

## **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 2014**

**Annual Report**

**Year ended  
31 December 2015**

## Contents

	Page
Directors and Advisers	3
Strategic Report	4 – 6
Managing Agent’s Report	7 – 9
Statement of Managing Agent’s Responsibilities	10
Independent Auditors’ Report to the Members	11
Statement of Comprehensive Income	12 – 13
Statement of Financial Position	14
Statement of Cash Flows	15
Notes to the Annual Report	16 - 34

## Directors and Advisers

### Managing agent

#### *Registered office*

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

#### *Registered number*

5832065

#### *Directors*

G.E. Barnes, BA (Hons), FCII	Executive
C.D. Brown, ACII	Executive
I.R. Garven, BA (Hons), FCA	Executive
T.A.B.H. Glover, ACII	Executive
A.M. Kaufman, FCA, MAAA, FIA (HON), ARM, CPCU	Non-Executive, Chairman
S. Keshani, MEng (Hons), FIA	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*

P.P. Hicks, FCII, FIRM, FCIS

### Syndicate

#### *Active Underwriter*

D.M. Indge, FCII

#### *Bankers*

Citibank N.A.  
HSBC  
Lloyd's  
Royal Trust

#### *Auditors*

PKF Littlejohn LLP

## Strategic Report

The directors of Pembroke Managing Agency Limited (PMA) present their Strategic Report for Syndicate 2014 (the 'Syndicate') for the year ended 31 December 2015.

### Principal activities

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.

### 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 67.8% of gross written premiums in the financial year.

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

During the 2015 financial year gross written premium by line of business were as follows:

	2015 £000	2014 £000
Property Treaty	42,203	31,079
Casualty Re	24,905	15,003
Liability	14,001	-
Marine	6,562	11,524
Political Risks	2,893	792
Accident & Health	1,352	1,282
	91,916	59,680

#### *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.

#### *Casualty Re*

The Syndicate has focused 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 and General Liability.

#### *Liability*

The Liability account is a worldwide account excluding the USA and comprises of Professional Indemnity, General Liability and Management Liability business.

#### *Marine*

The Syndicate writes a number of Marine lines including a small number of cessions from Pembroke 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.

#### *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.

## Strategic Report (continued)

### Business of the Syndicate (continued)

#### *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.

#### *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.

### Key performance indicators

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

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Syndicate capacity	100,000	75,000
Gross written premium	91,916	59,680
Profit/(loss) for the financial year	426	(3,130)
Combined ratio	99.1%	109.4%
Investments, cash and deposits	50,989	18,560

### Current trading conditions and future prospects

Current trading conditions indicate a negative premium rate outlook for most lines of business, which is indicative of excess London Market capacity and increased competition from emerging regional markets. Forecast growth for 2016 will be achieved through careful risk selection, organic growth of existing lines of business and through the carefully managed introduction of new products and the recruitment of high calibre underwriting teams.

Having successfully completed the Lloyd's three year "new entrant" process, initially through Special Purpose Syndicate 6110 and followed with the commencement of the Syndicate in 2014, 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.

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

#### *Open underwriting years*

The 2014 pure year of account has cumulative result on a GAAP basis of £1.5m (2014: £3.1m loss). The ultimate view of the directors is that the year of account is likely to remain profitable and will close with a return on capacity in the range of (2.2)% to 7.8%.

The 2015 pure year of account is at an early stage of its development, and the ultimate prospects of the year of account at this stage are less certain. It has a cumulative loss on a GAAP basis of £4.2m. However, despite challenging market conditions, the directors are of the view that it will close profitably.

## Strategic Report (continued)

### Other performance indicators

#### *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.

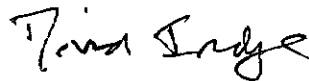
#### **Environmental matters**

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

Approved by order of the Board of Pembroke Managing Agency Limited



J.A.S. Wash  
Managing Director  
15 March 2016



D. Indge  
Active Underwriter  
15 March 2016

## Managing Agent's Report

The directors of PMA present their report for the year ended 31 December 2015.

The Managing Agent's Report should be read in conjunction with the Strategic Report as it includes information required to be disclosed in the Managing Agent's Report. This information primarily relates to the activities of the business, results and future developments.

### Risk review

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 is 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.

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.



