Important information about Syndicate Reports and Accounts

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

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

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

Syndicate 6125

Annual Report

Year ended
31 December 2016

Contents

Directors and Advisers

Managing agent

Registered office

Pembroke Managing Agency Limited
Level 3
8 Fenchurch Place
London
EC3M 4AJ

Registered number

5832065

Directors

G.E. Barnes, BA (Hons), FCII	Executive
M.J. Beacham	Non-Executive
C.D. Brown, ACII	Executive
K. Ethirajan	Executive
I.R. Garven, BA (Hons), FCA	Executive
T.A.B.H. Glover, ACII	Executive
A.M. Kaufman, FCAS, MAAA, FIA (HON), ARM, CPCU	Non-Executive, Chairman
S. Keshani, MEng (Hons), FIA	Executive
I.G. Lever B.Acc, CA (Scotland)	Executive
T. Seymour, MA(Oxon), ACA	Non-Executive
J.A.S. Wash, BSc (Hons), ACA	Executive, Managing Director
M.H. Wheeler, ACII	Executive

Company secretary

N.G. Hardman Bbus CPA

Syndicate

Auditors

Ernst & Young LLP

Managing Agent's Report

The directors of Pembroke Managing Agency Limited ("PMA") present the Managing Agent's Report for Syndicate 6125 (the 'Syndicate') for the year ended 31 December 2016.

Principal activity

The Syndicate is a Special Purpose Arrangement ('SPA') with the principal activity of underwriting short tail quota share reinsurance cessions from Syndicate 4000. Syndicate 4000 is also managed by PMA.

The Syndicate commenced underwriting on 1 January 2016, and accordingly this is the first annual report prepared on behalf of the Syndicate.

The formation of the Syndicate is a key component of the strategic partnership and cooperation agreements between PMA and Reaseguradora Patria S.A ('Patria'). The ultimate parent company of Patria is Peña Verde S.A.B ('Peña Verde'), a Mexican domiciled insurance and reinsurance group with an established presence in Central and South America.

The overriding objective of the strategic partnership and cooperation agreements is the creation of value for each party through the exchange of expertise and market knowledge. This approach differentiates PMA from other providers of turnkey services, where the primary focus is the generation of revenue at the expense of third party capital.

Capacity and capital providers

Allocated capacity for the 2016 year of account is £13.0m, increasing to £14.0m for the 2017 year of account.

The Syndicate is wholly aligned, with capital to support underwriting provided by Patria Corporate Member Ltd ('PCM'). PCM's ultimate parent company is Peña Verde.

Management of the Syndicate

The Syndicate is managed by PMA, which is a wholly owned subsidiary of the Ironshore group of companies ('Ironshore'), a Bermudian based insurance and reinsurance group with shareholders' funds at 31 December 2016 of $2.1bn (2015: $2.0m). The ultimate parent company of PMA and Ironshore is Fosun International Ltd ('Fosun'), an international conglomerate and investment company. Fosun is incorporated in Hong Kong and headquartered in Shanghai. Fosun is registered on the main board of the Hong Kong stock exchange.

On 5 December 2016, Fosun announced that it had entered into a definitive agreement with Liberty Mutual Group ('Liberty') to divest of its interest in Ironshore. Liberty is a mutual insurer and reinsurer that operates on a global basis. At the date of this Annual Report, the completion of the transaction remains subject to regulatory approval.

The Directors of PMA do not anticipate that the acquisition of Ironshore by Liberty will have a significant impact on the future development and trading prospects of the Syndicate.

Business of the Syndicate

Property treaty

The property treaty account is written by Patria through Syndicate 4000, with the Syndicate accepting 90% of this business through quota share reinsurance cessions. This account is an established book of business that was previously written by Patria, it is therefore new to Lloyd's.

The property treaty account is an international portfolio with the majority of risks being written on an excess of loss basis.

Quota share cessions from Syndicate 4000

A key feature of the strategic partnership is an exposure swap agreement covering a number of short tail lines of business written by each party. During the financial year the Syndicate has bound quota share cessions from Syndicate 4000 for the following lines of business; property, personal accident, fine art & specie, war & terrorism, cargo, marine reinsurance, and offshore energy.

