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Report, Annual Accounts and Underwriting Year
Accounts

Barbican Syndicate 6118

31 December 2017

Barbican Syndicate 6118

31 December 2017

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Barbican Syndicate 6118

Directors and Administration

Managing Agent

Barbican Managing Agency Limited

Directors

D M Booth (Appointed 22 January 2018)
I J Bremner
H N A Colthurst
C R Cunningham (Resigned 2 May 2017)
A D Elliott
S A Godsave
M J Harrington
J W Heap
R H Hobbs (Resigned 30 September 2017)
R H Johnson (Appointed 20 November 2017)
R A Keers (Appointed 20 January 2017)

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

A Caldwell

Auditor

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

Barbican Syndicate 6118

Report of the Directors of the Managing Agency

The Directors present their Annual Report and Financial Statements for the year ended 31 December 2017 for Syndicate 6118 (“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.

A separate set of underwriting year accounts has been prepared on the traditional three year accounting basis in accordance with the Lloyd’s Syndicate Accounting Byelaw (No. 8 of 2005) for the closed 2015 Year of Account. Underwriting year accounts are not required until the closure of the Year of Account, typically at the 36 month stage.

Managing Agent

The Managing Agent of the Syndicate since its inception on 1 January 2014 is Barbican Managing Agency Limited (“the Agency”), whose registered office is situated at 33 Gracechurch Street, London, EC3V 0BT and whose registered number is 06948515.

Principal Activity

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

The result for calendar year 2017 is a loss of £12.9m (2016: £1.6m). This is analysed further below.

Key Performance Indicators

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

	2017	2016
	£000	£000
Gross premiums written	133,122	78,192
Gross premiums earned	116,885	64,815
Net premiums earned	75,755	44,222
Net claims incurred	(78,893)	(38,393)
Investment return	929	972
Other technical income	209	22
Operating expenses	(9,991)	(9,410)
Realised and unrealised movements on foreign exchange	(885)	953
Loss for the year	(12,876)	(1,634)
Net claims ratio	104.1%	86.8%
Expense ratio*	12.9%	21.2%
Combined ratio	117.0%	108.0%

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

Barbican Syndicate 6118

Report of the Directors of the Managing Agency

Review of the Business

The Syndicate was established to provide a dedicated vehicle for external investors to participate on Barbican Syndicate 1955 via quota share reinsurance.

For the 2016 Year of Account, the Syndicate took a 31.032% whole account quota share reinsurance of Barbican Syndicate 1955. Total planned premium income capacity before outwards reinsurance and acquisition costs was £108.7m.

For the 2017 Year of Account, the Syndicate took a 39.6% whole account quota share reinsurance of Barbican Syndicate 1955. Total planned premium income capacity net of outwards reinsurance and acquisition costs was £89.7m.

The Syndicate wrote £133.1m of gross premium during 2017 (2016: £78.2m).

An analysis of the Syndicate's performance in 2017 is provided below.

Marine, Aviation and Transport (MAT)

The MAT division encompasses both Marine Reinsurance and Marine Insurance lines of business. It also includes General Aviation and Aerospace, Terrorism and Political Risk business. In 2017 this division generated gross written premium of £45.2m (2016: £32.4m).

Energy

In 2017 the energy division generated gross written premium of £15.3m (2016: £3.6m).

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 2017 this division generated gross written premium of £23.4m (2016: £14.2m).

Specialty

The Specialty division includes six separate lines of business: Healthcare Liability, Cyber Liability, UK SME Professional Indemnity, Financial & Professional Lines, International Casualty Reinsurance and North American Casualty Reinsurance. In 2017 this division generated gross written premium of £42.5m (2016: £23.5m).

Facilities

In 2017 the Facilities division generated gross written premium of £6.7m (2016: £4.5m).

Business Environment

The syndicate continued to experience difficult trading conditions with a soft rating environment persisting on most lines of business. Despite this, premium growth was achieved particularly in the Energy and Speciality books, with growing business opportunities. However, Hurricanes Harvey, Irma and Maria have adversely impacted the Syndicate's profit by £11.0m net.

Barbican Syndicate 6118

Report of the Directors of the Managing Agency

Investment Returns

Investment yields were down overall in 2017 to 1.5% (2016: 1.8%). This resulted in an investment return of £0.9m (2016: £1.0m).

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 Syndicate 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 Agency are as follows:

Insurance Risk

Insurance risk includes the risks that a policy will be written for inadequate premium, provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), and that estimates of claims subsequently prove to be insufficient (reserving risk). The Agency Board manages insurance risk by agreeing its appetite for these risks annually and managing this primarily through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The 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 quarterly review by both the Syndicate actuary and Board and is also supported by an independent firm of actuaries.

Credit Risk

The key aspects of credit risk are the risk of default by one or more of the Syndicate's reinsurers and by Barbican Syndicate 1955 in respect of the reinsurance it cedes to the Syndicate on a funds withheld basis. The Agency Board's policy is that Syndicate 1955 generally reinsures with businesses rated A- or higher by one or more rating agencies. Syndicate 1955 only uses reinsurers with lower ratings or that are completely unrated where collateral or a claims paying guarantee from a parent undertaking is provided. Furthermore, the cash flows from Barbican Syndicate 1955 are expected to occur following the closure of the Years of Account at 36 months.

Currency Risk

The key aspect of currency risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency Board's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Agency Board, which may instruct surplus currencies to be sold to reduce any deficit on other currencies.

Barbican Syndicate 6118

Report of the Directors of the Managing Agency

Principal Risks and Uncertainties (continued)

Liquidity Risk

This is the risk that the Syndicate will not be able to meet liabilities as they fall due, owing to a shortfall in cash in Barbican Syndicate 1955, which cedes a proportion of its insurance liabilities to the Syndicate. To mitigate this risk, the Agency Board reviews Barbican Syndicate 1955's cash flow projections regularly and ensures it holds liquid investments in its portfolios.

Group Risk

Group risk is the possibility that the operation of one part of the 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 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 with the requirements of the Financial Conduct Authority ("FCA"), Prudential Regulation Authority ("PRA") and the Society of Lloyd's ("Lloyds"). Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency Board has appointed the Group Head of Compliance and Risk as its Compliance Officer, who monitors regulatory developments, assesses the impact on Agency policy 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 a business.

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 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.

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Report of the Directors of the Managing Agency

Principal Risks and Uncertainties (continued)

Future Developments

The Syndicate continues to participate via a quota share reinsurance of Barbican Syndicate 1955 for the 2018 Year of Account. The Syndicate's Lloyd's stamp capacity for the 2018 Year of Account is £131.2m before outwards reinsurance and acquisition costs which consists of a cession of 33.8% (2017: 39.6%) of Syndicate 1955's 2018 whole account.

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

R A Keers
Finance Director
16 March 2018

Barbican Syndicate 6118

Annual Accounts
Barbican Syndicate 6118
31 December 2017

Barbican Syndicate 6118

Managing Agent's Responsibilities Statement

The Agency is responsible for preparing the Managing Agency Report and 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.