## Managing Agent's Report (continued)

### Risk review (continued)

#### *Credit risk*

The key aspect of credit risk is the risk of default by a reinsurer, insurance intermediary or debtholder. Exposures to single counterparties are regularly reviewed at Reinsurance Committee, Underwriting Committee and Investment Committee.

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.

Investment credit risk is managed through investment management guidelines and quarterly compliance reports.

#### *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.

#### *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 significant mismatches are addressed through currency purchases and sales.

Movements in interest rates will also impact the value of debt and other fixed income securities relative to the value of related liabilities. This risk is managed through asset and liability duration management.

#### *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.

### Directors serving during the year

The directors of the Managing Agent, who served during the year ended 31 December 2015 and up to the date of this report were as follows:

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

\* Appointed 3 July 2015, resigned 2 January 2016

\*\* Appointed 18 November 2015

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

### **Company secretary**

P.P. Hicks, FCII, FIRM, FCIS

### **Annual General Meeting**

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

### **Auditors**

PKF Littlejohn LLP has signified its willingness to continue in office as auditors.

### **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.

By order of the Board



J.A.S. Wash  
Managing Director  
15 March 2016

## 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 2015 as set out on pages 12 to 34. 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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

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, 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 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 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 impact for our report.

### **Opinion on Syndicate Annual Financial Statements**

In our opinion the Annual Financial Statements:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### **Opinion on other matters 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 and Strategic 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 Financial Statements 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 Littlejohn LLP, Statutory Auditor  
London  
15 March 2016

**Statement of Comprehensive Income**

For the year ended 31 December 2015

**Technical account – General business**

	Note	2015 £000	2014 £000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	91,916	59,680
Outward reinsurance premiums		<u>(18,929)</u>	<u>(10,637)</u>
Net premiums written		72,987	49,043
<b>Change in the gross provision for unearned premiums</b>			
Gross amount		(12,251)	(18,566)
Reinsurers' share		<u>2,697</u>	<u>2,500</u>
Change in the net provision for unearned premiums		(9,554)	(16,066)
<b>Earned premiums, net of reinsurance</b>		63,433	32,977
<b>Allocated investment return transferred from the non-technical account</b>		22	3
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(8,020)	(6,562)
Reinsurers' share		<u>648</u>	<u>712</u>
Net claims paid		(7,372)	(5,850)
<b>Change in the provision for claims</b>			
Gross amount		(33,248)	(17,925)
Reinsurers' share		<u>3,705</u>	<u>1,405</u>
Change in the net provision for claims		(29,543)	(16,520)
<b>Claims incurred, net of reinsurance</b>	4	(36,915)	(22,370)
<b>Net operating expenses</b>	5	<u>(25,937)</u>	<u>(13,706)</u>
<b>Balance on the technical account for general business</b>		<u>603</u>	<u>(3,096)</u>

All the amounts above are in respect of continuing operations.

## Statement of Comprehensive Income and Statement of Changes in Members Balances

For the year ended 31 December 2015

### Non-technical account

	Note	2015 £000	2014 £000
<b>Balance on the technical account for general business</b>		603	(3,096)
Investment income	9	22	3
Allocated investment return transferred to the technical account		(22)	(3)
Other charges – loss on exchange		<u>(177)</u>	<u>(34)</u>
<b>Profit/(loss) for the financial year</b>		<u>426</u>	<u>(3,130)</u>

There was no other comprehensive income.

### Statement of changes in members balances

	2015 £000	2014 £000
Balance due from members at 1 January	(3,791)	-
Profit / (loss) for the financial year	426	(3,130)
Non standard personal expenses paid on behalf of members	(684)	(661)
Exchange differences	<u>(2)</u>	<u>-</u>
Balance due from members at 31 December	<u>(4,051)</u>	<u>(3,791)</u>