Managing Agent's Report (continued)

Key financial indicators

The key financial indicators of the Syndicate are:

	2016 £000
Syndicate capacity	13,000
Gross written premium	12,066
Loss for the financial year	(2,304)
Total comprehensive loss	(2,541)
Net combined ratio	138.2%

Review of financial performance

The Syndicate reports a net underwriting for loss for the financial year of £2.3m. This represents a net combined ratio of 138.2%. The key drivers for the financial year loss are set out below.

Application of accounting standards

The annual report has been prepared in accordance with the relevant accounting standards as set out in note 1 to the annual report. During the business planning process, a financial year loss was anticipated for the Syndicate at this stage of its development by taking into account the impact that accounting standards would have on certain components of the financial result, particularly in respect of outward reinsurance costs and operating expenses.

Gross written premiums

Gross written premiums for the year of £12.1m were slightly less than anticipated in the business plan, generating less of a contribution to cover fixed operating costs. The adverse variance to plan is driven by trading conditions, and underwriters maintaining discipline.

Net losses incurred

The net loss ratio of 89.2% was impacted by catastrophe loss activity, in particular Typhoon Meranti. Gross and net losses incurred as a result of the event were £1.2m.

Future prospects

Trading environment

The current challenging trading conditions that result from excess capacity and increased competition from regional markets appears set to continue. These conditions continue to drive rate reductions for most lines of business.

Strategic approach to growth

The strategic partnership with PMA is fundamental to the future development of the Syndicate. However, both PMA and the Syndicate's capital provider are well attuned to prevailing conditions. Accordingly, the Syndicate only anticipates modest growth in the short term.

Subject to trading conditions and the availability of high quality opportunities, growth will be achieved through the following strategies; the managed and disciplined development of existing lines of business, and the careful selection and managed introduction of new underwriting teams and lines of business.

Allocated capacity for the 2016 year of account is £13.0m, increasing to £14.0m for the 2017 year of account.

The UK decision to leave to EU ('Brexit')

The future prospects of the UK economy are uncertain as a result of the UK's decision to leave the EU. There is an elevated level of risk currently being experienced by the Lloyd's and London Markets, as it is anticipated to result in change for the insurance industry.

Access to the single market is a priority for Lloyd's and the London Market. The Lloyd's Brexit plan is keenly anticipated, as is its leadership in representing the interests of Lloyd's underwriters both at home and abroad.

Managing Agent's Report (continued)

Solvency II

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency I figures are no longer applicable from that date. Although the capital regime has changed, this has not impacted the SCR of the Syndicate, since this has been previously calculated based on Solvency II principles.

Research and development

The Syndicate has not participated in any research and development activity during the period.

Staff matters

PMA recognises that its staff are key resources and seeks to provide a good working environment for its staff that is safe and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

Human resources key performance indicators are reviewed periodically by committees of the Board, and all such indicators are in line with the expectations of the directors.

Environmental matters

PMA does not consider that a business such as a Syndicate at Lloyd's has an impact upon the environment. As a result PMA does not manage its business by reference to any environmental key performance indicators.

Principal risk and uncertainties

The Board sets risk appetite annually as part of the Syndicate's business planning and capacity setting process. PMA has established a Risk Committee which meets at least quarterly to review and update the risk register and to monitor performance against risk appetite using a series of key risk indicators. An Own Risk and Solvency Assessment ('ORSA') is completed on a quarterly basis and is used to monitor changes in the risk profile of PMA and to ensure that PMA meets its current and future capital requirements.

The principal risks and uncertainties facing the Syndicate are set out below, including references to Notes to the Annual Report where additional information relating to these risks are provided.

Insurance risk - Underwriting

The Syndicate separately defines underwriting risk appetite in respect of market losses and syndicate-specific losses, with appetite for the former being greater.

Underwriting risk appetite is expressed at the highest level, as a maximum event-specific net underwriting loss as a percentage of Syndicate capacity for a specific year of account. Detailed stochastic modelling of underwriting risk, both gross and net of reinsurance, using dynamic financial analysis techniques supports this approach.

PMA's Board approves the risk appetite limit, after consultation with capital providers considering the relativity between 'willing to lose' and potential forecast profitability for each year of account. The risk appetite will therefore reflect the view of forecast profitability, utilising the Syndicate's latest business plan assumptions.

