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**Syndicate 2014**

**Annual Report 2014**

**Year ended  
31 December 2014**

## Contents

	Page
Underwriter's Report	3-4
Managing Agent's Report	5-9
Statement of Managing Agent's Responsibilities	10
Independent Auditors' Report to the Members of Syndicate 2014	11
Profit and Loss Account	12
Statement of Total Recognised Gains and Losses	13
Balance Sheet	14
Statement of Cash Flows	15
Notes to the Financial Statements	16-23

## Underwriter's Report

### Background

The Syndicate commenced underwriting at Lloyd's on 1 January 2014. The Syndicate is managed by Pembroke Managing Agency Limited (PMA). The Syndicate is a standalone Syndicate with its origins in Special Purpose Syndicate 6110.

### Results

The Syndicate reports a total recognised loss for its first financial year of £3.1m, on gross written premiums of £59.7m.

### Stamp Capacity

The 2014 year of account stamp capacity was £75.0m. Capital to support underwriting is provided by Names via several members' agencies and through direct corporate vehicles.

### The Business of the Syndicate

The Syndicate is developing a reputation as a leading provider of specialist commercial lines (re)insurance products. Reinsurance acceptances account for 95.1% of gross written premiums in the financial year.

The Syndicate writes an increasingly diversified range of products including; Property Treaty, Political Risks, Accident & Health, Casualty Re and Marine.

### Lines of Business

During the 2014 financial year gross written premiums by line of business were as follows:

<i>Line of business</i>	<b>2014</b>	<b>2014</b>
	<b>£000</b>	<b>%</b>
Accident & Health	1,282	2.1%
Marine	11,524	19.3%
Political Risks	792	1.4%
Property Treaty	31,079	52.1%
Casualty Re	15,003	25.1%
	<b>59,680</b>	<b>100.0%</b>

### Property Treaty

The Property Treaty account consists primarily of US and Canadian business written on a catastrophe and per risk excess of loss basis. In addition to this, there is a US and Canadian multi-peril crop and hail book and a Caribbean pro rata book.

### Accident & Health

The Accident & Health portfolio is made up of both personal accident and contingency business. A number of sub-classes are within personal accident on a world-wide basis, but with greater appetite for North American business, due to existing relationships with providers in this area and good loss records.

### Casualty Re

To date our business focus has been primarily on the North American market. The client base is predicated upon Re-insured's domiciled in the US, Canada, Bermuda (non - retrocessional) and London with operations writing niche, North American specific business. The key products written to date include; Workers Compensation Act (WCA) Per-Person Exposed and Catastrophe XOL, Medical Malpractice, Casualty Clash, General Liability, Professional Indemnity and Directors 'and Officers' Liability

## Underwriter's Report (continued)

### Political Risks

Political Risk refers to any event or administrative decision, being local, national, or international, that could lead to economical, commercial, or financial losses for a company exporting to, investing in, or importing from a foreign country. Key products written by the Syndicate include; Trade Credit, Contract Frustration, Confiscation, Expropriation, Nationalisation and Deprivation

### Marine

The Syndicate writes a number of Marine lines including a small number of cessions from Ironshore Syndicate 4000. Key Marine products include; Marine Re (Hull, General Liability, and Excess of Loss), War & Terrorism, Select Specialist Lines, Marine Liabilities, Cargo and Fine Art & Specie.

### Outward Reinsurance Arrangements

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.

The primary focus of the Syndicate is to produce gross underwriting profits irrespective of reinsurance arrangements. The programme will not be a means by which the impact of inadequate pricing or structuring can be defrayed onto reinsurers, who are expected to make a profit themselves.

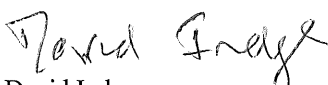
### Future Prospects

Having successfully completed the Lloyd's three year "new entrant" process, the management of PMA now wish to take the Syndicate to the next phase in its life cycle and implement a business plan that is more attractive to investors and which lays the foundations for further growth in future years, thereby creating a stronger Syndicate.

Although growth is planned for 2015, this will be achieved by taking a disciplined approach and giving regard to the soft market conditions. This growth will be achieved by carefully growing existing classes of business and by recruiting high calibre underwriters with good reputations and outstanding producer relationships.

We continue to look at new lines of business to add non-correlated diversity to the existing book.