**Statement of Financial Position**

As at 31 December 2015

ASSETS	Note	2015 £000	2014 £000
<b>Investments</b>			
Financial investments	10	47,131	17,971
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	17	5,508	2,649
Claims outstanding	17	5,291	1,448
		<u>10,799</u>	<u>4,097</u>
<b>Debtors due within one year</b>			
Debtors arising out of direct insurance operations – intermediaries	12	8,889	19,160
Debtors arising out of reinsurance operations	13	19,802	-
Other debtors	14	51	-
		<u>28,742</u>	<u>19,160</u>
<b>Other assets</b>			
Cash at bank and in hand		2,771	112
Other assets	11	1,087	477
		<u>3,858</u>	<u>589</u>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	18	8,964	5,423
Other prepayments & accrued income		92	123
		<u>9,056</u>	<u>5,546</u>
<b>TOTAL ASSETS</b>		<u>99,586</u>	<u>47,363</u>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Members' balances		(4,051)	(3,791)
<b>Technical provisions</b>			
Provision for unearned premiums	17	32,352	19,336
Claims outstanding	17	53,254	18,715
		<u>85,606</u>	<u>38,051</u>
<b>Creditors due within one year</b>			
Creditors arising out of direct insurance operations – intermediaries	15	1,883	2,100
Creditors arising out of reinsurance operations	16	3,972	-
Other creditors		11,511	10,646
		<u>17,366</u>	<u>12,746</u>
<b>Accruals and deferred income</b>		<u>665</u>	<u>357</u>
<b>TOTAL LIABILITIES</b>		<u>99,586</u>	<u>47,363</u>

The annual accounts on pages 12 to 34 were approved by the Board of Pembroke Managing Agency Limited on 15 March 2016 and were signed on its behalf by:



I.R. Garven  
Finance Director  
15 March 2016

## Statement of Cash Flows

For the year ended 31 December 2015

	2015 £000	2014 £000
<b>Cash flow from operating activities</b>		
Operating result	426	(3,130)
<i>Adjustments:</i>		
Increase in gross technical provisions	47,556	38,050
Increase in reinsurers' share of gross technical provisions	(6,702)	(4,097)
Increase in debtors	(9,582)	(19,160)
Increase in creditors	4,620	12,745
Movement in other assets and liabilities	(3,203)	(5,187)
Investment return	(22)	(3)
<b>Net cash inflow from operating activities</b>	33,093	19,218
<b>Cash flows from investing activities</b>		
Purchase of equity and debt instruments	(29,771)	(18,448)
Investment income received	22	3
<b>Net cash outflow from investing activities</b>	(29,749)	(18,445)
<b>Cash flows from financing activities</b>		
Other	(685)	(661)
<b>Net cash outflow from financing activities</b>	(685)	(661)
<b>Net increase in cash and cash equivalents</b>	2,659	112
<b>Cash and cash equivalents at 1 January</b>	112	-
<b>Cash and cash equivalents at 31 December</b>	2,771	112



## Notes to the Annual Report

At 31 December 2015

### 1. Statement of Accounting policies

#### General information

Underwriting capacity is provided through a combination of Names and Trade Capital that are members of the Society of Lloyd's that underwrite insurance business in the London market.

#### 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

These financial Statements for the year-ended 31 December 2015 are the first financial statements that comply with FRS 102 and 103. The date of transition to these standards was 1 January 2014 and the comparative figures have been restated accordingly. The transition has resulted in a small number of changes in accounting policies to those used previously. The nature of these changes and their impact on the opening statement of financial position and result for the comparative period are explained below and in the notes, particularly note 20.

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 functional currency. 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 Strategic Report. In addition the risk management section of the Managing Agents 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 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 22) to continue in operational existence for the foreseeable future.

#### 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.

## Notes to the Annual Report

At 31 December 2015

### 1. Statement of Accounting policies (continued)

#### Use of judgements and estimates (continued)

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

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.

#### 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.

##### *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.

## Notes to the Annual Report

At 31 December 2015

### 1. Statement of Accounting policies (continued)

#### Basis of accounting (continued)

##### *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.

## Notes to the Annual Report

At 31 December 2015

### 1. Statement of Accounting policies (continued)

#### Basis of accounting (continued)

##### *Foreign currencies*

The Syndicate's functional and presentation 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 statement of comprehensive income 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:

	<i>31 December</i> <i>2015</i>	<i>31 December</i> <i>2014</i>
US Dollar	1,483	1,553
Canadian Dollar	2,056	1,806
Euros	1,357	1,278
Australian dollar	2,034	1,904

##### *Investments*

Investments are stated at fair value at the balance sheet date. For this purpose deposits with credit institutions and overseas deposits are stated at amortised 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 are held to support underwriting liabilities.