Insurance risk - Reserving

PMA's reserving policy seeks to ensure appropriate allowance for reserving risk and consistency in reserving from year to year.

Booked reserves represent the level of reserves booked at the Syndicate level. They are prepared on an underwriting year basis, and equal the actuarial best estimate reserves.

Booked reserves provide the basis for the Syndicate results and forecasts.

Managing Agent's Report (continued)

Principal risk and uncertainties (continued)

Insurance risk – Reserving (continued)

Actuarial best estimate reserves, which are prepared on an underwriting year basis are intended to be true best estimates, i.e. estimates of expected value claims reserves. These are the basis for internal reporting and the derivation of expected loss ratios for business planning.

The actuarial best estimate reserves are calculated by PMA. The actuarial team calculates the reserves in conjunction with extensive discussions with underwriting, claims and reinsurance staff. The directors consider, assess and approve the best estimate calculated, based on which the directors set the booked reserve.

Reserving risk is controlled by the robust application of actuarial methodologies, stepped sign-off procedures, quarterly tracking of projected ultimate loss ratios and reassessment of methodologies where appropriate, regular dialogue between actuaries and practitioners, and access to a history of loss data.

Regulatory risk

PMA is required to comply with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. PMA has a Compliance Officer, who monitors regulatory developments and assesses the impact on PMA policy. PMA also carries out a compliance-monitoring programme.

Credit risk

The key aspect of credit risk, is the risk of default by a reinsurer, insurance intermediary or debt holder. As an SPA this risk is closely interlinked with that of Syndicate 4000 and is essentially managed through the controls over that Syndicate which include:

- The regular review of exposures to single counterparties at the Reinsurance Committee, Underwriting Committee and Investment Committee.
- The purchase of reinsurance from reinsurers rated strong or better by Standard & Poor's (or equivalent). Maximum exposures per reinsurer are set in response to a reinsurer's rating and net assets.
- Credit risk limits being set for brokers determined on the grading of the relevant broker and exposures being monitored against limits on a monthly basis.
- Investment management guidelines and quarterly compliance reports to manage investment credit

Liquidity risk

The Syndicate operates on a funds withheld basis with Syndicate 4000, so is not subject to liquidity risk on a day to day basis. All cash payments are made via Syndicate 4000.

Market risk

The key aspect of market risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between currencies in which assets and liabilities are denominated. Currency matching is reviewed on a quarterly basis and reported to the PCM, where this risk is managed as the Syndicate has no ability to purchase/sell currency.

Movements in interest rates will also impact the value of debt and other fixed income securities relative to the value of related liabilities. The Syndicate receives investment income from Syndicate 4000 based on funds withheld. This risk is managed through asset and liability duration management in Syndicate 4000.

Operational risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. PMA seeks to manage this risk with detailed procedures manuals and a structured programme of testing of processes and systems by internal audit.

Managing Agent's Report (continued)

Directors serving during the year

The directors of the managing agent, who served during the year ended 31 December 2016 and up to the date of this report, were as follows:

L. Adlam*	Non-Executive
G.E. Barnes, BA (Hons), FCII	Executive
M.J. Beacham **	Non-Executive
C.D. Brown, ACII	Executive
K. Ethirajan***	Executive
I.R. Garven, BA (Hons), FCA	Executive
T.A.B.H. Glover, ACII,	Executive
A.M. Kaufman, FCAS, MAAA, FIA (HON), ARM, CPCU	Non-Executive, Chairman
S. Keshani, BEng (Hons), FIA	Executive
I.G. Lever B.Acc, Ca (Scotland) ****	Executive
T. Seymour MA(Oxon), ACA	Non-Executive
J.A.S. Wash, BSc (Hons), ACA	Executive, Managing Director
M.H. Wheeler, ACII	Executive

*	Resigned 2 January 2016
**	Appointed 1 March 2016
***	Appointed 23 February 2017 (subject to PRA/FCA approval)
****	Appointed 19 January 2017 (subject to PRA/FCA approval)

Company secretary

N.G. Hardman Bbus CPA

Annual General Meeting

The directors do not propose to hold an annual general meeting for the Syndicate.

Auditors

Ernst & Young LLP has signified its willingness to continue in office as auditor.