Barbican Syndicate 6118

Independent Auditor's Report

to the Members of Barbican Syndicate 6118

Opinion

We have audited the syndicate annual accounts of syndicate 6118 ('the syndicate') for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

Barbican Syndicate 6118

Independent Auditor's Report

to the Members Barbican Syndicate 6118

Other information

The other information comprises the information included in the annual report, other than the syndicate annual accounts and our auditor's report thereon. The managing agent is responsible for the other information.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the managing agent's report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts; and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

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

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- certain disclosures of the managing agents' emoluments specified by law are not made.

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 9, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

Barbican Syndicate 6118

Independent Auditor's Report

to the Members Barbican Syndicate 6118

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

Auditor's responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Benjamin Gregory (Senior statutory auditor)

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

London

16 March 2018

Barbican Syndicate 6118

Income Statement

Technical account - General Business

For the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Gross premiums written	2	133,122	78,192
Outward reinsurance premiums		(50,008)	(26,741)
Net premiums written		<u>83,114</u>	<u>51,451</u>
Change in the provision for unearned premiums:			
- Gross amount		(16,237)	(13,377)
- Reinsurers' share		8,878	6,148
Change in the net provision for unearned premiums	9	<u>(7,359)</u>	<u>(7,229)</u>
Earned premiums, net of reinsurance		75,755	44,222
Allocated investment return transferred from the non-technical account	3	929	972
Other technical income	4	209	22
Claims paid			
- Gross amount		(54,279)	(25,410)
- Reinsurers' share		9,871	4,887
Net claims paid		<u>(44,408)</u>	<u>(20,523)</u>
Change in the provision for claims			
- Gross amount		(81,618)	(37,603)
- Reinsurers' share		47,133	19,733
Change in the net provision for claims	10	<u>(34,485)</u>	<u>(17,870)</u>
Claims incurred, net of reinsurance		<u>(78,893)</u>	<u>(38,393)</u>
Net operating expenses	5	<u>(9,991)</u>	<u>(9,410)</u>
Balance on the technical account for general business		<u>(11,991)</u>	<u>(2,587)</u>

Barbican Syndicate 6118

Income Statement

Non-Technical account - General Business

For the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Balance on the general business technical account		(11,991)	(2,587)
Investment income	3	1,671	922
Unrealised losses on investments	3	(529)	(15)
Realised (losses)/gains on investments	3	(126)	141
Investment expenses and charges	3	(87)	(76)
Allocated investment return transferred to general business technical account		(929)	(972)
Foreign exchange (losses)/gains		(885)	953
Loss for the year		(12,876)	(1,634)

Barbican Syndicate 6118

Statement of changes in Members' Balances

For the year ended 31 December 2017

	2017	2016
	£000	£000
At 1 January 2017	2,097	3,731
Loss for the year	(12,876)	(1,634)
Profit distribution	(4,065)	-
At 31 December 2017	<u>(14,844)</u>	<u>2,097</u>

Barbican Syndicate 6118

Statement of Financial Position

For the year ended 31 December 2017

		2017	2016
	Notes	£000	£000
Assets			
Reinsurers' share of technical provisions			
Provision for unearned premiums	9	22,254	14,750
Claims outstanding	10	84,858	42,067
		<u>107,112</u>	<u>56,817</u>
Debtors			
Debtors arising out of reinsurance operations	8	121,061	101,345
Other debtors	8	92	514
		<u>121,153</u>	<u>101,859</u>
Total assets		<u>228,265</u>	<u>158,676</u>
Liabilities			
Capital and reserves			
Member's balance		(14,844)	2,097
Technical provisions			
Provision for unearned premiums	9	59,737	45,583
Claims outstanding	10	183,372	110,778
		<u>243,109</u>	<u>156,361</u>
Creditors due within one year			
Other creditors		-	100
Creditors due after one year			
Other Creditors		-	118
Total liabilities		<u>228,265</u>	<u>158,676</u>

The Annual Accounts on pages 13 to 47 were approved by the Board of Barbican Managing Agency Limited on 14 March 2018 and signed on its behalf by

R A Keers
Finance Director
16 March 2018

Barbican Syndicate 6118

Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Loss for the financial year		(12,876)	(1,634)
Adjustments for:			
Movement in technical provisions	9,10	86,748	68,557
Movement in reinsurers' share of technical provisions	9,10	(50,295)	(30,679)
Movements in debtors		(18,365)	(35,490)
Movements in creditors		(218)	218
Investment return	3	(929)	(972)
Net cash from operating activities		4,065	-
Cash flows from financing activities			
Profit distribution		(4,065)	-
Net cash from financing activities		(4,065)	-
Net change in cash and cash equivalents			
		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

Barbican Syndicate 6118

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 2017 were approved for issue by the Agency Board on 14 March 2018.

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

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

Amounts ceded from Barbican Syndicate 1955 to the Syndicate are taken net of external reinsurance, and are recognised as reinsurance balances in Barbican Syndicate 1955, then are in turn recognised as gross balances in the Syndicate. The Syndicate’s share of the Barbican Syndicate 1955’s external outward reinsurance is recognised as reinsurance balances in the Syndicate. The Syndicate also takes a share of investment income, consortium income and expenses, which are ceded out of Syndicate 1955 and recognised in the equivalent accounts in the Syndicate. Syndicate 6118 is a quota share reinsurance contract with Syndicate 1955. Syndicate 1955 purchases whole account reinsurance to cover both Syndicate 1955 and associated special purpose arrangements (SPA’s) as the underlying business follows. As the Syndicate is an SPA it does not hold monetary assets on its Balance sheet. In effect it is a cashless syndicate. All funds are maintained in a withheld account and will be distributed once the Year of Account closes.

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:

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.

Barbican Syndicate 6118

Notes to the Financial Statements

1. Significant Accounting Policies (continued)

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by underwriting years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the most likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

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

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the earnings methodology on an insurance contract requires amortisation of unearned premium on a basis other than time apportionment.

Further details are given in Note 10.

Estimates of Future Premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue being recorded in the Financial Statements.

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

d. Financial Instruments

The Syndicate's financial instruments are initially recorded at cost and are carried at each reporting date at amortised cost.

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.

Barbican Syndicate 6118

Notes to the Financial Statements

1. Significant Accounting Policies (continued)

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. This applies to the funds withheld in respect of the cession from Barbican Syndicate 1955 to the Syndicate. 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.

e. Investment return

Barbican Syndicate 1955's investments are recognised at fair value through the profit and loss. Although SPA 6118 does not itself hold any investments, it takes a share of Barbican Syndicate 1955's investment income.

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.

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.

Barbican Syndicate 6118

Notes to the Financial Statements

1. Significant Accounting Policies (continued)

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

Under some policies, written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a remeasurement taking account of such a reduction is made as soon as there is an obligation to the 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.