##### *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.

## Notes to the Annual Report

At 31 December 2015

### 1. Statement of Accounting policies (continued)

#### Basis of accounting (continued)

##### *Profit commission*

Profit commission due from the Syndicate to the Managing Agent is not payable until after the appropriate year of account closes – typically at 36 months. An accrual is calculated and recognised in the financial statements based on the cumulative earned underwriting results of each year of account.

Profit commission payable to Lloyd's coverholders 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

### 2. Risk management

#### Risk framework

The primary objective of the Syndicate's risk and financial management framework is to protect the Syndicate's 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.

## Notes to the Annual Report

At 31 December 2015

### 2. Risk management (continued)

#### Insurance risk - Underwriting (continued)

##### *Underwriting Committee*

The 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, 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 month durations. 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.

##### *Claims management*

Strict claim review policies to assess all new and ongoing 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 against the Economic Capital Assessment (ECA) of Realistic Disaster Scenarios estimated during 2015.

Realistic Disaster Scenarios	Gross Event	Gross Event	Net Event	Net Event
	Loss £000	Loss % of ECA	Loss £000	Loss % of ECA
California Earthquake – Los Angeles	41,284	34%	15,974	13%
Gulf of Mexico Windstorm	41,783	35%	5,342	4%
Two Events – North East Windstorm	40,835	34%	4,947	4%

#### 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.

## Notes to the Annual Report

At 31 December 2015

### 2. Risk management (continued)

#### Insurance risk – Reserving (continued)

##### *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.

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 Solvency Capital Requirement, known as the Economic Capital Loading to derive the Syndicate's final 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.

## Notes to the Annual Report

### At 31 December 2015

#### 2. Risk management (continued)

##### 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.

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2015 by classifying assets according to Standard & Poor's credit ratings of the counterparties for assets not yet due. 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 2015	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Variable yield securities	-	7,098	40,033	-	-	47,131
Overseas deposits	-	1,087	-	-	-	1,087
Reinsurers share of outstanding claims	-	834	4,457	-	-	5,291
Reinsurance debtors	-	-	1,042	-	-	1,042
Cash at bank and in hand	-	2,771	-	-	-	2,771
<b>Total</b>	-	<b>11,790</b>	<b>45,532</b>	-	-	<b>57,322</b>

As at 31 December 2014	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Variable yield securities	-	4,368	13,603	-	-	17,971
Overseas deposits	-	477	-	-	-	477
Reinsurers share of outstanding claims	-	-	1,448	-	-	1,448
Reinsurance debtors	-	-	-	-	-	-
Cash at bank and in hand	-	112	-	-	-	112
<b>Total</b>	-	<b>4,957</b>	<b>15,051</b>	-	-	<b>20,008</b>

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 2015

### 2. Risk management (continued)

#### Credit Risk (continued)

The tables below show 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 2015	Not yet due	Past due Up to 3 months	Past due three to six months	Past due six to twelve months	Greater than one year	Total
	£000	£000	£000	£000	£000	£000
Variable yield securities	47,131	-	-	-	-	47,131
Overseas deposits	1,087	-	-	-	-	1,087
Reinsurers share of outstanding claims	5,291	-	-	-	-	5,291
Reinsurance debtors	1,042	1	1	4	1	1,049
Cash at bank and in hand	2,771	-	-	-	-	2,771
Insurance debtors	26,760	235	364	262	21	27,642
Other debtors	51	-	-	-	-	51
<b>Total</b>	<b>84,133</b>	<b>236</b>	<b>365</b>	<b>266</b>	<b>22</b>	<b>85,022</b>

As at the balance sheet date, all financial assets of the Syndicate are unimpaired (2014: nil).

As at 31 December 2014	Not yet due	Past due by three months	Past due three to six months	Past due over six months	Greater than one year	Total
	£000	£000	£000	£000	£000	£000
Variable yield securities	17,971	-	-	-	-	17,971
Overseas deposits	477	-	-	-	-	477
Reinsurers share of outstanding claims	1,448	-	-	-	-	1,448
Reinsurance debtors	-	-	-	-	-	-
Cash at bank and in hand	112	-	-	-	-	112
Insurance debtors	17,264	902	181	813	-	19,160
Other debtors	-	-	-	-	-	-
<b>Total</b>	<b>37,272</b>	<b>902</b>	<b>181</b>	<b>813</b>	<b>-</b>	<b>39,168</b>

#### 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 procedures designed to ensure that cash is available to settle liabilities and other obligations when due without excessive cost to the business.