Disclosure of information to auditors

The directors who held office at the date of the approval of this Managing Agent's Report confirm that, so far as they are individually aware, there is no relevant audit information of which the Syndicate's auditors are unaware and each director has taken all the steps that he/she ought to have taken as director to make himself/herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Board approval

Approved by order of the Board of Pembroke Managing Agency Limited

J.A.S. Wash	C.D. Brown
Managing Director	Strategic Partnerships Director
20 March 2017	20 March 2017

Statement of Managing Agent's Responsibilities

The managing agent is responsible for preparing the Syndicate Annual Report and Annual Accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 2008 Regulations) require the managing agent to prepare Syndicate Annual Accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Annual Accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the managing agent is required to:

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

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate Annual Accounts comply with the 2008 Regulations. 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 managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report To The Members Of Syndicate 6125

We have audited the syndicate annual accounts of syndicate 6125 ('the syndicate') for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

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

Scope of the audit of the syndicate annual accounts

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

Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

Matters on which we are required to report by exception

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

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

Andrew R Blackmore (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, 21 March 2017

Statement of Comprehensive Income

For the year ended 31 December 2016

Technical account – general business

	Note	**2016** **£000**
Earned premiums, net of reinsurance		
Gross premiums written	3	12,066
Outward reinsurance premiums		(1,965)
Net premiums written		10,101
Change in the gross provision for unearned premiums		
Gross amount		(4,244)
Reinsurers' share		290
Change in the net provision for unearned premiums		(3,954)
Earned premiums, net of reinsurance		6,147
Allocated investment return transferred from the non-technical account		12
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		(1,710)
Reinsurers' share		7
Net claims paid		(1,703)
Change in the provision for claims		
Gross amount		(4,214)
Reinsurers' share		432
Change in the net provision for claims		(3,782)
Claims incurred, net of reinsurance	4	(5,485)
Net operating expenses	5	(3,007)
Balance on technical account - general business		(2,333)

All the amounts above are in respect of continuing operations.

Statement of Comprehensive Income

For the year ended 31 December 2016

Non-technical account

	Note	**2016** **£000**
Balance on technical account - general business		(2,333)
Income from investments	9	12
Allocated investment return transferred to the technical account		(12)
Other charges – profit on exchange		29
Loss for the financial year		(2,304)
Other comprehensive income - currency translation differences		(237)
Total comprehensive loss for the financial year		(2,541)

Statement of Changes in Members' Balances

For the year ended 31 December 2016

	2016 **£000**
Balance due to members at 1 January	-
Total comprehensive loss for the year	(2,541)
Balance due (from) members at 31 December	(2,541)

Statement of Financial Position
As at 31 December 2016

ASSETS	Note	2016 £000
Reinsurers' share of technical provisions		
Provision for unearned premiums	11	318
Claims outstanding	11	462
		780
Debtors due after one year		
Debtors arising out of reinsurance operations	10	10,717
Prepayments and accrued income		
Deferred acquisition costs	13	1,118
Other prepayments and accrued income		12
		1,130
TOTAL ASSETS		12,627

MEMBERS' BALANCES AND LIABILITIES	Note	2016 £000
Members' balances		
Members' balances		(2,541)
Technical provisions		
Provision for unearned premiums	11	4,550
Claims outstanding	11	4,571
		9,121
Creditors due after one year		
Creditors arising out of reinsurance operations	12	3,910
Accruals and deferred income		2,137
TOTAL MEMBERS' BALANCES AND LIABILITIES		12,627

The annual accounts on pages 11 to 26 were approved by the Board of Pembroke Managing Agency Limited on 20 March 2017 and were signed on its behalf by:

I.R. Garven
Finance Director

Statement of Cash Flows
For the year ended 31 December 2016

	2016 £000
Cash flow from operating activities	
Operating result	(2,304)
Adjustments:	
Increase in gross technical provisions	9,121
Increase in reinsurers share of technical provisions	(780)
Increase in debtors	(10,729)
Increase in creditors	3,910
Movement in other assets and liabilities	1,019
Investment return	(12)
Other	(225)
Net cash inflow from operating activities	-
Net increase in cash and cash equivalents	-
Cash and cash equivalents at 1 January	-
Cash and cash equivalents at 31 December	-

Notes to the Annual Report
At 31 December 2016

1. Statement of accounting policies

General information

The Syndicate commenced trading on 1st January 2016 as a Special Purpose Syndicate.