The Syndicate has written a quota share contract with Barbican Syndicate 1955. The contract operates 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 Barbican Syndicate 1955 to the Syndicate is recognised as an asset on the Statement of Financial Position.

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.

Barbican Syndicate 6118

Notes to the Financial Statements

1. Significant Accounting Policies (continued)

Fees and Commission Income

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

Claims incurred

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

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

Technical Provisions

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

Claims Outstanding

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims and therefore, the ultimate cost of these claims cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

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

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.

Barbican Syndicate 6118

Notes to the Financial Statements

1. Significant Accounting Policies (continued)

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

Provisions for Unearned Premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The provision for unearned premiums is predominantly calculated on a monthly pro rata basis with some classes of business such as Space having more complex earnings profiles. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of reinsurance premiums in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Unexpired Risks

A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable.

The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date, after offsetting surpluses and deficits arising on products which are managed together. Investment income is taken into account in calculating the provision.

At 31 December 2017 and 31 December 2016 the Syndicate did not have an unexpired risks provision.

Deferred Acquisition Costs

The Syndicate is an SPA and therefore has no cash, and no brokerage changes hands under the quota share contract. Acquisition costs are therefore netted off against gross written premium, and deferred acquisition costs are netted off against unearned premium.

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

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

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

Barbican Syndicate 6118

Notes to the Financial Statements

1. Significant Accounting Policies (continued)

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 relate to the cession from Barbican Syndicate 1955 on a funds withheld basis and are recognised when due and are measured at amortised cost. The carrying value of insurance receivables is reviewed for impairment should events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Income Statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

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 presentation 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.

Barbican Syndicate 6118

Notes to the Financial Statements

1. Significant Accounting Policies (continued)

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.

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

j. Profit Commission

Profit commission is included within net operating expenses within the Income Statement. It is charged by the Agency at a rate of 17.5% on all 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.

k. Consortia Income

Consortia income is charged by Syndicate 1955 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 Syndicate 1955 as incurred and becomes payable quarterly based on the premium written that quarter. Consortium income is then ceded to S6118 as per the quota share agreement.

Barbican Syndicate 6118

Notes to the Financial Statements

2. Segmental Analysis

a. Analysis by Class of Business

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

2017	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Reinsurance	133,122	116,885	(135,897)	(9,782)	15,874	(12,920)	135,997

2016	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Reinsurance	78,192	64,815	(63,013)	(9,388)	4,027	(3,559)	99,544

In the current year, there was a change in estimation to the recognition of binder and lineslip gross written premiums, which resulted in an adjustment that reduced gross written premiums by £11.0m. Had the same approach been applied to the prior year figures, this would have resulted in a reduction to gross written premiums of £8.7m. This has no impact on the net result for the period.

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 are net of consortia income of £209k (2016: £22k) per Note 4.

All premiums were concluded in the UK.

b. Analysis by Geographical Location

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

	2017 £000	2016 £000
United Kingdom	51,497	32,259
EU member states	12,372	8,678
USA	43,207	25,280
Rest of the world	26,046	11,975
Gross premiums written	133,122	78,192

Barbican Syndicate 6118

Notes to the Financial Statements

2. Segmental Analysis (continued)

c. Analysis by Composition

Gross written premium is netted off by acquisition costs and is made up as follows:

	2017	2016
	£000	£000
Gross premiums written	170,648	99,208
Acquisition costs	<u>(37,526)</u>	<u>(21,016)</u>
	<u>133,122</u>	<u>78,192</u>

A new method has been used to estimate the values in the above table in 2017 and therefore the 2016 comparatives have been restated in order to present them on a consistent basis.

3. Investment Return

Barbican Syndicate 1955's investments are recognised at fair value through the profit and loss. Although the Syndicate holds no cash or investments, it takes a share of Barbican Syndicate 1955's investment income.

	2017	2016
	£000	£000
Investment Income		
Income from investments, cash and other deposits	1,671	922
(Losses)/gains on realisation of investments	<u>(126)</u>	<u>141</u>
Total investment income	1,545	1,063
Unrealised losses on investments at fair value through profit or loss	(529)	(15)
Investment management charges		
Investment management charges, including interest	(87)	(76)
Net investment return	<u>929</u>	<u>972</u>

4. Other Technical Income

Other technical income of £209k (2016: £22k) represents consortium income. Consortium contracts between Barbican Syndicate 1955 and other Lloyd's syndicates are in place for various underwriting years on Financial and Professional Lines and for the 2015 underwriting years on the Cyber class and Energy class.

Barbican Syndicate 1955 is the lead on these consortia and receives a fee for providing various underwriting and administrative services. It ceded a share of the consortium income to the Syndicate in 2017 and 2016 in relation to the 2015 and prior underwriting years only.

Barbican Syndicate 6118

Notes to the Financial Statements

5. Net Operating Expenses

	2017	2016
	£000	£000
Standard personal expenses	2,577	1,577
Administrative expenses	7,414	7,833
Net operating expenses	<u>9,991</u>	<u>9,410</u>

Profit commission is included within administrative expenses and the managing agency fee is included within standard personal expenses.

6. Auditor's Remuneration

The auditor's remuneration excluding fees incurred as part of the whole account quota share arrangement with Syndicate 1955 were as follows:

	2017	2016
	£000	£000
Audit of the Syndicate Annual Accounts	28	28
Audit related services	14	12
	<u>42</u>	<u>40</u>

Auditors' remuneration is included as part of the administrative expenses in Note 5 to the Financial Statements.

7. Staff Costs and Directors' Remuneration

a. Staff Costs

All staff are employed by Barbican Holdings (UK) Limited, the immediate parent company of the Agency. The cost of these staff is mainly borne by Barbican Syndicate 1955.

b. Remuneration of the Directors of Barbican Managing Agency Limited

The Syndicate was not recharged any expenses relating to the remuneration of the Directors of the Agency (2016: £nil).

8. Debtors

The Syndicate's debtors arising out of reinsurance operations and other debtors are initially recorded at cost and are carried at each reporting date at amortised cost.

	2017	2016
	£000	£000
Financial assets that are debt instruments measured at amortised cost:		
Debtors arising out of reinsurance operations – due within one year	35,094	30,902
Debtors arising out of reinsurance operations – due after one year	85,967	70,443
	<u>121,061</u>	<u>101,345</u>
Other debtors	92	514
	<u>121,153</u>	<u>101,859</u>

Barbican Syndicate 6118

Notes to the Financial Statements

9. Provisions for Unearned Premiums

2017	Gross	Reinsurer's	Net
	£000	share £000	£000
At 1 January 2017	45,583	(14,750)	30,833
Premiums written in the year	133,122	(50,008)	83,114
Premiums earned in the year	(116,885)	41,130	(75,755)
Foreign exchange	(2,083)	1,374	(709)
At 31 December 2017	<u>59,737</u>	<u>(22,254)</u>	<u>37,483</u>

2016	Gross	Reinsurer's	Net
	£000	share £000	£000
At 1 January 2016	26,525	(7,505)	19,020
Premiums written in the year	78,192	(26,741)	51,451
Premiums earned in the year	(64,815)	20,593	(44,222)
Foreign exchange	5,681	(1,097)	4,584
At 31 December 2016	<u>45,583</u>	<u>(14,750)</u>	<u>30,833</u>

Gross unearned premium is netted off by deferred acquisition costs and is made up as follows:

	2017	2016
	£000	£000
Unearned premium	74,371	57,178
Deferred acquisition costs	(14,634)	(11,595)
	<u>59,737</u>	<u>45,583</u>

A new method has been used to estimate the values in the above table in 2017 and therefore the 2016 comparatives have been restated in order to present them on a consistent basis.