Syndicate allocated capacity for the 2015 year of account will increase to £100.0m (2014 year of account: £75.0m)



David Indge  
Active Underwriter  
17 March 2014

## Managing Agent's Report

The Directors of the Managing Agent present their report for the year ended 31 December 2014.

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

### The Managing Agent

From 1 January 2014, Pembroke Managing Agency Limited ("PMA") commenced management of the newly created Syndicate. PMA is a subsidiary of Ironshore Inc., a company incorporated in the Cayman Islands.

### Principal Activities

The principal activity of the Syndicate is to underwrite reinsurance business in the United Kingdom.

### Review of the Business and Future Developments

The Syndicate's key financial performance indicators for the year were as follows:

	2014 £000
Gross written premiums	59,680
Total recognised loss for the year	(3,130)
Combined ratio	109.4%

The Underwriter's Report provides a review of the business of the Syndicate for the financial year and outlines future developments.

The results for the year are set out in the Profit and Loss Account and commented on in the Underwriter's Report.

The 2014 Year of Account is Syndicate 2014's first underwriting year and is expected to close at a profit. The underwriting loss at this stage of development is in line with management's expectations, reflecting up front recognition of administrative expenses in relation to the deferral of earned premiums to future financial periods in line with underwriting exposures.

2014 Capacity is £75.0m, for the 2015 year of account capacity will increase to £100.0m. This growth will be aided by writing North American Property Binders and International Liability.

### Principal Risks 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 the syndicate and to ensure that the syndicate meets its current and future capital requirements. The principal risks and uncertainties facing the Syndicate are as follows.

#### Underwriting Risk

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.

## **Managing Agent's Report (continued)**

### **Underwriting Risk (continued)**

PMA manages underwriting risk through monthly reporting utilising centrally prepared detailed underwriting management information packs. Underwriters report to the Underwriting Committee, which in turn, reports to 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, and 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.

Underwriting exposure is controlled via risk policy coding systems, setting of maximum lines, setting of jurisdiction limits, strict underwriter authority limits, Realistic Disaster Scenario modelling, reinsurance programme design, policy limitations and exclusions, imposed deductibles and standard policy wording and coverage clauses.

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

PMA manages claims related risks by way of reinsurance and by a similar monitoring process to underwriting. There are strict claims handling authority limits and standard claims reports such as non-moving claims. Only approved third party adjustors and surveyors are used.

PMA undertakes an extensive annual underwriting planning process in order to determine targets for premiums written and profitability for the coming year. Factors taken into account in determining the targets include the risk appetite agreed by the capital provider, anticipated policy pricing, terms and conditions, expected claims frequency and cost and reinsurance cost and efficacy.

### **Credit Risk**

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.

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.

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

## Managing Agent's Report (continued)

### Reserving 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 equal the actuarial best estimate reserves.

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

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.

### Investment Strategy and Risk Management

PMA's philosophy is that investment activities are complementary to the primary underwriting activities of the business and should not therefore divert or utilise financial resources otherwise available for insurance operations.

#### *Interest rate risk*

The most significant proportion of risk within the Syndicate's fixed income portfolio is interest rate risk, which increases as the duration of each portfolio gets longer. In order to manage this risk duration constraints are set, relative to a benchmark to provide downside protection for increases in interest rates although no limit is set for the minimum duration of each portfolio enabling managers to switch to cash or variable rate securities, if considered appropriate.

#### *Currency risk*

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

#### *Liquidity risk*

The Syndicate is subject to calls on cash resources, mainly in respect of claims on insurance business, on a daily basis. PMA operates and maintains a liquidity risk policy designed to ensure that cash is available to settle liabilities and other obligations when due without excessive cost to the business.

The liquidity risk policy, which is subject to review and approval by the Board on an annual basis, sets limits for cash required to meet expected cash flows. It includes a contingency funding plan, which details the process and provisions for raising additional funds required to meet liabilities in extreme circumstances.

### 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.

### 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 agency policy. PMA also carries out a compliance-monitoring programme.



## Managing Agent's Report (continued)

### Staff Matters

PMA considers its staff to be a key resource 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.

### Environmental Matters

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

### Directors

The directors of PMA who held office during the period covered by this report are set out in the table below. None of the directors has a direct participation on the Syndicate for any year covered by this report.