Underwriting capacity is provided by Patria Corporate Member Limited, a corporate member of the Society of Lloyd's that underwrites insurance business in the London market. The corporate member is the sole capital provider for the Syndicate.

Compliance with accounting standards

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts" and the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. There were no material departures from those standards.

Basis of preparation

The financial statements for the year-ended 31 December 2016 comply with FRS 102 and 103.

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit and loss that are measured at fair value.

The financial statements are presented in Pounds Sterling, which is the Syndicate's reporting currency. The Syndicate's functional currency is US Dollars. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Going concern basis

These financial statements are prepared on a going concern basis.

Syndicates by their nature only underwrite for single underwriting years on behalf of their supporting members, however this is within a context of not finalising results until after 36 months so that typically there are three underwriting years in progress at any given time. In addition Syndicates will normally expect to continue to trade for more underwriting years into the future.

The Syndicate's business activities, together with the factors likely to affect its future development are set out in the business review contained within the Managing Agents' Report. In addition the risk management section of the Managing Agent's Report and note 2 to the Annual Report provide details of the financial risks the Syndicate is exposed to and how those risks are managed.

The Syndicate underwrites via a quota share arrangement with Syndicate 4000 on a funds withheld basis. Syndicate 4000 has considerable financial resources together with long term relationships with a number of brokers and policyholders across different classes of business and geographical areas. As a consequence, the directors believe that the Syndicate is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the Syndicate has adequate resources including the Funds at Lloyd's of the members supporting the Syndicate (as detailed in note 15) to continue in operational existence for the foreseeable future.

Notes to the Annual Report
At 31 December 2016

1. Statement of accounting policies (continued)

Use of judgements and estimates

In preparing these financial statements, the directors of the managing agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to estimates are recognised prospectively.

Provision for claims outstanding
The measurement of the provision for claims outstanding involves judgements and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate managing agent's in house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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 business accepted and assessments of underwriting conditions.

Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in note 2.

Estimated premium income
For certain insurance contracts, premium is initially recognised based on an estimate. These estimates are judgemental and could result in prospective revisions in future accounting periods. The use of expert judgements and historical development patterns are the principle means by which the potential for revisions are minimised.

Basis of accounting

The underwriting results are determined on an annual basis of accounting. Under the annual basis of accounting, the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance. The significant accounting policies are detailed below.

Premiums written
Premiums written comprise direct and inwards reinsurance premiums on contracts incepted during the financial year. Premiums are shown gross of brokerage payable to intermediaries and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified.

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

Reinsurance premiums ceded
Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured. The earned proportion of premiums is recognised as income during the year.

Notes to the Annual Report
At 31 December 2016

1. Statement of accounting policies (continued)

Basis of accounting (continued)

Acquisition costs
Acquisition costs include direct costs such as brokerage and commission, and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies. The deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date.

Claims provisions and related recoveries
Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs.

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

These methods generally involve projecting from past experience 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 amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

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

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

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

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

As at 31 December 2016, the Syndicate did not have an unexpired risk provision.

Notes to the Annual Report
At 31 December 2016

1. Statement of accounting policies (continued)

Basis of accounting (continued)

Foreign currencies
The Syndicate's functional currency is US Dollars and its reporting currency is Pounds Sterling.

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

Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisitions costs) denominated in foreign currencies are translated at the rate of exchange at the balance sheet date.

Exchange differences arising on the retranslation of opening balance sheet items at the closing balance sheet rate and the retranslation of the profit and loss account for the year are recorded in the non-technical account.

The rates of exchange used to translate monetary balances at the year-end in foreign currencies into Sterling are as follows:

	31 December 2016
US Dollar	1.2241
Canadian Dollar	1.6561
Euro	1.1711
Australian Dollar	1.6997

Investment return
Investment return comprises notional investment income on the Syndicate's funds withheld by Syndicate 4000.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account.

Taxation
Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agent is gross of tax.

No provision has been made for overseas Income Tax payable on underwriting results. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'Members' balances'.

Pension costs
Pembroke Managing Agency Limited operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the Syndicate and included within net operating expenses.