10. Claims Outstanding

2017	Gross	Reinsurer's	Net
	£000	share £000	£000
At 1 January 2017	110,778	(42,067)	68,711
Claims incurred in current accident year	107,209	(44,971)	62,238
Claims incurred in prior accident years	28,688	(12,033)	16,655
Claims paid during the year	(54,279)	9,871	(44,408)
Foreign exchange	(9,024)	4,342	(4,682)
At 31 December 2017	<u>183,372</u>	<u>(84,858)</u>	<u>98,514</u>

Barbican Syndicate 6118

Notes to the Financial Statements

10. Claims Outstanding (continued)

2016	Gross	Reinsurer's share	Net
	£000	£000	£000
At 1 January 2016	61,371	(18,633)	42,738
Claims incurred in current accident year	(42,431)	19,032	(23,399)
Claims incurred in prior accident year	105,444	(43,652)	61,792
Claims paid during the year	(25,410)	4,887	(20,523)
Foreign exchange	11,804	(3,701)	8,103
At 31 December 2016	<u>110,778</u>	<u>(42,067)</u>	<u>68,711</u>

11. Risk Management

a. Governance Framework

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

The Agency has established a risk management function with clear terms of reference from the Agency Board, its committees and the associated executive management committees. The Agency 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 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 the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies and their implementation. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including the articulation of 'risk appetite'.

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

b. Capital Management Objectives, Policies and Approach

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

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

The operations of the Agency, which manages the underwriting of the Syndicate, are subject to regulatory requirements within the jurisdictions in which it operates, in particular compliance with Financial Conduct Authority ("FCA") rules, Prudential Regulation Authority ("PRA") rules, Lloyd's standards and byelaws, relevant EU regulations, and the 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.

11. Risk Management (continued)

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

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

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

d. Capital Resources Requirement

The Syndicate is subject to capital requirements imposed by Lloyd's. Throughout the year the Syndicate has complied with the Lloyd's risk based LIM methodology under Solvency II, which is used to calculate the Syndicate's capital requirement. Lloyd's capital setting 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 6118 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. In consequence, all Lloyd's managing agents are required to operate an internal model for each managed syndicate that is structured on Solvency II lines and which (when aggregated) aim to ensure the integrity and effectiveness of the Society of Lloyd's Internal Model.

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.

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

f. Insurance Risk

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

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

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

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

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

Tolerance - Risk Appetite

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

- Stamp capacity was £89.7m for the 2017 Year of Account net of outwards reinsurance and acquisition costs (2016 Year of Account: £108.7m before outwards reinsurance and acquisition costs);
- Maximum realistic disaster scenario net exposure for the 2017 Year of Account of 5.4% of stamp capacity (2016 Year of Account: 7.7%); and
- Usual maximum gross line size for 2017 of £21.9m (2016: £8.4m).

Claims

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

Adverse Development Cover

In 2017, the Syndicate took out an Adverse Development Cover ("ADC") contract, where it came into effect from 1 January 2017. The ADC is part of an aggregate excess of loss reinsurance contract which covered all casualty claim reserves (both outstanding and IBNR), where the covered risks relate to policies allocated in accordance with Lloyd's principles and practices to the 2008 to 2014 underwriting years of account, and policies attaching to the 2015 Lloyd's underwriting year of account and declarations thereto with expiration dates prior to 1 July 2016.

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

The adverse development cover policy is designed to provide capital relief for these years of account and reduce volatility resulting from exposure to insurance risk, where the Syndicate has ceded £0.2m of premiums in respect of this policy.

Claims development tables are shown on an underwriting year basis below.

Gross insurance ultimate contract outstanding claims provisions as at 31 December 2017:

Underwriting Year	2014	2015	2016	2017	Total
	£000	£000	£000	£000	£000
Estimate of ultimate gross claims:					
At end of underwriting year	121,093	41,583	74,954	142,866	142,866
One year later	119,653	42,790	84,968		84,968
Two years later	125,747	41,766			41,766
Three years later	101,239				101,239
Current estimate of ultimate claims					370,839
Cumulative payments					(131,743)
Gross unearned claims reserve					(55,724)
Gross claims reserve					183,372

Net insurance ultimate contract outstanding claims provisions as at 31 December 2017:

Underwriting Year	2014	2015	2016	2017	Total
	£000	£000	£000	£000	£000
Estimate of ultimate net claims:					
At end of underwriting year	87,758	29,399	47,475	76,832	76,832
One year later	87,378	30,553	57,942		57,942
Two years later	86,638	32,412			32,412
Three years later	70,392				70,392
Current estimate of ultimate claims					237,578
Cumulative payments					(100,233)
Net unearned claims reserve					(38,831)
Net claims reserve					98,514

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (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 members' balances.

31 December 2017	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit for the year and members' balances
		£000	£000	£000
Average claim cost	+10%	18,500	9,941	(9,941)
Average number of claims	+10%	18,500	8,961	(8,961)

31 December 2016	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit for the year and members' balances
		£000	£000	£000
Average claim cost	+10%	10,659	5,876	(5,876)
Average number of claims	+10%	10,659	6,720	(6,720)

The Syndicate has material exposure to the Hurricanes Harvey, Maria and Irma in the 2017 Year of Account. This increases the uncertainty of the Syndicate's total reserves, but does not increase that uncertainty in an adverse direction significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. By performing a sensitivity analysis on the losses pertaining to the hurricanes, we determined that a 10% increase on the gross reserves amount of £39.5m will have a minimal impact on the net reserves due to the reinsurance programme covering the affected classes of business.

For the avoidance of doubt, the Syndicate has no material exposure to these hurricanes on any of the older Years of Account.

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.

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

The following table shows hypothetical net claims arising for the largest realistic disaster scenarios based on the Syndicate's average risk exposures during 2017.

	Estimated net loss \$m
US earthquake	14
US windstorm	13
Japan earthquake	5
Japan windstorm	5
Europe windstorm	<u>6</u>

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, where the Syndicate takes a share of Barbican Syndicate 1955's reinsurance programme. 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.

