6
Other pension costs	-	0.5
	2.8	9.1

Staff costs have reduced in 2016 due to a change in methodology of allocation of staff. In 2015, staff costs comprised direct staff plus a proportion of back office staff borne by the Syndicated. In 2016, only direct staff were recognised in staff costs and a proportion of back office staff costs were allocated to the Company as part of an expense recharge. These costs are recognised in legal and professional fees.

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

	2016	2015
	No.	No.
Administration and Finance	32	29
Underwriting	58	63
Claims	14	11
	104	103

b. Directors' Remuneration

The four executive Directors of the Agency, one of whom served throughout the year, received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2016	2015
	£m	£m
Aggregate remuneration in respect of qualifying services	0.4	2.0

The active underwriter who was a director for the early part of the year received the following remuneration charged as a Syndicate expense:

	2016	2015
	£m	£m
Aggregate remuneration in respect of qualifying services	0.4	0.4

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Staff Costs and Directors' Remuneration (continued)

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

	2016 £m	2015 £m
Aggregate remuneration in respect of qualifying services	0.3	0.4

No advances or credits granted by the Agency 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 2016 and the investment return and yield for that calendar year were as follows:

	2016 £m	2015 £m
Average Syndicate funds available		
Sterling	101.5	110.0
Euro	33.9	31.0
United States dollars	131.8	137.9
Canadian dollars	19.2	12.1
Australian dollars	17.6	14.8
	304.0	305.8
Investment return for the year		
Sterling	1.8	0.9
Euro	0.4	(0.1)
United States dollars	2.8	0.7
Canadian dollars	0.2	0.3
Australian dollars	0.3	0.3
	5.5	2.1

Analysis of calendar year investment yield by fund	%	%
Sterling	1.77	0.82
Euro	1.18	(0.15)
United States dollars	2.12	0.51
Canadian dollars	1.04	2.23
Australian dollars	1.70	2.12

The overall investment yield (excluding unrealised gains / losses and investment expenses) is £5.5m (2015: £2.1m) representing an average yield of 1.8% (2015: 0.7%) on average funds of £304.0m (2015: £305.8m).

"Average funds" 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Financial Investments

	Carrying value 2016 £m	Carrying value 2015 £m	Purchase price 2016 £m	Purchase price 2015 £m
Shares and other variable yield securities and units in unit trusts	6.0	4.4	6.0	4.4
Debt securities and other fixed-income securities	302.3	272.8	303.7	273.2
Participation in investment pools	3.1	2.8	3.1	2.8
	311.4	280.0	312.8	280.4

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% (2015: 99.0%) of the total market value of the Syndicate's financial investments.

There was no material change in fair value for financial investments 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 £302.3m (2015: £272.8m) 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.

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

31 December 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and units in unit trusts	6.0	-	-	6.0
Debt securities and other fixed-income securities	59.5	242.8	-	302.3
Participation in investment pools	1.5	1.6	-	3.1
	67.0	244.4	-	311.4

31 December 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and units in unit trusts	4.4	-	-	4.4
Debt securities and other fixed-income securities	62.3	210.5	-	272.8
Participation in investment pools	2.8	-	-	2.8
	69.5	210.5	-	280.0

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Financial Investments (continued)

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry 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 investments which fall into the level 3 category and there have been no transfers between fair value hierarchy categories during the year.

The Agency measures the fair value of the Syndicate 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.

10. Financial Instruments

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

	2016 £m	2015 £m
Financial assets at fair value through profit and loss		
Shares and other variable yield securities and units in unit trusts	6.0	4.4
Debt securities and other fixed-income securities	302.3	272.8
Participation in investment pools	3.1	2.8
Financial assets that are debt instruments measured at amortised cost		
Debtors arising out of direct insurance operations - intermediaries	167.0	155.4
Debtors arising out of reinsurance operations	31.5	46.3
Financial liabilities measured at amortised cost		
Creditors arising out of direct insurance operations - intermediaries	4.9	0.5
Creditors arising out of reinsurance operations	193.6	182.8

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Provisions for Unearned Premiums

2016	Gross	Reinsurer's share	Net
	£m	£m	£m
At 1 January 2016	187.7	(73.3)	114.4
Premiums written in the year	313.1	(135.3)	177.8
Premiums earned in the year	(330.7)	123.8	(206.9)
Foreign exchange	26.1	(12.6)	13.5
At 31 December 2016	196.2	(97.4)	98.8