Profit commission
Profit commission payable to Lloyd's cover holders or producing brokers has been provided for on all years of account and recognised within acquisition costs. The profit commission is calculated in line with the contract term of these policies and the profitability of the underlying contract.

Notes to the Annual Report
At 31 December 2016

2. Risk management

Risk 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. The Board recognises the critical importance of having efficient and effective risk management systems in place.

PMA has an established risk management function for the Syndicate with clear terms of reference from the Board. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board. The risk management framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations is reviewed annually and any changes are approved by the Board.

The Risk Committee and the Board approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. Significant emphasis is placed on the assessment and documentation of existing and emerging risks and controls, including the articulation of 'risk appetite'.

Insurance risk - Underwriting

Principal risks
The principal risk the Syndicate faces under insurance contracts is that the actual claims and payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, and the development of long term claims liabilities. The objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical segments. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Reinsurance
Reinsurance allows the Syndicate to manage capital exposure to both frequency and severity. This includes the management of any systemic issues impacting a particular area of the account, as well as catastrophic losses across all business areas.

Business is written on the basis of generating a gross profit, regardless of the supporting reinsurance arrangements. Business planning and modelling assumptions are based on the expectation that reinsurers will make a profit. The core reinsurance providers to the Syndicate remain constant.

Underwriting Committee
The Syndicate underwrites short tail quota share reinsurance cessions from Syndicate 4000. Syndicate 4000 organises underwriting though the following divisions; Liability, Marine, Property and Personal Accident. Each division reports to the Underwriting Committee and ultimately the PMA Board. This control process ensures that several layers of review occur for underwriting risks, with the focus being on the main components of risk, notably pricing, loss ratio selection, reserving, variations in experience, cycle management, reinsurance protection and catastrophe modelling.

Underwriting authorities, underwriting peer reviews of all risks, independent review procedures, and the audit and review of delegated arrangements, all contribute to the strength of the underwriting control environment.

PMA records and monitors individual risk exposures on a regular basis to ensure they remain within the policies and guidelines set.

Diversification
Risks usually cover twelve months duration. Risks deliberately emanate from a diverse range of sources. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geographical segmentation.

Notes to the Annual Report
At 31 December 2016

2. Risk management (continued)

Insurance risk – Underwriting (continued)

Claims management
Strict claim review policies to assess all new and on-going claims, regular detailed review of claims handling procedures and investigation of possible fraudulent claims are in place to reduce the risk exposure of the Syndicate.

The following table gives an indication of the likely quantum and scale of Realistic Disaster Scenarios estimated during 2016.

Realistic Disaster Scenarios	Gross Event Loss £000	Gross Event Loss % of ECA	Net Event Loss £000	Net Event Loss % of ECA
European Windstorm – Central Track	5,513	43%	2,387	19%
Terrorism – Exchange Place	1,788	14%	229	2%
Two events – North East windstorm	688	5%	676	5%

Insurance risk – Reserving

Principal risk
PMA's reserving policy seeks to ensure appropriate allowance for reserving risk and consistency in reserving from year to year. Booked reserves represent the level of reserves booked at the Syndicate level. They are prepared on an underwriting year basis, and prepared on an actuarial best estimate basis. Booked reserves provide the basis for the Syndicate results and forecasts.

Actuarial best estimate reserves are intended to be true best estimates, i.e. estimates of expected value claims reserves. These are the basis for internal reporting and the derivation of expected loss ratios for business planning.

The following table illustrates the sensitivity of the financial year results (before managing agents profit commission) to changes in the net loss ratio.

	2016 £000
Net loss ratio – increase of 5%	(307)
Net loss ratio - increase of 10%	(615)

Mitigation
The actuarial best estimate reserves are calculated by PMA. The actuarial function determines the reserves in conjunction with extensive discussions with underwriting, claims, finance and reinsurance functions. The directors consider, assess and approve the best estimate reserve.

Reserving risk is controlled by the robust application of actuarial methodologies, stepped sign-off procedures, quarterly tracking of projected ultimate loss ratios, reassessment of methodologies where appropriate, regular dialogue between actuaries and practitioners, and access to a history of loss data.