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

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

31 December 2017	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
Energy - marine	9,686	(8,348)	1,338
Energy – non-marine	5,523	(4,970)	553
Marine, aviation and transport	53,244	(35,109)	18,135
Fire and other damage to property	28,682	(18,743)	9,939
Third party liability	81,543	(16,875)	64,668
Accident and health	202	(22)	180
Pecuniary loss	4,492	(791)	3,701
Total	183,372	(84,858)	98,514

31 December 2016	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
Energy - marine	8,194	(6,936)	1,258
Energy – non-marine	1,558	(1,455)	103
Marine, aviation and transport	33,967	(20,061)	13,906
Fire and other damage to property	9,332	(2,326)	7,006
Third party liability	52,333	(9,561)	42,772
Accident and health	3,048	(1,157)	1,891
Pecuniary loss	2,346	(571)	1,775
Total	110,778	(42,067)	68,711

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

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

31 December 2017	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
United Kingdom	73,101	(33,433)	39,668
EU member states	18,786	(8,460)	10,326
USA	59,777	(27,725)	32,052
Rest of the world	31,708	(15,240)	16,468
Total	183,372	(84,858)	98,514

31 December 2016	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
United Kingdom	45,703	(17,356)	28,347
EU member states	12,295	(4,669)	7,626
USA	35,815	(13,600)	22,215
Rest of the world	16,965	(6,442)	10,523
Total	110,778	(42,067)	68,711

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

11. Risk Management (continued)

g. Credit Risk

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

Credit risk is 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 and Capital Committee. The Risk and Capital Committee reviews the credit ratings of reinsurers on a quarterly basis, approves the use of intermediaries and reinsurers and reviews any late settlement or reputational issues of the counterparties. The finance and compliance functions support the formation and renewal of intermediary relationships to help ensure that inappropriate parties are not used. The policy for approving reinsurers includes limits on counterparty exposure in order to limit the total credit risk the Syndicate may be exposed to in respect of any one reinsurer.

The credit risk policy covers the quota share contract with Barbican Syndicate 1955. The contract operates 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. These amounts are shown as "Debtors arising out of reinsurance operations" in the tables which follow.

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

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

At 31 December 2017

	AA	A and below	Unrated	Total
	£000	£000	£000	£000
Reinsurers' share of claims outstanding	12,981	64,557	7,320	84,858
Debtors arising out of reinsurance operations	-	121,061	-	121,061
Total	12,981	185,618	7,320	205,919

At 31 December 2016

	AA	A and below	Unrated	Total
	£000	£000	£000	£000
Reinsurers' share of claims outstanding	27,433	13,832	802	42,067
Debtors arising out of reinsurance operations	-	101,345	-	101,345
Total	27,433	115,177	802	143,412

The source for ratings is Standard & Poor's and A.M. Best.

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

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

At 31 December 2017	Neither past due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£000	£000	£000	£000	£000	£000
Reinsurers' share of outstanding claims	84,858	-	-	-	-	84,858
Debtors arising out of reinsurance operations	121,061	-	-	-	-	121,061
Other assets	92	-	-	-	-	92
Total	206,011	-	-	-	-	206,011

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
	£000	£000	£000	£000	£000	£000
Reinsurers' share of outstanding claims	42,067	-	-	-	-	42,067
Debtors arising out of reinsurance operations	101,345	-	-	-	-	101,345
Other assets	514	-	-	-	-	514
Total	143,926	-	-	-	-	143,926

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

h. Foreign Currency Risk

In order to minimise currency 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.

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

At 31 December 2017	GBP £000	US \$ £000	Euro € £000	CAD \$ £000	Other £000	Total £000
Reinsurers' share of technical provisions	9,943	91,412	4,601	422	734	107,112
Reinsurance receivables	2,737	92,331	12,325	4,848	8,820	121,061
Other debtors	-	92	-	-	-	92
Total assets	12,680	183,835	16,926	5,270	9,554	228,265
Technical provisions	(28,838)	(187,132)	(16,074)	(3,786)	(7,279)	(243,109)
Other creditors	-	-	-	-	-	-
Total Liabilities	(28,838)	(187,132)	(16,074)	(3,786)	(7,279)	(243,109)
Members' balances	(16,158)	(3,297)	852	1,484	2,275	(14,844)
At 31 December 2016	GBP £000	US \$ £000	Euro € £000	CAD \$ £000	Other £000	Total £000
Reinsurers' share of technical provisions	10,965	40,999	4,385	89	379	56,817
Reinsurance receivables	7,208	76,029	8,814	2,582	6,712	101,345
Other debtors	413	101	-	-	-	514
Total assets	18,586	117,129	13,199	2,671	7,091	158,676
Technical provisions	(28,779)	(106,277)	(11,549)	(3,766)	(5,990)	(156,361)
Other Creditors	(218)	-	-	-	-	(218)
Total Liabilities	(28,997)	(106,277)	(11,549)	(3,766)	(5,990)	(156,579)
Members' balances	(10,411)	10,852	1,650	(1,095)	1,101	2,097

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

Sensitivity Analysis

As at 31 December 2017, the Syndicate used closing rates of exchange of £1:€1.13 and £1:\$1.35 (31 December 2016: 1:€1.17 and £1:\$1.24). The Syndicate performs sensitivity analysis based on a 10% strengthening or weakening of Pound Sterling against the Euro and US Dollar. This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The process of deriving the undernoted estimates takes account of the linear retranslation movements of foreign currency monetary assets and liabilities.

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

Increase/(decrease) on members' balances	2017	2016
	£000	£000
Strengthening of US dollar	(366)	1,206
Weakening of US dollar	300	(987)
Strengthening of Euro	95	183
Weakening of Euro	(78)	(150)

A new method has been used to estimate the values in the above table in 2017 and therefore the 2016 comparatives have been restated in order to present them on a consistent basis.

i. Interest Rate Risk

The Syndicate does not hold any investments but is indirectly exposed to interest rate risk arising on the share it takes of Syndicate 1955's investment income. Changes in interest yields, with all other variables constant, would result in changes in the value of the investments held by Syndicate 1955. This would affect reported profits and members' balances of the Syndicate as indicated in the stress test below.

	Impact on profit for the year		Impact on members' balances	
	2017	2016	2017	2016
	£000	£000	£000	£000
Shift in yield (basis points)				
50 basis points decrease	783	524	783	524
50 basis points increase	(774)	(518)	(774)	(518)

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

j. 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.

Future Cash Flows

There are no liabilities which bear liquidity risk on the Syndicate's Statement of Financial Position, other than claims outstanding, given that the funds withheld balance with Barbican Syndicate 1955 is accounted for as an asset on the Syndicate's Statement of Financial Position. Expected timing of future cash flows for claims outstanding is shown below.