G.E. Barnes, BA (Hons), FCII	Director
C.D. Brown, ACII	Director
I.R. Garven, BA (Hons), FCA	Finance Director ( <i>appointed 6 August 2014</i> )
T.A.B.H. Glover, ACII,	Director
A.M. Kaufman, FCAS, MAAA, FIA (HON), ARM, CPCU	Non-executive Director, Chairman
M. Johnson, FCII,	Director ( <i>resigned 18 November 2014</i> )
M.F. Fisher, FCCA	Director ( <i>appointed 19 February 2014; resigned 15 August 2014</i> )
T Seymour MA(Oxon), ACA	Non-executive Director ( <i>appointed 20 February 2014</i> )
J.A.S. Wash, BSc (Hons), ACA	Managing Director
R.J. Wallace, FCII	Non-executive Director ( <i>resigned 31 December 2014</i> )
L.J. West, BCom, ACA	Director ( <i>resigned 15 August 2014</i> )
M.H. Wheeler, ACII	Director

### MANAGING AGENT:

#### Company Secretary

P.P. Hicks, FCII, FIRM, FCIS

#### Registered Office

2nd Floor South, The LUC  
3 Minster Court, Mincing Lane  
London, EC3R 7DD

### SYNDICATE:

#### Active Underwriter

D. Indge (*appointed 25 September 2014*)

D. Bruce (*resigned 25 September 2014*)

#### Bankers

Citibank N.A.

Lloyds TSB

HSBC

Royal Trust

#### Registered Auditors

PKF Littlejohn LLP

## Managing Agent's Report (continued)

### Disclosure of Information to the Auditors

The directors each confirm that:

- so far as the directors are aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the Syndicate's auditors are unaware, and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

### Auditors

PKF Littlejohn LLP are deemed reappointed as the Syndicate's auditors.



By order of the Board  
J.A.S. Wash  
Managing Director  
17 March 2015

## 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 2014

We have audited the Syndicate Annual Financial Statements for the year ended 31 December 2014 which comprise the Profit & Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Statement of Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the members of the Syndicate as a body, in accordance with Regulations 10 to 14 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulation 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters that 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 and the Syndicate's members as a body for our audit work, for this report, or for the opinion we have formed.

### Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 10, the Managing Agent is responsible for the preparation of the Annual Financial Statements which give a true and fair view. Our responsibility is to audit and express an opinion on the Syndicate Annual Financial Statements 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 (APB's) Ethical Standards for Auditors.

### Scope of the audit of the syndicate annual accounts

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

### Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2014 and of its 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.

### 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 for which the Annual Financial Statements are prepared is consistent with the Annual Financial Statements.

### 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.



Neil Coulson (Senior Statutory Auditor)  
For and on behalf of PKF Littlejohns LLP, Statutory Auditor  
London  
17 March 2015

## Profit and Loss Account

For the year ended 31 December 2014

### Technical account – General business

	Note	2014 £000
<b>Earned premiums, net of reinsurance</b>		
Gross premiums written	3	59,680
Outward reinsurance premiums		<u>(10,637)</u>
Net premiums written		49,043
Change in the gross provision for unearned premiums		
Gross amount		(18,566)
Reinsurers' share		<u>2,500</u>
Change in the net provision for unearned premiums		(16,066)
<b>Earned premiums, net of reinsurance</b>		32,977
<b>Allocated investment return transferred from the non-technical account</b>		3
<b>Claims incurred, net of reinsurance</b>		
Claims paid		
Gross amount		(6,562)
Reinsurers' share		<u>712</u>
Net claims paid		(5,850)
Change in the provision for claims		
Gross amount		(17,925)
Reinsurers' share		<u>1,405</u>
Change in the net provision for claims		(16,520)
<b>Claims incurred, net of reinsurance</b>		(22,370)
<b>Net operating expenses</b>	4	<u>(13,706)</u>
<b>Balance on the technical account for general business</b>		<u><u>(3,096)</u></u>

All the amounts above are in respect of continuing operations.