Regulatory risk

Capital framework at Lloyd's
Lloyd's is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime. Although the capital regime has changed, this has not significantly impacted the Solvency Capital Requirement (SCR) of the Syndicate as Lloyd's was an early adopter of the new regime. Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Notes to the Annual Report
At 31 December 2016

2. Risk management (continued)

Regulatory risk (continued)

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level.

Lloyd's capital setting process
In order to meet Lloyd's requirements, each syndicate is required to calculate its SCR for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCR of syndicates are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

Lloyd's applies a capital uplift to the member's SCR to derive a members' Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members
Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), held within and managed within a syndicate (Funds in Syndicate) or as the member's share of the members' balances on each syndicate on which it participates.

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position, represent resources available to meet members' and Lloyd's capital requirements.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. As an SPA this risk is closely interlinked with that of Syndicate 4000.

An Ironshore Group Security Committee reviews all reinsurer counterparties with whom PMA wishes to conduct business and sets credit limits for the recoveries due from each reinsurer. The review includes an analysis of the financial strength of the reinsurer, its payment performance record and standing in the market. Thereafter, management of reinsurer credit risk follows active and regular review, with the assistance of outside expertise, of the credit rating and financial exposure to all approved reinsurers.

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2016 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated.

As at 31 December 2016	**AAA**	**AA**	**A**	**BBB**	**Not rated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Reinsurers share of outstanding claims	-	37	377	36	12	462
Reinsurance debtors	-	3	4	-	1	8
Total	-	40	381	36	13	470

PMA predominantly purchases reinsurance from reinsurers rated strong or better by Standard & Poor's (or equivalent). Maximum exposures per reinsurer are set in response to a reinsurer's rating and net assets. There have been no material changes to the credit risk appetite or profile during the financial year.

Broker credit risk limits are also determined depending on the grading of the relevant broker and exposures monitored against limits on a monthly basis.

Notes to the Annual Report
At 31 December 2016

2. Risk management (continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of any mitigation arrangements.

As at 31 December 2016	Not yet due £000	Past due by three months £000	Past due three to six months £000	Past due over six months £000	Greater than one year £000	Total £000
Reinsurers share of outstanding claims	462	-	-	-	-	462
Reinsurance debtors	8	-	-	-	-	8
Total	470	-	-	-	-	470

As at the balance sheet date, all financial assets of the Syndicate are unimpaired.

Liquidity risk

Liquidity risk

The Syndicate operates on a funds withheld basis with Syndicate 4000, so is not subject to liquidity risk on a day to day basis. All cash payments are made via Syndicate 4000.

Market risk – currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate writes a significant proportion of insurance business in currencies other than sterling, which creates exposure to currency risk.

The table below summarises the exposure of financial assets and liabilities to foreign currency exchange risk at the balance sheet date.

As at 31 December 2016	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	Total £000
Reinsurers' share of technical provisions	137	616	17	10	-	780
Insurance assets	1,994	6,370	1,807	129	417	10,717
Other assets	385	592	97	15	41	1,130
Total assets	2,516	7,578	1,921	154	458	12,627
Technical provisions	(1,269)	(6,322)	(1,118)	(142)	(270)	(9,121)
Insurance liabilities	(146)	(3,379)	(53)	(8)	(324)	(3,910)
Other creditors	(1,798)	(335)	(4)	-	-	(2,137)
Total liabilities	(3,213)	(10,036)	(1,175)	(150)	(594)	(15,168)
Currency surplus / (deficiency)	(697)	(2,458)	746	4	(136)	(2,541)

Notes to the Annual Report
At 31 December 2016

2. Risk management (continued)

Market risk – currency risk (continued)

The table below gives an indication of the impact on the result of a percentage change in the relative strength of Pounds Sterling against the value of the US Dollar, Euro, Canadian Dollar and Australian Dollar simultaneously.

As at 31 December 2016	2016 £000
Sterling weakens	
10% against other currencies	(205)
20% against other currencies	(461)
Sterling strengthens	
10% against other currencies	168
20% against other currencies	307

Market risk – Interest rates

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently the Syndicate does not hold any investments and insurance liabilities are not discounted. Therefore the Syndicate is not currently exposed to interest rate risk.

3. Segmental analysis

All of the Syndicate's business is underwritten via a reinsurance contract with Syndicate 4000.