The procedures set limits for cash required to meet expected cash flows. Contingency arrangements exist to meet liquidity requirements in extreme circumstances.

## Notes to the Annual Report

At 31 December 2015

### 2. Risk management (continued)

#### Market risk – currency risk

The Syndicate writes a significant proportion of insurance business in currencies other than sterling, which creates exposure to currency risk. The Syndicate seeks to manage this exposure by matching foreign currency assets and liabilities.

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 2015	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	Total £000
Financial investments	-	40,222	-	6,909	-	47,131
Reinsurers' share of technical provisions	1,413	8,033	480	483	390	10,799
Insurance assets	2,143	22,630	1,801	1,564	553	28,691
Cash and overseas deposits	1,751	224	649	766	468	3,858
Other assets	2,701	4,670	742	559	435	9,107
<b>Total assets</b>	<b>8,008</b>	<b>75,779</b>	<b>3,672</b>	<b>10,281</b>	<b>1,846</b>	<b>99,586</b>
Technical provisions	(7,184)	(67,447)	(3,597)	(5,703)	(1,675)	(85,606)
Insurance liabilities	(322)	(5,261)	(42)	(230)	-	(5,855)
Other creditors	(8,131)	(4,051)	2	4	-	(12,176)
<b>Total liabilities</b>	<b>(15,637)</b>	<b>(76,759)</b>	<b>(3,637)</b>	<b>(5,929)</b>	<b>(1,675)</b>	<b>(103,637)</b>
<b>Currency surplus / (deficiency)</b>	<b>(7,629)</b>	<b>(980)</b>	<b>35</b>	<b>4,352</b>	<b>171</b>	<b>(4,051)</b>
As at 31 December 2014	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	Total £000
Financial investments	-	13,662	-	4,309	-	17,971
Reinsurers' share of technical provisions	1,045	3,290	-	(238)	-	4,097
Insurance assets	7,518	10,923	-	719	-	19,160
Cash and overseas deposits	113	-	-	476	-	589
Other assets	3,184	2,230	-	132	-	5,546
<b>Total assets</b>	<b>11,860</b>	<b>30,105</b>	<b>-</b>	<b>5,398</b>	<b>-</b>	<b>47,363</b>
Technical provisions	(9,156)	(26,295)	-	(2,600)	-	(38,051)
Insurance liabilities	(142)	(1,938)	-	(20)	-	(2,100)
Other creditors	(8,456)	(2,547)	-	-	-	(11,003)
<b>Total liabilities</b>	<b>(17,754)</b>	<b>(30,780)</b>	<b>-</b>	<b>(2,620)</b>	<b>-</b>	<b>(51,154)</b>
<b>Currency surplus / (deficiency)</b>	<b>(5,894)</b>	<b>(675)</b>	<b>-</b>	<b>2,778</b>	<b>-</b>	<b>(3,791)</b>

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, Canadian Dollar, Australian Dollar and Euro simultaneously.

	2015 £000	2014 £000
<i>Sterling weakens</i>		
10% against other currencies	398	234
20% against other currencies	895	526
<i>Sterling strengthens</i>		
10% against other currencies	(325)	(191)
20% against other currencies	(596)	(350)

## Notes to the Annual Report

At 31 December 2015

### 2. Risk management (continued)

#### Market risk – Interest rate risk

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 all investments are in cash or cash equivalents and insurance liabilities are not discounted. Therefore the Syndicate is not currently exposed to interest rate risk.