### Non-technical account

<b>Balance on the technical account for general business</b>		(3,096)
Investment income	8	3
Allocated investment return transferred to the general business technical account		<u>(3)</u>
<b>Loss for the financial year</b>	11	<u><u>(3,096)</u></u>

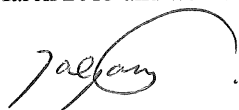
**Statement of Total Recognised Gains and Losses**  
For the year ended 31 December 2014

	Note	2014 £000
Loss for the financial year		(3,096)
Currency translation differences	11	<u>(34)</u>
<b>Total recognised losses</b>		<u><u>(3,130)</u></u>

**Balance Sheet**  
As at 31 December 2014

ASSETS	Note	2014 £000
<b>Investments</b>		
Financial investments	9	17,971
<b>Reinsurers' share of technical provisions</b>		
Provision for unearned premiums		2,649
Claims outstanding		1,448
		<u>4,097</u>
<b>Debtors due within one year</b>		
Debtors arising out of direct insurance operations – intermediaries		19,160
		<u>19,160</u>
<b>Other assets</b>		
Cash at bank and in hand		112
Other assets	10	477
		<u>589</u>
<b>Prepayments and accrued income</b>		
Deferred acquisition costs		5,423
Other prepayments & accrued income		123
		<u>5,546</u>
<b>TOTAL ASSETS</b>		<u><u>47,363</u></u>
 <b>LIABILITIES</b>		
<b>Capital and reserves</b>		
Members' balances	11	(3,791)
<b>Technical provisions</b>		
Provision for unearned premiums		19,336
Claims outstanding		18,715
		<u>38,051</u>
<b>Creditors due within one year</b>		
Creditors arising out of direct insurance operations – intermediaries		2,100
Other creditors	12	10,646
		<u>12,746</u>
<b>Accruals and deferred income</b>		<u>357</u>
<b>TOTAL LIABILITIES</b>		<u><u>47,363</u></u>

The annual accounts on pages 12 to 23 were approved by the Board of Pembroke Managing Agency Limited on 17 March 2015 and were signed on its behalf by



I Garven  
Finance Director  
17 March 2015

**Statement of Cash Flows**  
For the year ended 31 December 2014

	Note	2014 £000
<b>Reconciliation of operating loss to net cash inflow from operating activities</b>		
Operating profit on ordinary activities	11	(3,096)
Statement of total recognised gains and losses	11	(34)
Increase in net technical provisions		33,954
(Increase) in debtors		(24,706)
Increase in creditors		13,103
Non-standard personal expenses		<u>(661)</u>
<b>Net cash inflow from operating activities</b>	<b>13</b>	<b><u>18,560</u></b>
 <b>Cash flows were invested as follows:</b>		
Increase in cash holdings	13	112
Increase in overseas deposits	13	477
Increase in portfolio investment	14	<u>17,971</u>
<b>Net investment of cash flows</b>		<b><u>18,560</u></b>



## Notes to the Financial Statements

At 31 December 2014

### 1. Basis of preparation

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

### 2. Accounting policies

#### *Premiums written*

Premiums written comprise premiums on contracts incepted during the financial year. Premiums are shown gross of brokerage payable 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 in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

#### *Reinsurance 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.

#### *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.

## Notes to the Financial Statements

At 31 December 2014

### 2. Accounting policies (continued)

#### *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.

#### *Deferred acquisition costs*

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

#### *Foreign currencies*

Transactions in US dollars, Canadian 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 and non-monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

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

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

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

	<i>31 December 2014</i>
US Dollars	1.55
Canadian Dollars	1.81

#### *Investments*

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

#### *Investment return*

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

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

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

#### *Taxation*

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

## Notes to the Financial Statements

At 31 December 2014

### 2. Accounting policies (continued)

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 due from the Syndicate to the Managing Agency is not payable until after the appropriate year of account closes – typically at 36 months. An accrual would typically be recognised as a year of account develops and is in profit.

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.

### 3. Segmental analysis

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

2014	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
<b>Direct insurance:</b>							
Accident & Health	557	244	(229)	(128)	(28)	(141)	(210)
Marine aviation and transport	1,218	225	(500)	(280)	(1)	(556)	(335)
Fire and other damage to property	14	9	(6)	(3)	(2)	(2)	(8)
Third party liability	65	15	(27)	(15)	(1)	(28)	(19)
Miscellaneous	1,089	434	(446)	(250)	(47)	(309)	(393)
	<u>2,943</u>	<u>927</u>	<u>(1,208)</u>	<u>(676)</u>	<u>(79)</u>	<u>(1,036)</u>	<u>(965)</u>
<b>Reinsurance</b>	<u>56,737</u>	<u>40,187</u>	<u>(23,279)</u>	<u>(13,030)</u>	<u>(5,941)</u>	<u>(2,063)</u>	<u>(27,649)</u>
<b>Total</b>	<u>59,680</u>	<u>41,114</u>	<u>(24,487)</u>	<u>(13,706)</u>	<u>(6,020)</u>	<u>(3,099)</u>	<u>(28,614)</u>

## Notes to the financial statements

At 31 December 2014

### 3. Segmental analysis (continued)

Commissions on direct insurance gross premiums during 2014 were £0.5m.