All premiums were concluded in the UK.

The geographical analysis of gross premiums written by destination:

	2016 £000
UK	12,066
Total	12,066

4. Claims incurred, net of reinsurance

The outstanding claims balance at year end (£4.6m gross, £4.1m net) represents the reported claims ceded from Syndicate 4000 under the quota share agreement.

5. Net operating expenses

	2016 £000
Acquisition costs	(2,688)
Change in deferred acquisition costs	1,009
Administrative expenses	(1,431)
Gross operating expenses	(3,110)
Reinsurers' commissions	103
Net operating expenses	(3,007)

Notes to the Annual Report
At 31 December 2016

6. Auditor's remuneration

	2016 £000
Fees payable to the Syndicate's auditors for:	
Audit of the Syndicate Annual Accounts	8
Other services pursuant to regulations and Lloyd's byelaws	26
Other non-audit services	20
	54

Auditor's remuneration is included as part of administrative expenses in Note 5.

7. Staff numbers and costs

All staff were employed by Pembroke Managing Agency Limited. The following amounts were recharged to the Syndicate in respect of salary costs:

	2016 £000
Wages and salaries	555
Social security costs	77
Other pension costs	36
	668

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

	2016 Number
Administration and finance	23
Compliance	16
Other	4
	43

Employees are not devoted entirely to the Syndicate and may work for other syndicates for which Pembroke Managing Agency Limited is the managing agency.

8. Emoluments of the directors of Pembroke Managing Agency Limited

No specific amounts of remuneration or compensation were recharged to the Syndicate in respect of the Directors of PMA or the Active Underwriter. A general amount of salary and wages costs was recharged from Syndicate 4000 to the Syndicate. This recharge related to the perceived effort of all PMA employees working on the Syndicate.

9. Investment return

	2016 £000
Interest - other	12
Total investment return transferred to the technical account	12

Notes to the Annual Report
At 31 December 2016

10. Debtors arising out of reinsurance operations

	2016 £000
Due after one year:	
Due from ceding insurers and intermediaries under reinsurance business written	10,709
Due from reinsurers and intermediaries under reinsurance contracts ceded	
- reinsurance recoverable on paid claims	8
	10,717

11. Technical provisions

	2016 Gross £000	2016 RI £000	2016 Net £000
Incurred claims outstanding:			
Balance at 1 January	-	-	-
Expected cost of current year claims	5,924	(439)	5,485
Claims paid during the year	(1,710)	7	(1,703)
Effect of exchange rates	357	(30)	327
Balance as at 31 December	4,571	(462)	4,109
Claims notified	1,459	(55)	1,404
Claims incurred but not reported	3,112	(407)	2,705
Balance as at 31 December	4,571	(462)	4,109
Unearned premiums			
Balance at 1 January	-	-	-
Premiums written during the year	12,066	(1,965)	10,101
Premiums earned during the year	(7,822)	1,675	(6,147)
Effect of exchange rates	306	(28)	278
Balance at 31 December	4,550	(318)	4,232

12. Creditors arising out of reinsurance insurance operations

	2016 £000
Due after one year	3,910
	3,910

Notes to the Annual Report
At 31 December 2016

13. Deferred acquisition costs

	2016 £000
Gross:	
Balance at 1 January	-
Change in deferred acquisition costs	1,055
Effect of exchange rates	63
Balance at 31 December	1,118
Net:	
Balance at 1 January	-
Change in deferred acquisition costs	1,009
Effect of exchange rates	59
Balance at 31 December	1,068

14. Related parties

Managing agent

The Syndicate is managed by PMA. No profit commission was charged by PMA to the Syndicate during the year.

Capital

Underwriting capacity is provided by Patria Corporate Member Limited which is not within the Ironshore Inc. group of companies

Inwards reinsurance contracts

The Syndicate assumes business by way of variable rate quota share arrangements from Syndicate 4000, which is also managed by PMA. The debtor balance as at 31 December 2016 is £10.7m and creditor balance is £3.9m.

15. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL) and 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 managing agent, no amount has been shown in these accounts by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

16. Off balance sheet items

The Syndicate has not been a party to any arrangements which are not reflected in its Statement of Financial Position, where material risks and benefits arise to the Syndicate.