### 3. Business analysis

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

2015	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
<b>Direct insurance:</b>						
Accident & Health	258	338	(138)	(105)	18	113
Marine aviation and transport	5,241	3,682	(2,477)	(1,186)	(378)	(359)
Fire and other damage to property	6,404	2,264	(990)	(754)	(1,008)	(488)
Third party liability	13,550	5,647	(4,822)	(1,889)	(211)	(1,275)
Miscellaneous	4,116	2,527	(1,560)	(820)	(285)	(138)
	<u>29,569</u>	<u>14,458</u>	<u>(9,987)</u>	<u>(4,754)</u>	<u>(1,864)</u>	<u>(2,147)</u>
<b>Reinsurance</b>	<u>62,347</u>	<u>65,207</u>	<u>(31,281)</u>	<u>(21,183)</u>	<u>(10,015)</u>	<u>2,728</u>
<b>Total</b>	<u>91,916</u>	<u>79,665</u>	<u>(41,268)</u>	<u>(25,937)</u>	<u>(11,879)</u>	<u>581</u>

2014	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
<b>Direct insurance:</b>						
Accident & Health	557	244	(229)	(128)	(28)	(141)
Marine aviation and transport	1,218	225	(500)	(280)	(1)	(556)
Fire and other damage to property	14	9	(6)	(3)	(2)	(2)
Third party liability	65	15	(27)	(15)	(1)	(28)
Miscellaneous	1,089	434	(446)	(250)	(47)	(309)
	<u>2,943</u>	<u>927</u>	<u>(1,208)</u>	<u>(676)</u>	<u>(79)</u>	<u>(1,036)</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>
<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>

## Notes to the Annual Report

At 31 December 2015

### 3. Business analysis (continued)

Commissions on direct insurance gross premiums during 2015 were £7.2m (2014: £0.5m).

All premiums were concluded in the UK.

The above analysis is considered by the directors of PMA to provide a better analysis of the performance and risks relating to the business underwritten than analysis by location or currency. As a result the management of the Syndicate is measured and monitored in detail on the basis of classes of risk and therefore other analysis of the business is not provided.

The geographical analysis of gross premiums written by destination:

	2015 £000	2014 £000
UK	11,888	11,877
Other EU countries	4,233	448
US	62,119	40,436
Other	13,676	6,919
Total	<u>91,916</u>	<u>59,680</u>

### 4. Claims incurred, net of reinsurance

#### *Prior year reserve development*

The movement in the net provision for claims includes favourable prior year development of £4.8m (2014: nil). Prior year claims development is analysis by line of business in the table below.

	2015 £000	2014 £000
Accident & Health	83	-
Marine aviation and transport	(7)	-
Fire and other damage to property	39	-
Third party liability	-	-
Miscellaneous	40	-
Reinsurance	4,642	-
Favourable/(adverse) development	<u>4,797</u>	<u>-</u>

## Notes to the Annual Report

At 31 December 2015

### 4. Claims incurred, net of reinsurance (continued)

#### *Gross claims development*

Pure underwriting year	2014 £000	2015 £000	Total £000
<i>Estimate of gross claims</i>			
At the end of the underwriting year	26,419	34,737	
One year later	33,941		
Less: gross claims paid	(12,245)	(3,179)	
Gross claims reserves	21,696	31,558	53,254

#### *Net claims development*

Pure underwriting year	2014 £000	2015 £000	Total £000
<i>Estimate of net claims</i>			
At the end of the underwriting year	24,114	31,005	
One year later	30,933		
Less: net claims paid	(11,017)	(2,958)	
Net claims reserves	19,916	28,047	47,963

### 5. Net operating expenses

	2015 £000	2014 £000
Acquisition costs	(22,959)	(14,711)
Change in deferred acquisition costs	3,389	5,211
Administrative expenses	(6,367)	(4,206)
	<u>(25,937)</u>	<u>(13,706)</u>

### 6. Auditors' Remuneration

	2015 £000	2014 £000
Fees payable to the Syndicate's Auditors for:		
Audit of the Syndicate annual accounts	19	14
Other services pursuant to regulations and Lloyd's byelaws	33	21
	<u>52</u>	<u>35</u>

## Notes to the Annual Report

At 31 December 2015

### 7. 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>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	5,442	3,415
Social security costs	766	463
Other pension costs	380	164
Other	759	56
	<u>7,347</u>	<u>4,098</u>

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

	<b>2015</b>	<b>2014</b>
	<b>Number</b>	<b>Number</b>
Administration and finance	19	16
Underwriting	23	21
Claims	12	9
Compliance	14	12
Other	3	2
	<u>71</u>	<u>60</u>

### 8. 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>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Emoluments	437	1,476
Pension contributions	54	64
	<u>491</u>	<u>1,540</u>

No other director related compensation or amounts considered to represent key management personal compensation were charged to the Syndicate.