2015	Gross	Reinsurer's share	Net
	£m	£m	£m
At 1 January 2015	137.8	(39.0)	98.8
Premiums written in the year	328.3	(143.7)	184.6
Premiums earned in the year	(284.0)	112.0	(172.0)
Foreign exchange	5.6	(2.6)	3.0
At 31 December 2015	187.7	(73.3)	114.4

12. Claims Outstanding

2016	Gross	Reinsurer's share	Net
	£m	£m	£m
At 1 January 2016	476.2	(192.4)	283.8
Claims incurred in current accident year	135.7	(95.4)	40.3
Claims incurred in prior accident years	114.5	(50.5)	64.0
Claims paid during the year	(160.0)	60.7	(99.3)
Foreign exchange	66.3	(31.7)	34.6
At 31 December 2016	632.7	(309.3)	323.4

2015	Gross	Reinsurer's share	Net
	£m	£m	£m
At 1 January 2015	418.9	(153.6)	265.3
Claims incurred in current accident year	474.0	(234.5)	239.5
Claims incurred in prior accident years	(290.0)	143.4	(146.6)
Claims paid during the year	(137.7)	57.4	(80.3)
Foreign exchange	11.0	(5.1)	5.9
At 31 December 2015	476.2	(192.4)	283.8

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Debtors Arising out of Direct Insurance Operations

	2016	2015
	£m	£m
Due within one year – intermediaries	164.3	152.0
Due after one year – intermediaries	2.7	3.4
	167.0	155.4

14. Cash at Bank and in Hand and Other Deposits

	2016	2015
	£m	£m
Cash at bank and in hand	36.2	38.7
Other deposits	25.5	14.2
	61.7	52.9

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

Together these balances comprise the cash and cash equivalents presented in the Statement of Cash Flows.

15. Deferred Acquisition Costs

	2016	2015
	£m	£m
At 1 January	48.4	32.4
Change in deferred acquisition costs (note 5)	(6.0)	13.5
Foreign exchange	6.2	2.5
At 31 December	48.6	48.4

16. Other Prepayments and Accrued Income

	2016	2015
	£m	£m
Prepayments	4.3	7.5
Managing Agency expenses	0.1	0.2
	4.4	7.7

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Creditors Arising out of Direct Insurance Operations

	2016	2015
	£m	£m
Due to intermediaries	4.9	0.5
	4.9	0.5

18. Creditors Arising out of Reinsurance Operations

	2016	2015
	£m	£m
Due to SPA 6113	8.6	17.0
Due to SPA 6118	101.4	65.0
Due to SPA 6120	19.4	24.3
Due to external reinsurers	64.2	76.5
	193.6	182.8

The balance relating to SPAs represents the amounts ceded from the Syndicate on a funds withheld basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Risk Management

a. Governance Framework

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

The Agency has established a risk management function and 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 Agency Board to the Managing Director and executive management committees. Lastly, a policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for Syndicate's operations has been put in place.

The Agency Board approves risk management policies relevant to the Syndicate 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 the assessment and documentation of risks and controls, including the articulation of 'risk appetite'.

b. Capital Management Objectives, Policies and Approach

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Risk Management (continued)

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

- To maintain financial strength to support new business growth and to satisfy the requirements of the (re)insureds, regulators and stakeholders.

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

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

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

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

c. Approach to Capital Management

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

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

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

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

The Agency has developed a Lloyd's Internal Model ("LIM") framework on behalf of the Syndicate to identify risks and quantify their impact on economic capital. The LIM estimates how much capital

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Risk Management (continued)

c. Approach to Capital Management (continued)

is required to reduce the risk of insolvency to a remote degree of probability under Solvency II requirements. The LIM has also been considered in assessing the capital requirement.