At 31 December 2017	< 1 year	1-3 years	3-5 years	> 5years	Total
	£000	£000	£000	£000	£000
Claims outstanding	44,324	69,003	35,295	34,750	183,372
	<u>44,324</u>	<u>69,003</u>	<u>35,295</u>	<u>34,750</u>	<u>183,372</u>
At 31 December 2016	< 1 year	1-3 years	3-5 years	> 5years	Total
	£000	£000	£000	£000	£000
Claims outstanding	32,389	27,566	22,183	28,640	110,778
	<u>32,389</u>	<u>27,566</u>	<u>22,183</u>	<u>28,640</u>	<u>110,778</u>

k. Operational Risk

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

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

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

Barbican Syndicate 6118

Notes to the Financial Statements

11. Risk Management (continued)

l. 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.

m. Dependencies Between Risk Categories

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

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

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.

12. Related Parties

Special Purpose Arrangements ("SPA") Cessions

Barbican Syndicate 1955 cedes reinsurance to the Syndicate on a funds withheld basis.

For the 2017 Year of Account, Barbican Syndicate 1955 ceded 39.6% (2016 YOA: 31.0%) (2015 YOA: 18.5%) based on its result net of external reinsurance to the Syndicate. These cessions resulted in the Syndicate receiving £133.1m (2016: £78.2m) of reinsurance premium from Barbican Syndicate 1955 during the year and having a balance of £121.1m receivable from Barbican Syndicate 1955 on a funds withheld basis as at 31 December 2017 (2016: £101.3m).

Barbican Syndicate 6118

Notes to the Financial Statements

12. Related Parties (continued)

Effective 31 December 2017, the 2015 Year of Account of the Syndicate (31 December 2016: 2014 YOA) was closed into the 2015 Year of Account (2016: 2014 YOA) of Barbican Syndicate 1955, which in turn closed into the 2016 Year of Account (2016: 2015) of Barbican Syndicate 1955, with a quote share contract put in place to transfer the risk back to the 2016 Year of Account (2016: 2015 YOA) of the Syndicate. A premium of £33.9m (2016: £28.2m) was payable in respect of this arrangement.

Barbican Companies

The Syndicate, along with Barbican Syndicates 1955, 1856 and Special Purpose Arrangement 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 £1.3m (2016 £0.9m) and a profit commission of £0.1m (2016: £0.8m) was payable from the Syndicate to the Agency during the year.

During 2014 Syndicate 1955 entered into an 11.5% whole account quota share agreement with the Syndicate for the 2012-2014 Years of Account. Arig and Labuan are corporate members of the Syndicate and both entered into a 100% quota share reinsurance with Barbican Reinsurance Company Limited ("BRCL"), a Barbican group company, to indemnify the reinsured for all liabilities that arise from business assumed by the Syndicate for the 2012 Year of Account. For the 2013 Year of Account, Arig entered into a 29.1% quota share reinsurance with BRCL to indemnify the reinsured for all liabilities that arise from business assumed by the Syndicate. Labuan entered into a 100% quota share reinsurance with BRCL to indemnify the reinsured for all liabilities that arise from business assumed by the Syndicate for risks incepting in the first 6 months and a 15% quota share reinsurance arrangement for risks incepting in the last 6 months in respect of the 2013 Year of Account.

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

13. 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.

14. Off-Statement of Financial Position Items

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

15. 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.

Notes to the Financial Statements

16. Post Reporting Date Events

As far as the Agency is aware, no post reporting date events have occurred which would have a material impact on these annual accounts.

Underwriting Year Accounts
Closed 2015 Year of Account
Barbican Syndicate 6118
31 December 2017

Barbican Syndicate 6118

Managing Agent's Responsibilities Statement

The Directors of the Agency are responsible for preparing the Syndicate Underwriting Year 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 Underwriting Year Accounts at 31 December in respect of any Underwriting Year which is being closed at the end of the financial year, which give a true and fair view of the result of the Underwriting Year at closure. Detailed requirements in respect of the Underwriting Year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In preparing these Syndicate Underwriting Year Accounts, the Agency is required to:

- select suitable accounting policies which are applied consistently and, where there are items which affect more than one Year of Account, ensure a treatment which is equitable as between the members of the Syndicate affected. In particular, the amount charged by way of premium in respect of the Reinsurance to Close shall, where the reinsuring members and reinsured members are members of the same Syndicate for different Years of Account, be equitable between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed Year of Account without regard to the date of receipt or payment;
- make judgments and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Syndicate Underwriting Year Accounts.

The Directors of the Agency confirm that they have complied with the above requirements in preparing the Syndicate Underwriting Year Accounts.

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 Underwriting Year 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 the 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 the Syndicate Underwriting Year Accounts may differ from legislation in other jurisdictions.

Barbican Syndicate 6118

Independent Auditor's Report

to the Members of Barbican Syndicate 6118

Closed 2015 Year of Account

Opinion

We have audited the syndicate underwriting year accounts for the 2015 year of account of syndicate 6118 ('the syndicate') for the three years ended 31 December 2017 which comprise the Income Statement, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 13, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2015 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate underwriting year accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate underwriting year accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Barbican Syndicate 6118

Independent Auditor's Report

to the Members Barbican Syndicate 6118

Closed 2015 Year of Account

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The managing agent's use of the going concern basis of accounting in the preparation of the syndicate underwriting accounts on the basis that the recorded assets and liabilities will be realised and discharged in the normal course of business is not appropriate; or
- the managing agent has not disclosed in the syndicate underwriting accounts any identified material uncertainties that may cast significant doubt on the ability of the syndicate to realise its assets and discharge its liabilities in the normal course of business.

Other information

The other information comprises the information included in the annual report, other than the syndicate underwriting year accounts and our auditor's report thereon. The managing agent is responsible for the other information.

Our opinion on the syndicate underwriting year accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate underwriting year accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate underwriting year accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 49, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

Barbican Syndicate 6118

Independent Auditor's Report

to the Members Barbican Syndicate 6118

Closed 2015 Year of Account

In preparing the syndicate underwriting accounts, the managing agent is responsible for assessing the syndicate's ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

Auditor's responsibilities for the audit of the syndicate underwriting year accounts

Our objectives are to obtain reasonable assurance about whether the syndicate underwriting year accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate underwriting year accounts.