All premiums were concluded in the UK.

The geographical analysis of gross premiums written by destination:

	<b>2014</b>
	<b>£000</b>
UK	11,877
Other EU countries	448
US	40,436
Other	6,919
	<hr/>
Total	59,680
	<hr/> <hr/>

### 4. Net operating expenses

	<b>2014</b>
	<b>£000</b>
Acquisition costs	(14,711)
Change in deferred acquisition costs	5,211
Administrative expenses	(4,206)
	<hr/>
	(13,706)
	<hr/> <hr/>

Included within administrative expenses are members' standard personal expenses of £1.2m

### 5. Auditors' Remuneration

	<b>2014</b>
	<b>£000</b>
Fees payable to the Syndicate's Auditors for:	
Audit of the Syndicate annual accounts	14
Other services pursuant to regulations and Lloyd's byelaws	21
	<hr/>
	35
	<hr/> <hr/>

**Notes to the Financial Statements**  
at 31 December 2014

**6. Staff numbers and costs**

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

	<b>2014</b> <b>£000</b>
Wages and salaries	3,415
Social security costs	463
Other pension costs	164
Other	56
	<hr/>
	4,098
	<hr/> <hr/>

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

	<b>2014</b> <b>Number</b>
Administration and finance	16
Underwriting	21
Claims	9
Compliance	12
Other	2
	<hr/>
	60
	<hr/> <hr/>

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

**7. Emoluments of the directors of Pembroke Managing Agency Limited**

The directors of Pembroke Managing Agency Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	<b>2014</b> <b>£000</b>
Emoluments	1,476
Pension contributions	64
	<hr/>
	1,540
	<hr/> <hr/>

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

	<b>2014</b> <b>£000</b>
Emoluments	609
Pension contributions	-
	<hr/>
	609
	<hr/> <hr/>

**Notes to the financial statements**  
at 31 December 2014

**8. Investment return**

	<b>2014</b>
	<b>£000</b>
Investment income	3
	<u>3</u>

**9. Financial Investments**

	<b>2014</b>	<b>2014</b>
	<b>Market Value</b>	<b>Cost</b>
	<b>£000</b>	<b>£000</b>
Deposits with approved credit institutions	<u>17,971</u>	<u>17,971</u>

**10. Other assets**

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

**11. Reconciliation of members' balances**

	<b>2014</b>
	<b>£000</b>
Members' balances brought forward at 1 January	-
Profit for the financial year	(3,096)
Statement of total recognised gains and losses	(34)
Non standard personal expenses paid on behalf of the members	<u>(661)</u>
Members' balances carried forward at 31 December	<u>(3,791)</u>

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

**12. Other creditors**

Other creditors comprise amounts due to Pembroke Managing Agency Limited of £2.1m, and an inter-syndicate loan balance with Pembroke Syndicate 4000 of £8.5m.

**Notes to the financial statements**

At 31 December 2014

**13. Movement in opening and closing portfolio investments net of financing**

	<b>2014 £000</b>
Increase in cash for the year	112
Increase in overseas deposits	477
Increase in shares and other variable yield securities	17,971
	<hr/>
Movement arising from cash flows	18,560
Changes in market value and exchange rates	<hr/> -
Total movement in portfolio investments net of financing	18,560
Portfolio at 1 January	<hr/> -
Portfolio at 31 December	<hr/> <hr/> 18,560

**Movement in cash, portfolio investments and financing**

	<b>As at 1 January 2014 £000</b>	<b>Cash flow £000</b>	<b>Changes to market value and currencies £000</b>	<b>As at 31 December 2014 £000</b>
Cash at bank and in hand	-	112	-	112
Overseas deposits	-	477	-	477
Shares and other variable yield securities	-	17,971	-	17,971
	<hr/>			
Total cash, portfolio investments and financing	-	18,560	-	<hr/> <hr/> 18,560

**14. Net cash outflow on portfolio investments**

	<b>2014 £000</b>
Deposits with credit institutions	<hr/> (17,971)
	<hr/> <hr/> (17,971)

## Notes to the financial statements

At 31 December 2014

### 15. Related parties

#### *Capital*

Underwriting capacity is provided through a combination of Names and Trade Capital. Underwriting capacity is not provided by any entity within the Ironshore Inc group of companies. Ironshore Inc is a company domiciled in the Cayman Islands and it is the ultimate parent of the managing agency, PMA.