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

d. Capital Resources Requirement

The Syndicate is subject to capital requirements imposed by Lloyd's. Throughout the year the Syndicate has complied with the Lloyd's risk based LIM methodology under Solvency II, which is used to calculate the Syndicate's capital requirement. Lloyd's capital setting uses a capital requirement set at Syndicate level as a starting point, but the requirement to meet solvency II & Lloyd's capital requirements applies at member level only. Accordingly, the capital requirement of Syndicate 1955 is not disclosed in these financial statements.

e. Solvency II Capital Requirements

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

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

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

The effective management of risk and capital is a key strategic priority. The Agency's risk management framework enhances the definition of the risk standards and risk tolerances which guide the day-to-day business decision making and processes and aim to ensure that 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

e. Solvency II Capital Requirements (continued)

The Syndicate will submit its first Annual Solvency Return (ASR) for 31st December 2016 to Lloyd's on or by 6th April 2017.

f. Insurance Risk

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

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

Insurance risk is a concern in a prudential context because inadequate systems and controls can create a threat to the Prudential Regulation Authority objectives of maintaining market confidence and consumer protection. Inadequately managed insurance risk may result in:

- The inability of the Syndicate to meet its contractual insurance liabilities as they fall due; and
- The inability of the Syndicate to treat its insureds 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 £289.4m for the 2016 year of account (2015 year of account: £260.0m);
- Maximum realistic disaster scenario net exposure for the 2016 Year of Account of 7.7% of stamp capacity (2015 Year of Account: 10.4%); and
- Usual maximum gross line size for 2016 of £27.8m (2015: £23.8m).

Claims

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

f. Insurance Risk

Adverse Development Cover

During the year, the Syndicate took out an Adverse Development Cover ("ADC") contract, 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 2015 inclusive. The 2015 Year of Account is covered on an earned basis as at 30 June 2015. The 2014 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.

SPA Cessions

The Syndicate has taken out quota share contracts with SPA 6113, SPA 6118 and SPA 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Risk Management (continued)

f. Insurance Risk (continued)

Claims development tables shown on an underwriting year basis are set out below and the key assumptions underlying liability estimates are set out in the Key Assumptions section on page 51.

Gross insurance ultimate contract outstanding claims provisions as at 31 December 2016:

Underwriting Year	**2011 & Prior**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Estimate of ultimate gross claims:	£m	£m	£m	£m	£m	£m	£m
At end of underwriting year	485.7	164.9	176.2	190.9	232.6	256.5	256.5
One year later	499.2	177.3	163.6	195.4	243.6	-	243.6
Two years later	524.4	187.5	176.7	191.3	-	-	191.3
Three years later	526.9	187.4	168.8	-	-	-	168.8
Four years later	525.4	194.8	-	-	-	-	194.8
Five years later	527.0	-	-	-	-	-	527.0
Current estimate of ultimate claims							1,582.0
Cumulative payments							(821.9)
Gross unearned claims reserve							(127.4)
Gross claims reserve							632.7

Net insurance ultimate contract outstanding claims provisions as at 31 December 2016:

Underwriting Year	**2011 & Prior**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Estimate of ultimate gross claims:	£m	£m	£m	£m	£m	£m	£m
At end of underwriting year	362.6	105.0	130.2	124.9	111.9	87.2	87.2
One year later	357.9	94.3	119.3	122.1	116.6	-	116.6
Two years later	369.1	88.3	125.9	119.8	-	-	119.8
Three years later	371.8	85.8	117.3	-	-	-	117.3
Four years later	367.5	89.7	-	-	-	-	89.7
Five years later	364.0	-	-	-	-	-	364.0
Current estimate of ultimate claims							894.6
Cumulative payments							(521.1)
Net unearned claims reserve							(50.1)
Net claims reserve							323.4

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 for the year and member's balances.

31 December 2016	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit for the year and members' balances
		£m	£m	£m
Average claim cost	+10%	62.8	27.7	(27.7)
Average number of claims	+10%	62.8	31.7	(31.7)

31 December 2015	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit for the year and member's balances
		£m	£m	£m
Average claim cost	+10%	47.2	27.8	(27.8)
Average number of claims	+10%	47.2	28.8	(28.8)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2016.

	Estimated gross loss $m	Estimated net loss $m
US earthquake	108	17
US windstorm	175	12
Japan earthquake	68	6
Japan windstorm	34	7
Europe windstorm	60	9

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

	Estimated gross loss $m	Estimated net loss $m
US earthquake	202	23
US windstorm	83	35
Japan earthquake	78	10
Japan windstorm	32	8
Europe windstorm	74	13

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Risk Management (continued)

f. Insurance Risk (continued)

The Syndicate and Agency operate to approved outwards reinsurance procedures in place covering the purchase of reinsurance and the procedures for making recoveries. The Syndicate also operates to an approved Agency policy for the approval of reinsurers in order to minimise credit risk.