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

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Emoluments	358	609
Pension contributions	-	-
	<u>358</u>	<u>609</u>

## Notes to the Annual Report

### At 31 December 2015

#### 9. Investment return

	2015 £000	2014 £000
Investment income:		
Interest income	22	3
Total investment return transferred to the technical account	<u>22</u>	<u>3</u>

#### 10. Financial Investments

	2015 Market Value £000	2015 Cost £000	2014 Market Value £000	2014 Cost £000
Variable yield securities	<u>47,131</u>	<u>47,131</u>	<u>17,971</u>	<u>17,971</u>

The Syndicate classifies its financial instruments held at fair value in the balance sheet using a fair value hierarchy, as follows:

- Level 1 – Quoted process (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Process based on recent transactions in identical assets (either unadjusted or adjusted)
- Level 3 – Prices determined using a valuation technique

2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities	47,131	-	-	47,131
Loans and deposits with credit institutions	1,087	-	-	1,087
<b>Total</b>	<b>48,218</b>	<b>-</b>	<b>-</b>	<b>48,218</b>

2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities	17,971	-	-	17,971
Loans and deposits with credit institutions	477	-	-	477
<b>Total</b>	<b>18,448</b>	<b>-</b>	<b>-</b>	<b>18,448</b>

#### 11. Other assets

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

#### 12. Debtors arising out of direct insurance operations

	2015 £000	2014 £000
<i>Amounts due from intermediaries:</i>		
Due within one year	8,889	19,160
Due after one year	-	-
	<u>8,889</u>	<u>19,160</u>

## Notes to the Annual Report

At 31 December 2015

### 13. Debtors arising out of reinsurance insurance operations

	2015 £000	2014 £000
Due from ceding insurers and intermediaries under reinsurance business	18,752	-
Due from reinsurers and intermediaries under reinsurance contracts ceded	1,050	-
	<hr/> 19,802	<hr/> -

### 14. Other debtors

	2015 £000	2014 £000
Consortium fees receivable	51	-
	<hr/> 51	<hr/> -

### 15. Creditors arising out of direct insurance operations

	2015 £000	2014 £000
<i>Amounts due to intermediaries:</i>		
Due within one year	1,883	2,100
Due after one year	-	-
	<hr/> 1,883	<hr/> 2,100

### 16. Creditors arising out of reinsurance insurance operations

	2015 £000	2014 £000
Due within one year	3,972	-
Due after one year	-	-
	<hr/> 3,972	<hr/> -



## Notes to the Annual Report

### At 31 December 2015

#### 17. Technical provisions

	2015			2014		
	Gross £000	RI £000	Net £000	Gross £000	RI £000	Net £000
<i>Incurred claims outstanding:</i>						
Claims notified	4,511	(398)	4,113	-	-	-
Claims incurred but not reported	14,204	(1,050)	13,154	-	-	-
Balance at 1 January	18,715	(1,448)	17,267	-	-	-
Change in prior year provisions	(6,898)	2,101	(4,797)	-	-	-
Expected cost of current year claims	48,166	(6,454)	41,712	24,487	(2,117)	22,370
Claims paid during the year	(8,020)	648	(7,372)	(6,562)	712	(5,850)
Effect of exchange rates	1,291	(138)	1,153	790	(43)	747
Balance at 31 December	53,254	(5,291)	47,963	18,715	(1,448)	17,267
Claims notified	7,696	(412)	7,284	4,511	(398)	4,113
Claims incurred but not reported	45,558	(4,879)	40,679	14,204	(1,050)	13,154
Balance at 31 December	53,254	(5,291)	47,963	18,715	(1,448)	17,267
<i>Unearned premiums</i>						
Balance at 1 January	19,336	(2,649)	16,687	-	-	-
Premiums written during the year	91,916	(18,929)	72,987	59,680	(10,637)	49,043
Premiums earned during the year	(79,665)	16,232	(63,433)	(41,113)	8,136	(32,977)
Effect of exchange rates	765	(162)	603	769	(148)	621
Balance at 31 December	32,352	(5,508)	26,844	19,336	(2,649)	16,687

#### 18. Deferred acquisition costs

	2015 £000	2014 £000
Balance at 1 January	5,423	-
Incurred costs deferred	3,390	5,211
Effect of exchange rates	151	212
	8,964	5,423