#### *Managing agent*

The Syndicate is managed by PMA. During the financial year the Syndicate incurred managing agency fees of £0.6m. In addition to the fee for managing the Syndicate, PMA periodically recharges costs incurred on behalf of managed Syndicates. During the financial year, total expenses recharged to the Syndicate amounted to £5.7m. At the end of the year £2.1m remains outstanding.

#### *Inter-syndicate loans*

The directors of PMA have made a working capital facility available to the Syndicate during its start-up phase in the form of an inter-syndicate loan from Syndicate 4000. The balance of the loan as at 31 December 2014 was £8.5m. Interest on amounts outstanding charged to the Syndicate in the financial year totalled £0.1m.

#### *Inwards reinsurance contracts*

Inwards reinsurance premiums from Syndicate 4000 totalled £7.2m for the financial year. As at 31 December 2014 net technical provisions in respect of this business totalled £4.2m. All contracts were concluded on commercial terms.

### 16. 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.



## Report of the independent auditors to the Council of Lloyd's

### Syndicate 2014

We have reviewed the statement dated 17 March 2015 by the managing agent.

This report is made solely to the addressees in accordance with Market Bulletin ref: Y4850 dated 15 December 2014 entitled "2014 syndicate report and accounts". Our work has been undertaken so that we might state to the addressees of this report those matters which we are required to state in this report by the Instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the addressees of this report, for our work, for this report, or for the opinions we have formed.

Our opinion dated 17 March 2015 on the syndicate annual accounts was not qualified.

There are no additional matters referred to in that opinion which have not been referred to in our opinion dated 19 February 2015 on the 2014 Calendar year information in the Annual Return.

### OPINION

In our opinion:

- a) the statement dated 17 March 2015 has been properly prepared by the managing agent; and
- b) it was not unreasonable for the managing agent giving the statement to have made the statements therein.



PKF Littlejohn LLP  
Registered Auditor  
London  
17 March 2015

17 March 2015

Dear Sirs

### **Letter of representation – Syndicate 2014 & Syndicate 6110 (“the Syndicates”)**

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation, sufficient to satisfy ourselves that we can properly make each of the following representations to you in connection with your audit of the Syndicate Annual Report, underwriting year accounts (“the accounts”) for the year ended 31 December 2014.

#### **General representations**

- 1 We have fulfilled our responsibilities under the Lloyd’s instructions for the completion of the Returns (“the Instructions”) and under the Companies Act 2006 (“the Act”), and as set out in your engagement letter, for preparing Financial Statements that give a true and fair view of the state of the Syndicate’s affairs at the end of the financial year and of the Syndicate’s results for the financial year in accordance with the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulation 2008 and Lloyd’s Regulations as appropriate, and with United Kingdom Generally Accepted Accounting Practice (“UK GAAP”), and for making accurate representations to you.
- 2 All underwriting and accounting records and relevant information, including minutes of meetings of the Directors of the Managing Agent and minutes of the various committees concerned with the management of the Syndicates, have been made available to you for the purpose of your audit.
- 3 All the transactions undertaken by the Syndicates have been properly reflected and recorded in the accounting records.
- 4 We confirm that we have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the Financial Statements such as records, documentation and other matters. Each Director has confirmed that, so far as he/she is aware, there is no relevant audit information (as defined in section 418 of the Act) of which you are unaware, and that each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information, and to establish that you have been made aware of that information;
  - additional information that you have requested from us for the purposes of your audit; and
  - unrestricted access to persons within the Syndicates and Managing Agent from whom you determined necessary to obtain audit evidence.