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

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

31 December 2016	Gross liabilities £m	Reinsurance assets £m	Net liabilities £m
Energy – marine	46.8	(34.7)	12.1
Energy – non-marine	8.9	(5.2)	3.7
Marine, aviation and transport	194.0	(92.5)	101.5
Fire and other damage to property	53.3	(16.6)	36.7
Third party liability	298.9	(147.6)	151.3
Accident and health	17.4	(8.5)	8.9
Pecuniary loss	13.4	(4.2)	9.2
Total	**632.7**	**(309.3)**	**323.4**

31 December 2015	Gross liabilities £m	Reinsurance assets £m	Net liabilities £m
Energy – marine	16.9	(6.8)	10.1
Energy – non-marine	5.2	(2.1)	3.1
Marine, aviation and transport	155.2	(62.7)	92.5
Fire and other damage to property	59.4	(24.0)	35.4
Third party liability	208.1	(84.1)	124.0
Accident and health	13.1	(5.3)	7.8
Pecuniary loss	18.3	(7.4)	10.9
Total	**476.2**	**(192.4)**	**283.8**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Risk Management (continued)

f. Insurance Risk (continued)

The geographical concentration of year end 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 2016	Gross liabilities £m	Reinsurance assets £m	Net liabilities £m
United Kingdom	266.0	(130.0)	136.0
EEA	71.5	(34.9)	36.6
USA	200.3	(98.0)	102.3
International	94.9	(46.4)	48.5
Total	**632.7**	**(309.3)**	**323.4**

31 December 2015	Gross liabilities £m	Reinsurance assets £m	Net liabilities £m
United Kingdom	200.6	(81.0)	119.6
EEA	54.6	(22.1)	32.5
USA	150.4	(60.8)	89.6
International	70.6	(28.5)	42.1
Total	**476.2**	**(192.4)**	**283.8**

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 obligation to pay where a valid claim has been made.

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

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

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

The overall responsibility for the oversight of intermediaries and reinsurers has been delegated to the Agency Board's Risk Capital Committee. The Risk Capital Committee reviews the credit ratings of reinsurers on a quarterly basis, oversees the use of intermediaries and reinsurers and reviews any late settlement or reputational issues of the counterparties. The Finance and Compliance functions support the formation and renewal of intermediary relationships, to help ensure that inappropriate parties are not used by the Syndicate. The policy for approving reinsurers includes limits on counterparty exposure in order to limit the total credit risk the Syndicate may be exposed to in respect of any one reinsurer.

Credit risk from exposure to investment counterparties is controlled by operating to very prudent investment guidelines. Investments are managed by a third party investment manager, appointed under the terms of an Investment Management Agreement. The Syndicate's maximum exposure to credit risk to the assets below at 31 December 2016 and 2015 is the carrying amount as presented in note 9.

The Agency's policy is that the Syndicate generally reinsures with businesses rated A- or higher by one or more rating agencies. The syndicate only uses reinsurers with lower ratings or that are completely unrated where collateral or a claims paying guarantee from a parent undertaking is provided. As at 31 December 2016, the Syndicate had received £57.7m of collateral (2015: £83.8m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Risk Management (continued)

g. Credit Risk (continued)

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

At 31 December 2016	Government/ AAA	AA	A and below	Unrated	Total
	£m	£m	£m	£m	£m
Financial investments	37.6	162.4	111.4	-	311.4
Deposits with credit institutions	-	-	-	25.5	25.5
Cash at bank and in hand	-	-	36.2	-	36.2
Reinsurer' share of claims outstanding	-	201.7	101.7	5.9	309.3
Debtors arising out of reinsurance operations	-	0.5	29.9	1.1	31.5
Total	**37.6**	**364.6**	**279.2**	**32.5**	**713.9**

At 31 December 2015	Government/ AAA	AA	A and below	Unrated	Total
	£m	£m	£m	£m	£m
Financial investments	60.8	146.2	73.0	-	280.0
Deposits with credit institutions		-	14.2	-	14.2
Cash at bank and in hand	38.7	-	-	-	38.7
Reinsurer' share of claims outstanding	-	44.1	98.1	50.2	192.4
Debtors arising out of reinsurance operations	-	10.6	23.6	12.1	46.3
Total	**99.5**	**200.9**	**208.9**	**62.3**	**571.6**

The source for ratings is Standard and Poor's.