#### 19. Cash and cash equivalents

	2015 £000	2014 £000
Cash at bank and in hand	2,771	112

## Notes to the Annual Report

At 31 December 2015

### 20. Explanation of the transition to FRS 102

*Reconciliation of profit and equity from old UK GAAP to FRS 102*

	£000
Opening members' balances at 1 January 2014 effect	-
Result for the year ended 31 December 2014 decreased	(34)
Statement of total recognised gains and losses 31 December 2014 increased	34
	<hr/>
Closing members' balances at 31 December 2014 effect	-
	<hr/> <hr/>

### 21. 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, a company that is a subsidiary within the Ironshore Inc Group. During the financial year the Syndicate incurred managing agency fees of £0.8m (2014: £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 £9.4m (2014: £5.7m). At the end of the year £2.8m remains outstanding (2014: £2.1m).

#### *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 2015 was £8.7m (2014: £8.5m). Interest on amounts outstanding charged to the Syndicate in the financial year totalled £0.2m (2014: £0.1m).

#### *Experience Account*

The Special Purpose Syndicate 6110, from which the Syndicate has its origins, has signed a reinsurance to close on the 2013 year of account with Syndicate 4000's 2014 year of account. An experience account reinsurance agreement has been signed on this business between the Syndicate and Syndicate 4000 so that any development accrues to the 2014 year of account of the Syndicate.

#### *Inwards reinsurance contracts*

Inwards reinsurance premiums from Syndicate 4000 totalled £2.4m for the financial year (2014: £7.2m). As at 31 December 2015 net technical provisions in respect of this business totalled £3.5m (2014: £4.2m). All contracts were concluded on commercial terms.

## Notes to the Annual Report

At 31 December 2015

### 22. 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 15 March 2016 by the managing agent.

This report is made solely to the addressees in accordance with Market Bulletin ref: Y4955 dated 22 December 2015 entitled "2015 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 15 March 2016 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 17 February 2016 on the 2015 Calendar year information in the Annual Return.

### OPINION

In our opinion:

- a) the statement dated 15 March 2016 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*

PKF Littlejohn LLP  
Registered Auditor  
London  
15 March 2016

Appendix 4 (including restatement of 2014)

**SYNDICATE ANNUAL ACCOUNTS AND LLOYD'S ANNUAL RETURN  
31 DECEMBER 2015**

Syndicate No: 2014

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

In accordance with Market Bulletin Y4955 dated 22 December 2015, "2015 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 18 FEBRUARY 2016 agree with those for the 2015 profit and loss account, balance sheet, and related notes of the syndicate annual accounts as at 31 December 2015. Furthermore, the restated 2014 comparative figures in column C of QMA190 and QMA290 of the Annual Return agree with those for the restated 2014 profit and loss account and balance sheet in the syndicate annual accounts as at 31 December 2015.

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"/>
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 WASH (BLOCK CAPITALS)

On behalf of PEMBROKE Managing Agent

Date 15 MARCH 2016.

**SYNDICATE ANNUAL ACCOUNTS AND SYNDICATE UNDERWRITING YEAR  
ACCOUNTS  
31 DECEMBER 2015**

Syndicate No. 2014...

Managing Agent: PERNDORF MANAGING AGENCY...

In respect of the above syndicate:

I confirm that the version of the 31 December 2015 syndicate annual accounts submitted to Lloyd's in electronic PDF file format, via the Lloyd's Market Returns Website on or before 22 March 2016, is identical to the hardcopy signed version of the syndicate annual accounts submitted to Lloyd's Market Finance Department on or before 15 March 2016.

and either:

\*I confirm that the version of the 31 December 2015 syndicate underwriting year accounts submitted to Lloyd's in electronic PDF file format, via the Lloyd's Market Returns Website on or before 22 March 2016, is identical to the hardcopy signed version of the syndicate underwriting year accounts submitted to Lloyd's Market Finance Department on or before 22 March 2016.

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 GARVEN.....

(Block capitals)

Date .....15 MARCH 2016.....

\*Delete as appropriate

This form is to be signed and dated by a Director or compliance officer and returned to Nadia Yakoob, Market Finance, 1986 Building/G5, 1 Lime Street, London, EC3M 7HA, by Tuesday 22 March 2016.