- 5 We acknowledge our responsibilities for maintaining such internal control as we determine is necessary to enable the preparation of the Financial Statements that are free from material misstatement, whether due to fraud or error. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud. We are unaware of any irregularities, including fraud or suspected fraud, involving management, employees who have significant roles in internal control, or those employed by the Managing Agent, where the fraud could have a material effect on the Financial Statements. No allegations of such irregularities or breaches have come to our notice.
- 6 We confirm that the accounting policies adopted for the preparation of the Financial Statements are the most appropriate to the circumstances in which the Syndicates operate.
- 7 In relation to accounting estimates, we confirm that, in our opinion:
- The main areas in which estimates have been made are:
    - Technical provisions including the earned/unearned split
    - Pipeline premiums
    - Expense allocation and accrual
    - Segmental analysis
  - the measurement processes, assumptions and models used by management in determining accounting estimates are appropriate and consistently applied;
  - the assumptions reflect appropriately management's intent and ability to carry out specific courses of action, as relevant to the accounting estimate;
  - the disclosures in the Financial Statements are complete and appropriate; and
  - we are not aware of any event after the balance sheet date that requires adjustment to the accounting estimates or the disclosures in the Financial Statements.
- 8 We confirm that all known actual or possible litigation and claims whose effects should be considered when preparing the Financial Statements have been disclosed to you and accounted for and disclosed in accordance with UK GAAP. We are not aware of any material provisions, contingent liabilities, contingent assets or contracted-for capital commitments that need to be provided for or disclosed in the Financial Statements.
- 9 All contractual arrangements entered into by the Managing Agent on behalf of the Syndicates with third party have been properly reflected in the accounting records and where material (or potentially material) to the Financial Statements have been disclosed to you.
- 10 All aspects of contractual agreements that could have a material effect on the Financial Statements in event of non-compliance have been complied with. In particular, we confirm that we have disclosed to you all reinsurance contracts where the term contractually covers more than one underwriting year or where the transfer of risk to the reinsurer is minimal.
- 11 We have carefully considered the Syndicates involvement in derivatives, hedging transactions and other similar transactions. We confirm that the Syndicates have not entered into any such arrangements.

- 12 We confirm that we have disclosed to you all related a parties relevant to the Syndicate and the Managing Agent, and have disclosed in the Financial Statements all related party transactions. We confirm that all related party transactions have been entered into on an arm's length basis. Other than those included in the Financial Statements, neither the Syndicate nor the Managing Agent has entered into any transactions involving Directors, officers or related parties requiring disclosure requiring disclosure under the Act, Lloyd's regulations or UK GAAP. Appropriate disclosure has been made of the control of the Syndicate.
- 13 There have been no known instances of non-compliance or suspected non-compliance with laws and regulations, including any breaches or possible breaches of statute, regulations, contracts, or agreements, that might result in the Syndicates suffering significant penalties or other loss or whose effects should be considered when preparing the Financial Statements.
- 14 There have been no events since the balance sheet date that necessitate revision of the figures included in the Financial Statements or inclusion of a note thereto. Should further material events occur that may necessitate revision of the figures included in the Financial Statements or inclusion of a note thereto, we will advise you accordingly.

We confirm receipt of your engagement letter dated 05 June 2014. We have been notified by you that there are no matters which you are required to raise with us to comply with your profession's ethical guidance in addition to the matters included in your audit strategy document presented to the Audit Committee in November 2014.

- 15 We confirm that we have considered the unadjusted items advised to us by you as appended to this letter. We confirm we are not aware of any other unadjusted items that are not clearly trivial. In our opinion, the adjustments that you have identified and recommended us to make are not relevant to the Financial Statements because the combined effect of the unadjusted items is not material, and we do not consider that their absence from the Financial Statements affects the true and fair view given.

### **Specific representations**

#### **Both syndicates 2014 & 6110**

- 16 We confirm that adequate provision has been made for future claims handling costs and that the methodology and assumptions used in the calculation of the provision for unallocated loss adjustment expenses ("ULAE") are appropriate.
- 17 We confirm that adequate provision has been made for bad and doubtful debts and that all debtors are considered recoverable.

#### **Syndicate 6110**

- 18 The board of the Managing Agent has approved the decision to close the 2012 YOA by reinsurance into the 2013 YOA at the premiums shown in the Return. We further confirm that the reinsurance to close policy document will be submitted to Xchanging Ins-sure Services Limited for signing. We confirm that the amount charged as a premium to close the 2012 YOA is an equitable estimate of the liabilities attaching to the 2012 YOA having regard to the nature and amount of the liabilities reinsured.
- 19 We confirm that the comparative information has been correctly restated to reflect the prior period adjustment caused by the 2012 YOA now being grossed up to be in line with 2013 YOA.