The Syndicate does not consider that there is a significant concentration of risk with respect to its insurance receivables accounts. Of the total assets, none (2015: £nil) has been impaired.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Risk Management (continued)

g. Credit Risk (continued)

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

At 31 December 2016	Neither past due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£m	£m	£m	£m	£m	£m
Financial investments	311.4	-	-	-	-	311.4
Deposits with credit institutions	25.5	-	-	-	-	25.5
Cash at bank and in hand	36.2	-	-	-	-	36.2
Reinsurer's share of claims outstanding	295.4	12.0	0.7	0.7	0.5	309.3
Debtors arising out of direct insurance operations	156.6	1.7	2.1	3.9	2.7	167.0
Debtors arising out of reinsurance operations	19.8	7.0	4.0	0.5	0.2	31.5
Other assets	154.7	0.9	0.9	0.7	5.9	163.1
Total	**999.6**	**21.6**	**7.7**	**5.8**	**9.3**	**1,044.0**

At 31 December 2015	Neither past due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£m	£m	£m	£m	£m	£m
Financial investments	280.0	-	-	-	-	280.0
Deposits with credit institutions	14.2	-	-	-	-	14.2
Cash at bank and in hand	38.7	-	-	-	-	38.7
Reinsurer's hare of claims outstanding	186.6	3.3	1.7	0.6	0.2	192.4
Debtors arising out of direct insurance operations	150.5	3.5	1.4	-	-	155.4
Debtors arising out of reinsurance operations	44.9	0.8	0.4	0.2	-	46.3
Other debtors	132.7	0.6	0.6	0.5	3.9	138.3
Total	**847.6**	**8.2**	**4.1**	**1.3**	**4.1**	**865.3**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Agency 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 maintains ledger balances in six main currencies: Sterling, Euros, US Dollars, Japanese Yen, Australian Dollars and Canadian Dollars. The most important non-sterling currency exposure relates to the US dollar. As well as the US Situs business, exposures arise from a number of classes of business transacted outside of the USA, mainly Property. Maintenance of currency ledgers enables the Agency to monitor foreign exchange risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Risk Management (continued)

i. Foreign Currency Risk (continued)

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

At 31 December 2016	GBP £m	US $ £m	Euro € £m	CAD $ £m	Other £m	Total £m
Reinsurance assets	81.0	274.8	35.1	6.0	9.8	406.7
Insurance receivables	35.7	160.0	(2.6)	4.9	0.5	198.5
Financial Investments	64.1	196.1	31.6	19.6	-	311.4
Cash and cash equivalents	21.6	5.0	2.5	5.3	27.3	61.7
Other Assets	27.0	33.0	2.8	0.9	2.0	65.7
Total assets	229.4	668.9	69.4	36.7	39.6	1,044.0
Technical Provisions	(184.9)	(531.4)	(62.4)	(17.5)	(32.7)	(828.9)
Insurance & reinsurance payables	(29.4)	(144.2)	(11.5)	(3.1)	(10.3)	(198.5)
Other creditors	(2.1)	(5.2)	0.1	-	-	(7.2)
Total Liabilities	(216.4)	(680.8)	(73.8)	(20.6)	(43.1)	(1,034.6)
Members' balances	13.0	(11.9)	(4.4)	16.1	(3.4)	(9.4)

At 31 December 2015	GBP £m	US $ £m	Euro € £m	CAD $ £m	Other £m	Total £m
Reinsurance assets	79.0	163.6	15.7	2.2	5.1	265.7
Insurance receivables	67.8	129.7	-	1.0	3.2	201.8
Financial Investments	90.5	152.2	27.3	10.1	-	280.0
Cash and cash equivalents	39.0	-	1.7	-	12.1	52.8
Other Assets	(115.7)	146.2	21.7	1.0	11.9	65.0
Total assets	**160.6**	**591.7**	**66.4**	**14.3**	**32.3**	**865.3**
Technical Provisions	(205.0)	(388.4)	(40.0)	(8.5)	(22.0)	(663.9)
Insurance & reinsurance payables	(79.7)	(85.3)	(8.2)	(2.5)	(7.6)	(183.3)
Other creditors	(5.1)	-	-	-	-	(5.1)
Total Liabilities	**(289.8)**	**(473.7)**	**(48.2)**	**(11.0)**	**(29.6)**	**(852.3)**
Members' balances	**(129.2)**	**118.0**	**18.2**	**3.3**	**2.7**	**13.0**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2016, the Syndicate used closing rates of exchange of £1: $1.24 and £1: €1.17 (31 December 2015: 1: €1.36 and £1:$1.47). 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.