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Benjamin Gregory (Senior statutory auditor)

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

London

16 March 2018

Barbican Syndicate 6118

Income Statement

Technical account - General business

For the Closed 2015 Year of Account for the three years ended 31 December 2017

	Notes	Cumulative balance at 31 December 2017 £000
Syndicate allocated capacity		<u>48,050</u>
Earned premiums, net of reinsurance		
- Gross premiums written	2	48,522
- Outward reinsurance premiums		<u>(15,195)</u>
Earned premiums, net of reinsurance		33,327
Reinsurance to close premium receivable, net of reinsurance	8	28,185
Allocated investment return transferred from the non-technical account	3	761
Other technical income	4	755
Claims incurred, net of reinsurance		
Claims paid		
- Gross amount		(32,642)
- Reinsurers' share		<u>7,275</u>
Net claims paid		<u>(25,367)</u>
Reinsurance to close premium payable, net of reinsurance	8	(33,913)
Net operating expenses	5	<u>(4,521)</u>
Balance on the technical account for general business		<u>(773)</u>

Barbican Syndicate 6118

Income Statement

Non-Technical account - General business

For the Closed 2015 Year of Account for the three years ended 31 December 2017

	Notes	Cumulative balance at 31 December 2017 £000
Balance on the general business technical account		(773)
Investment income	3	1,140
Unrealised losses on investments	3	(279)
Realised losses on investments	3	(27)
Investment management expenses	3	(73)
Allocated investment return transferred to general business technical account	3	(761)
Foreign exchange gain		2,046
Profit for the closed Year of Account		<u>1,273</u>

Barbican Syndicate 6118

Statement of Financial Position

For the Closed 2015 Year of Account

As at 31 December 2017

Assets	Notes	2017 £000
Debtors due within one year		
Debtors arising out of reinsurance operations	7	35,094
Other debtors	7	92
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the Year of Account	8	13,750
Total assets		<u>48,936</u>
Liabilities		
Capital and reserves		
Member's balance		1,273
Reinsurance to close premiums payable to close the Year of Account – gross	8	47,663
Total liabilities		<u>48,936</u>

The Syndicate Underwriting Year Accounts on pages 53 to 69 were approved by the Board of Barbican Managing Agency Limited on 14 March 2018 and signed on its behalf by

R A Keers
Finance Director
16 March 2018

Barbican Syndicate 6118

Statement of Cash Flows

For the Closed 2015 Year of Account for the three years ended 31 December 2017

	Cumulative balance at 31 December 2017 £000
Cash flows from operating activities	
Profit for the Underwriting Year	1,273
Adjustments for:	
Movement in technical provisions	47,663
Movement in reinsurers' share of technical provisions	(13,750)
Movements in debtors	(35,186)
Net cash from operating activities	-
Net change in cash and cash equivalents	-
Cash and cash equivalents at the beginning of the year	-
Cash and cash equivalents at the end of the year	-

Barbican Syndicate 6118

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

1. Significant Accounting Policies

a. Statement of Compliance

The Syndicate Underwriting Year Accounts have been prepared under the 2008 Regulations and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103) have been applied to the extent that they are relevant for a proper understanding of the Underwriting Year Accounts.

The 2015 Year of Account has closed and all assets and liabilities have been reinsured to close as at 31 December 2017. The result for the Year of Account was declared in Sterling so there is no exchange rate risk. To this extent, the risks to which it is exposed in respect of the reported financial position and financial performance are significantly less than those relating to the open years of account as disclosed in the Syndicate Annual Accounts. Accordingly, these underwriting year accounts do not include the associated risk disclosures required by section 34 of FRS102 and section 4 of FRS 103. Full disclosures relating to these risks are provided in the main Annual Accounts of the syndicate, in addition, certain other disclosure requirements under FRS102 and FRS103 such as the disclosure of a Statement of Changes of Members Balances have not been provided as we believe they are not required for a proper understanding of the Underwriting Year accounts.

b. Basis of Preparation

Members participate on a syndicate by reference to a Year of Account and each syndicate Year of Account is a separate annual venture. These accounts relate to the 2015 Year of Account which has been closed by reinsurance to close at 31 December 2017; consequently, the Statement of Financial Position represents the assets and liabilities of the 2015 Year of Account, and the Income Statement and Statement of Cash Flows reflect the transactions for that Year of Account during the 36 month period until closure.

The Underwriting Year Accounts for the 36 months ended 31 December 2017 were approved for issue by the Agency Board on 14 March 2018.

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

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

As each syndicate Year of Account is a separate annual venture, there are no comparative figures.

Amounts ceded from Barbican Syndicate 1955 to the Syndicate are taken net of external reinsurance, and are recognised as reinsurance balances in Barbican Syndicate 1955. In turn they are recognised as gross balances in the Syndicate. The Syndicate's share of the Barbican Syndicate 1955's external outward reinsurance is recognised as reinsurance balances in the Syndicate. The Syndicate also takes a share of investment income, consortium income and expenses, which are ceded out of Syndicate 1955 and recognised in the equivalent accounts in the Syndicate. Syndicate 6118 is a quota share reinsurance contract with Syndicate 1955. Syndicate 1955 purchases whole account reinsurance to cover both Syndicate 1955 and associated special purpose arrangements (SPA's) as the underlying business follows. As the Syndicate is an SPA it does not hold monetary assets on its Balance sheet. In effect it is a cashless syndicate. All funds are maintained in a withheld account and will be distributed once the Year of Account closes.

The Syndicate also takes a share of investment income from Barbican Syndicate 1955.

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

1. Significant Accounting Policies (continued)

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:

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.

Estimates of Future Premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue being recorded in the Financial Statements.

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

d. Financial Instruments

The Syndicate's financial instruments are initially recorded at cost and are carried at each reporting date at amortised cost.

Barbican Syndicate 6118

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

1. Significant Accounting Policies (continued)

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. This applies to the funds withheld in respect of the cession from Barbican Syndicate 1955 to the Syndicate. 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.

e. Investment Return

All of Barbican Syndicate 1955's investments are recognised at fair value through the profit and loss. Although the Syndicate does not itself hold any investments, it takes a share of Barbican Syndicate 1955's investment income.

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.

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 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.

Barbican Syndicate 6118

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

1. Significant Accounting Policies (continued)

f. Insurance Contracts

Product Classification

Insurance contracts are those contracts when the Syndicate (the insurer) has accepted significant insurance risk from another party (the 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 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 include an estimate for pipeline premiums (i.e. premiums written in respect of policies which have not incepted by the reporting date) relating only to those underlying contracts of insurance where the period of cover has commenced prior to the reporting date. The most significant assumption in this estimate is that current year experience will be consistent with prior year experience.

Under some policies, written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a remeasurement taking account of such a reduction is made as soon as there is an obligation to the 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.

The Syndicate is an SPA and therefore has no cash, and no brokerage changes hands under the quota share contract. Acquisition costs are therefore netted off against gross written premium.

The Syndicate has written a quota share contract with Barbican Syndicate 1955. The contract operates on a "funds withheld basis" whereby a proportion of the ceded premiums is considered as combined funds from which loss recoveries will be drawn. The associated cash flows are expected to occur following the closure of the 2015 Year of Account at 36 months. As such, the balance of amounts ceded by Barbican Syndicate 1955 to the Syndicate is recognised as an asset on the Statement of Financial Position, and reinsurance assumed from Barbican Syndicate 1955 is recognised as gross written premium.

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

1. Significant Accounting Policies (continued)

Reinsurance Premiums

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

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

Claims incurred

Claims incurred 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.

Insurance Receivables

Insurance receivables relate to the cession from Barbican Syndicate 1955 on a funds withheld basis and are recognised when due and are measured at amortised cost. The carrying value of reinsurance 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.