## Syndicate 2014

- 20 We believe that adequate cash resources will be available to cover the Syndicates requirements for working capital and capital expenditure for at least the next twelve months, and we are not aware of any other factors that we believe could put into jeopardy the Syndicates going concern status. The Returns and the Accounts have been prepared on the basis that the Syndicates will continue to write future business, and we are satisfied that no further disclosures in respect of this matter are required in the Accounts.
- 21 We confirm that, despite the lack of historical data and reliance on benchmarks, the methodology and assumptions used in the calculation of the technical provisions are appropriate.
- 22 We confirm that the allocation of expenses to the Syndicate is a fair and equitable allocation.

Yours faithfully

A handwritten signature in black ink, appearing to read "J. A. Q.", is written in a cursive style.

Signed on behalf of the Board of Directors of the Managing Agent

Attach schedule of unadjusted items

Narrative	P&L		Balance sheet	
	DR	CR	DR	CR
Reinsurance Recoverable Provision - IBNR			27,098	
Reinsurance Recoverable Provision - IBNR- P&L		27,098		
Being write off post year end of Reinsurance Recoverable Provision - IBNR				

Appendix 3 (no restatement)

**SYNDICATE ANNUAL ACCOUNTS AND LLOYD'S ANNUAL RETURN  
31 DECEMBER 2014**

Syndicate No: 2014

**Statement by the managing agent to the Council of Lloyd's**

In accordance with Market Bulletin Y4850 dated 15 December 2014, "2014 Syndicate Report and Accounts", we confirm that the disclosures in column C of QMA001 and QMA002 of the Annual Return as submitted to Lloyd's on 19 February 2015 agree with those for the 2014 profit and loss account, balance sheet, and related notes of the syndicate annual accounts as at 31 December 2014.

We also confirm the syndicate annual accounts either have positive disclosure or have no positive disclosure as follows:

	Positive disclosure	No positive disclosure
Off balance sheet arrangements – Lloyds Regulations 2008, Schedule 1, para 7	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Financial assets classified as available-for-sale – Reporting Regulations 2008, Schedule 3, para 73	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Derivatives not included at fair value – Reporting Regulations 2008, Schedule 3, para 74	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Fixed assets in excess of fair value – Reporting Regulations 2008, Schedule 3, para 75	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Related party transactions that have not been concluded under normal market conditions – Reporting Regulations 2008, Schedule 3, para 90	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Signed  Finance Director

Name IAN GARVEN (BLOCK CAPITALS)

Signed  Director

Name JUSTIN WALSH (BLOCK CAPITALS)

On behalf of PENINSULOPE MANAGING AGENCY Managing Agent

Date 17 MARCH 2015

**SYNDICATE ANNUAL ACCOUNTS AND SYNDICATE UNDERWRITING YEAR ACCOUNTS  
31 DECEMBER 2014**

Syndicate No. 2014

Managing Agent: PEMUNOKE MANAGING AGENCY

In respect of the above syndicate:

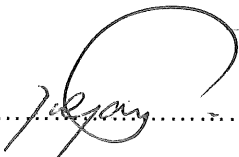
I confirm that the version of the 31 December 2014 syndicate annual accounts submitted to Lloyd's in electronic PDF file format, via the Lloyd's Market Returns Website on or before 24 March 2015, is identical to the hardcopy signed version of the syndicate annual accounts submitted to Lloyd's Market Finance Department on or before 17 March 2015.

and either:

~~\*I confirm that the version of the 31 December 2014 syndicate underwriting year accounts submitted to Lloyd's in electronic PDF file format, via the Lloyd's Market Returns Website on or before 24 March 2015, is identical to the hardcopy signed version of the syndicate underwriting year accounts submitted to Lloyd's Market Finance Department on or before 24 March 2015.~~

or

\*I confirm that no syndicate underwriting year accounts have been produced for this syndicate because either the syndicate has no year that has reached the normal date of closure or because all members have agreed that no underwriting year accounts are required.

Signed..........

Director / ~~Compliance Officer~~

Name IAN SARVEN.....

(Block capitals)

Date 17 MARCH 2015.....

\*Delete as appropriate

This form is to be signed and dated by a Director or compliance officer and returned to Shabbir Patel, Market Finance, 1986 Building/G5, 1 Lime Street, London, EC3M 7HA, by Tuesday 24 March 2015.