k. **Interest Rate Risk**

Increase/(decrease) on members' balances	**2016**	**2015**
	£m	**£m**
Strengthening of US dollar	1.6	13.1
Weakening of US dollar	(1.3)	(4.4)
Strengthening of Euro	-	3.6
Weakening of Euro	-	(2.9)

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

31 December 2016	**< 1 yr £m**	**1-3 yrs £m**	**3-5 yrs £m**	**> 5 yrs £m**	**Total £m**
Financial assets at fair value through the profit and loss	75.9	218.2	29.8	13.0	336.9
Cash at bank and in hand	36.2	-	-	-	36.2
Total	112.1	218.2	29.8	13.0	373.1

31 December 2015	**< 1 yr £m**	**1-3 yrs £m**	**3-5 yrs £m**	**> 5 yrs £m**	**Total £m**
Financial assets at fair value through the profit and loss	22.4	150.6	59.4	61.8	294.2
Cash at bank and in hand	38.7	-	-	-	38.7
Total	61.1	150.6	59.4	61.8	332.9

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2016 and takes into account the full effect of mark to market movements, but without recognising any running yield benefit.

	Impact on profit		Impact on members' balances	
	2016	2015	2016	2015
	£m	£m	£m	£m
Shift in yield (basis points)				
50 basis points decrease	3.4	3.8	3.4	3.8
50 basis points increase	(3.4)	(3.1)	(3.4)	(3.1)

l. Liquidity Risk

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

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

Additionally, the Syndicate aims to maintain minimum and maximum amounts of its investments in 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Risk Management (continued)

l. Liquidity Risk (continued)

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

Future Cash Flows

A summary of the statement of financial position showing the expected timing of future cash flows is shown below. The SPA cessions are included within the "Creditors arising out of reinsurance operations" balance.

At 31 December 2016	< 1 year	1-3 years	3-5 years	> 5years	Total
	£m	£m	£m	£m	£m
Claims outstanding	167.6	163.1	131.8	170.2	632.7
Creditors arising out of reinsurance operations	82.6	111.0	-	-	193.6
Accruals and deferred income	3.7	-	-	-	3.7
Total Liabilities	**253.9**	**274.1**	**131.8**	**170.2**	**830.0**

At 31 December 2015	< 1 year	1-3 years	3-5 years	> 5years	Total
	£m	£m	£m	£m	£m
Claims outstanding	91.5	99.5	108.9	176.3	476.2
Creditors arising out of reinsurance operations	181.3	1.5	-	-	182.8
Accruals and deferred income	4.8	-	-	-	4.8
Total Liabilities	**277.6**	**101.0**	**108.9**	**176.3**	**663.8**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Risk Management (continued)

m Operational Risk (continued)

important as it can affect the Syndicate's solvency, or lead to unfair treatment of consumers or lead to financial crime.

The Agency's strategy is to implement and maintain a high level of operational processes and procedures. These are subject to ongoing review and update. This will help reduce and control operational risk more effectively and make any subsequent loss more manageable.

The operational controls are designed to meet the requirements of relevant regulatory bodies and agreed best practice. All operational controls are monitored on a regular basis to ensure that they remain fit for purpose.

n. Group Risk

Group risk is the risk that the operation of one part of the Barbican Group adversely affects another. Group risk includes:

- Negative publicity;
- Inadequate communication within the organisation;
- Undue influence from fellow subsidiaries, holding companies or stakeholders;
- Financial pressures to make funds available to the Barbican Group; and/or
- Financial restraint leading to shortcomings in core activities such as reinsurance purchase.

The Agency'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 formed objectively and clearly understood by all parties.

o. Dependencies between Risk Categories

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. **Risk Management (continued)**

o. **Dependencies between Risk Categories (continued)**

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**

SPA and Syndicate 1856 Cessions

The Syndicate has ceded reinsurance to SPA 6113, SPA 6118, and SPA 6120 on a funds withheld basis.