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

1. Significant Accounting Policies (continued)

Reinsurance to Close

The reinsurance to close for the 2015 Year of Account is determined on the basis of estimated outstanding liabilities and related claims settlement costs including claims incurred but not reported (IBNR) for the closed Year of Account.

The provision for outstanding claims is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the Statement of Financial Position date.

The reinsurance to close also includes the estimated costs of claims incurred but not reported at the Statement of Financial Position date based on statistical methods.

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 of the Agency 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.

Barbican Syndicate 6118

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

1. Significant Accounting Policies (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. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The provision for unearned premiums is predominantly calculated on a monthly pro rata basis with some classes of business such as Space having more complex earnings profiles. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of reinsurance premiums in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

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 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.

Barbican Syndicate 6118

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

1. Significant Accounting Policies (continued)

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.

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

j. Profit Commissions

Profit commission is included within net operating expenses within the Income Statement. It is charged by the Agency at a rate of 17.5% of any cumulative profit on the 2015 Year of Account. 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.

k. Consortia Income

Consortia income is charged by Syndicate 1955 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 Syndicate 1955 as incurred and becomes payable quarterly based on the premium written that quarter. Consortium income is then ceded to S6118 as per the quota share agreement.

Barbican Syndicate 6118

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

2. Segmental analysis

a. Analysis by Class of Business

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

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Reinsurance	48,522	48,522	(32,642)	(3,766)	(13,648)	(1,534)	33,913

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 are net of consortia income of £755k per Note 4.

All premiums were concluded in the UK.

b. Analysis by Geographical Location

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

	Gross premiums written £000
United Kingdom	20,437
EU member states	5,563
USA	15,326
Rest of the world	7,196
Gross premiums written	48,522

c. Analysis by Composition

Gross written premium is netted off by acquisition costs and is made up as follows:

	Cumulative balance at 31 December 2017 £000
Gross premiums written	62,112
Acquisition costs	(13,590)
	48,522

Barbican Syndicate 6118

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

3. Investment Return

Barbican Syndicate 1955's investments are recognised at fair value through the profit and loss. Although the Syndicate holds no cash or investments, it takes a share of Barbican Syndicate 1955's investment income.

	Cumulative balance at 31 December 2017 £000
Investment Income	
Income from investments	1,140
Losses on realisation of investments	(27)
Total investment income	<u>1,113</u>
Unrealised losses on investments at fair value through profit or loss	(279)
Investment expenses and charges	
Investment management expenses, including interest	(73)
Net investment return	<u><u>761</u></u>

4. Other Technical Income

Other technical income of £755k represents consortium income. Consortium contracts between Barbican Syndicate 1955 and other Lloyd's syndicates are in place for Financial and Professional Lines and for the Cyber class and Energy class.

Barbican Syndicate 1955 is the lead on these consortia and receives a fee for providing various underwriting and administrative services. It ceded a share of the consortium income to the Syndicate.

5. Net Operating Expenses

	Cumulative balance at 31 December 2017 £000
Standard personal expenses	924
Administrative expenses	<u>3,597</u>
Net operating expenses	<u><u>4,521</u></u>

Profit commission is included within administrative expenses and the managing agency fee is included within standard personal expenses.

Barbican Syndicate 6118

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

6. Staff Costs and Directors' Remuneration

a) Staff costs

All staff are employed by Barbican Holdings (UK) Limited, the immediate parent company of the Agency. The cost of these staff is mainly borne by Syndicate 1955, with no amounts recharged directly to the Syndicate.

b) Remuneration of the Directors of Barbican Managing Agency Limited

The Syndicate was not recharged any expenses relating to the remuneration of the Directors of the Agency (2016: £nil).

7. Debtors

The Syndicate's debtors arising out of reinsurance operations and other debtors are initially recorded at cost and are carried at each reporting date at amortised cost.

	2017 £000
Financial assets that are debt instruments measured at amortised cost:	
Debtors arising out of reinsurance operations	35,094
Other debtors	92
	<u>35,186</u>

The debtors arising out of reinsurance operations represents the cession from Barbican Syndicate 1955 to the Syndicate on a funds withheld basis.

Barbican Syndicate 6118

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

8. Reinsurance to Close Premiums Payable and Receivable

Reinsurance to Close Premiums Receivable

Effective 31 December 2016, the 2014 Year of Account of the Syndicate was closed into the 2014 Year of Account of Barbican Syndicate 1955, which in turn closed into the 2015 Year of Account of Barbican Syndicate 1955. The Syndicate as constituted for the 2015 Year of Account then reinsured Barbican Syndicate 1955 in respect of those liabilities of the Syndicate's 2014 Year of Account that were reinsured to close by Barbican Syndicate 1955. A premium of £28.2m was receivable by the Syndicate in respect of that reinsurance arrangement and was made up as follows:

	Unearned premiums £000	Claims outstanding £000	Claims incurred but not reported £000	Total £000
Gross	207	20,285	21,011	41,503
Reinsurance recoveries anticipated	(210)	(4,655)	(8,453)	(13,318)
Net	<u>(3)</u>	<u>15,630</u>	<u>12,558</u>	<u>28,185</u>

Reinsurance to Close Premiums Payable

Effective 31 December 2017, the 2015 Year of Account of the Syndicate was closed into the 2015 Year of Account of Barbican Syndicate 1955, which in turn closed into the 2016 Year of Account of Barbican Syndicate 1955. The Syndicate as constituted for the 2016 Year of Account then reinsured Barbican Syndicate 1955 in respect of those liabilities of the Syndicate's 2015 Year of Account that were reinsured to close by Barbican Syndicate 1955. A premium of £33.9m was payable by the Syndicate in respect of that reinsurance arrangement and was made up as follows:

	Unearned premiums £000	Claims outstanding £000	Claims incurred but not reported £000	Total £000
Gross	459	24,629	22,575	47,663
Reinsurance recoveries anticipated	(329)	(4,612)	(8,809)	(13,750)
Net	<u>130</u>	<u>20,017</u>	<u>13,766</u>	<u>33,913</u>

Barbican Syndicate 6118

Notes to the Financial Statements

For the Closed 2015 Year of Account for the three years ended 31 December 2017

9. Related Parties

SPA Cessions

Barbican Syndicate 1955 cedes reinsurance to the Syndicate on a funds withheld basis.

For the 2015 Year of Account, the cessions to the Syndicate were calculated as 18.5% of Barbican Syndicate 1955's result net of external reinsurance and amounted to £48.1m out of the total Syndicate 1955 capacity of £260.0m.

Barbican Companies

The Syndicate, along with Barbican Syndicate 1955, 1856 and Special Purpose Syndicate 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. For the 2015 Year of Account the Agency received profit commission of £270k from the Syndicate.

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

10. 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 Underwriting Year 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.

11. Post Reporting Date Events

As far as the Agency is aware, no Post reporting date events have occurred which would have a material impact on these annual accounts.

12. 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.

13. 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.