For the 2014 Year of Account, 50.0% of the Property Insurance, Property Treaty, Aviation and Space and Marine Energy book were ceded to SPA 6113 and 33.3% of Malicious Acts which amounted to a total of £33.7m. Additionally in 2014, the Syndicate ceded 11.5% across all classes of business to SPA 6118 , after taking into account cessions to 6113, which amounted to £25.0m.

For the 2015 Year of Account, the Syndicate ceded 18.5% across all classes to SPA 6118 which amounted to £48.1m. Additionally in 2015, the Syndicate ceded 15.4% across all classes of business to SPA 6120 which amounted to £40.1m. These cessions for SPA 6118 and SPA 6120 were calculated on the Syndicate's result net of external reinsurance and as such, they are independent of one another.

Effective 31 December 2016, the 2014 Year of Account of SPA 6118 was closed into the 2014 Year of Account of the Syndicate, which in turn closed into the 2015 Year of Account of the Syndicate, with a quote share contract put in place to transfer the risk back to the 2015 Year of Account of SPA 6118 . A premium of £28.2m was payable in respect of this arrangement.

Effective 31 December 2016, the 2014 Year of Account of SPA 6113 was closed into the 2015 Year of Account of the Syndicate. A premium of £4.7m was payable in respect of this arrangement.

For the 2016 Year of Account, the Syndicate ceded 31.0% across all classes to SPA 6118 which amounted to £89.8m.

During 2015, the Agency set up Arcus Syndicate 1856 ("Arcus") which has 100% of its capital provided by third party investors. In 2016, its first year of account, it had a capacity of £89.2m and the Syndicate ceded to it a 15.4% whole account quota share amounting to £44.6m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Related Parties (continued)

A summary of premiums ceded during the year from the Syndicate to the SPAs and Syndicate 1856, and the creditor balance held with each of them is given below:

	Reinsurance premium ceded 2016 £m	Reinsurance creditor 2016 £m	Reinsurance premium ceded 2015 £m	Reinsurance creditor 2015 £m
SPA 6113	(0.8)	8.6	(1.0)	17.0
SPA 6118	78.2	101.3	47.5	65.0
SPA 6120	(1.2)	19.4	40.1	24.3
S 1856	41.1	23.1	-	-
Total	**117.3**	**152.4**	**86.6**	**106.3**

These balances are unsecured and are expected to be settled in cash.

The reinsurance premium ceded to SPA 6113 during 2016 and 2015 is negative because of EPI revisions and return premium on the 2013 and 2014 Years of Account.

Key Management Personnel Compensation

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

The Directors' remuneration has been disclosed separately in note 7 to the financial statements.

Barbican Companies

The Syndicate, along with Syndicate 1856, SPA 6113, SPA 6118 and SPA 6120, is managed by the Agency, 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 Agency during the year. The Agency recharged the syndicate 19.1m (2015 £21.6m) of expenses during the year, in respect of staff costs and other expenses.

The Syndicate entered into an arrangement whereby Barbican Reinsurance Company Limited ("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 2016, the following Group companies contributed towards the Syndicate's gross written premium: Barbican Protect Limited wrote £20.5m (2015: £14.9m) with an outstanding debtor balance of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Related Parties (continued)

£6.8m (2015: £5.3m); Castel Underwriting Agencies Limited wrote £13.2m (2015: £10.3m) with an outstanding debtor balance of £10.0m (2015: £7.0m); Barbican Underwriting Limited wrote £0.7m (2015: £8.0m) with an outstanding debtor balance of £1.0m (2015: £6.8m) and Barbican Channel Islands (a trading name of BRCL) wrote £1.6m (2015: £1.0m).

The Syndicate recharged £7.8m (2015: £1.3m) 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 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 Agency or the Syndicate, no amount has been shown in these Annual Accounts by way of such capital resources. However, the Agency is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

The transfer to the member in respect of underwriting participation represents the distribution in respect of the closing of the 2013 Year of Account of £6.3m, made during 2016 (2015: distribution of £6.1m in respect of 2012 Year of Account).

22. Off-statement of financial position items

The Syndicate has not been party to any arrangement, not reflected in its statement of financial position, where material risks or benefits arise for the Syndicate.

23. Derivatives

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

24. Post Reporting Date Events

There is no post statement of financial position events that would impact the Syndicate's 2016 result or financial position