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Syndicate 4000

Annual Report

Year ended
31 December 2016

Contents

Directors and Advisers

Managing agent

Registered office

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

Registered number

5832065

Directors

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

Company secretary

N.G. Hardman Bbus CPA

Syndicate

Active Underwriter

T.A.B.H. Glover, ACII

Bankers

Citibank N.A.
HSBC
Lloyd’s
Royal Bank of Canada

Investment Managers

Conning Asset Management Limited

Auditors

Ernst & Young LLP

Managing Agent's Report

The Directors of Pembroke Managing Agency Limited ('PMA') present the Managing Agent's Report for Syndicate 4000 (the 'Syndicate') for the year ended 31 December 2016.

Principal activity

The principal activity of the Syndicate continues to be the underwriting of general insurance and reinsurance business at Lloyd's.

The Syndicate's allocated capacity for the 2016 year of account was £285m (2015: £270m). The capacity for the 2017 year of account is £360m.

Management of the Syndicate

The Syndicate commenced trading during the final quarter of 2004. PMA was established in 2007 to take over the management of the Syndicate from Chaucer Syndicates Limited and to enable the capital base to be diversified. During 2008, the agency group was acquired by Ironshore Inc. In the transaction Chaucer Holdings PLC elected to retain the management and capital provision for the 2008 and prior underwriting years of account. PMA manages the 2009 and subsequent years of account.

Capital to support the underwriting of the Syndicate is provided by Ironshore Corporate Capital Limited, which is part of the 'Ironshore'group of companies.

Ironshore is a Bermudian based insurer with shareholders' funds of $2.1bn (2015: $2.0bn). It provides broker-sourced specialty commercial property and casualty coverage for varying risks on a global basis through its platforms in Bermuda, Canada, Ireland, the U.S., Australia, Singapore, Dubai, Continental Europe and this Syndicate. The Ironshore group of companies is rated Au by A.M. Best with a Financial Size Category of Class XIV.

PMA also manages Syndicate 2014 and Syndicate 6125. Capital to support the underwriting of these syndicates is provided by third parties that are unrelated to Ironshore. Transactions between these syndicates and entities within the Ironshore group are conducted on a commercial basis, at arm's length.

Ironshore is a wholly owned subsidiary of Fosun International Limited ('Fosun'), an international conglomerate and investment company. Fosun is incorporated in Hong Kong and headquartered in Shanghai. Fosun is registered on the main board of the Hong Kong stock exchange.

On 5 December 2016, Fosun announced that it had entered into a definitive agreement with Liberty Mutual Group ('Liberty') to divest of its interest in Ironshore. Liberty is a mutual insurer and reinsurer that operates on a global basis. At the date of this Annual Report, the completion of the transaction remains subject to regulatory approval. The Directors of PMA do not anticipate that the acquisition of Ironshore by Liberty will have a significant impact on the future trading prospects of the Syndicate.

Business of the Syndicate

The Syndicate continues to be a leading provider of specialist commercial insurance and reinsurance products, through its operating divisions: Liability, Marine, Specialty Short Tail, Property and Personal Accident. The portfolio is built around business which has a high technical barrier to entry. The underwriting selection process is supported by robust rating models to determine rate adequacy.

During the 2016 financial year gross written premium by operating division was as follows:

	2016 £000	2015 £000
Liability	159,554	95,226
Marine	81,161	70,354
Specialty Short Tail	50,123	23,571
Property	30,537	30,785
Personal Accident	43,590	21,828
Total	364,965	241,764

Managing Agent's Report (continued)

Business of the Syndicate - Liability Division

Professional Lines

The portfolio is extremely diverse and is intentionally designed to minimise economic correlation with the Financial Institutions business. To that end, professions that are involved in the valuation or sale of 'asset class' products are avoided. The business is built upon Professional Indemnity, Directors' & Officers' liability and Medical Malpractice products.

Mergers & Acquisition

Mergers & Acquisition insurance is an area of the Syndicate's existing book of business that is targeted for future growth. The Syndicate seeks to exploit the high technical barriers to entry in this class and continue to further develop its reputation as a lead market, through its technically strong and experienced underwriting teams.

The Syndicate offers warranties and indemnities for parties to mergers & acquisitions, as well as tax specific covers. The book is geographically diversified, with the majority of business emanating from the UK, Western Europe, Australia and the US. Further geographical diversification is anticipated in 2017.

Financial Institutions

Business is written across a broad range of financial institutions. In response to the economic environment we continue to reduce the Syndicate's exposure to US and Eurozone domiciled accounts. We also actively seek institutional facing business rather than retail exposure. The three main product lines transacted are Crime, Professional Indemnity and Directors' & Officers' liability insurance.

Business of the Syndicate - Marine Division

War & Terrorism

Typical policies provide protection against damage to commercial and residential property due to war, terrorism, strikes and riots. There is also cover relating to business interruption arising from the stated perils. Additionally some aviation and marine war contracts have been written. Business is written on a worldwide basis.

High Value Cargo

This portfolio contains a wide variety of business which includes items such as classic cars, fine art collections and private jewellery, along with general specie including diamond mine theft risk and jewellers block. There are also some more unusual risks covered such as motorsport on-track damage and off-track storage transit paddock risk. A small amount of cash in transit business is also written. Typically this book is written with lead positions.

Cargo

This is a more traditional cargo book and covers more standard risks including retail and wholesale stock in stores, warehouses and at distribution centres. Additionally there is a small amount of retail exposure. A significant proportion of premium written in this class is written through binders.

Marine Re

The entire class is comprised of a single binding authority issued to Ironshore Insurance Services LLC (an Ironshore group company). It underwrites a selection of North American and Caribbean quota share treaty reinsurances. Marine Hull, Liability & Cargo polices are all contained within this class pertaining to a wide range of vessels engaged in both business and leisure activities.

Marine Liability

The book is composed of both traditional Marine Liability and Energy Liability. Marine Liability includes risks for P&I, charterers liability, marine employers liability, ship repairers, port authorities and terminal operators. Energy liability business is predominantly offshore and covers excess liability for oil and gas exploration and production operators, drilling contractors and service contractors.

Managing Agent's Report (continued)

Business of the Syndicate – Specialty Short Tail Division

Political Risks

The book is composed of confiscation, contract frustration and trade credit risks. Business is written on a worldwide basis. The term of contracts varies widely, from 60 days up to 5 years.

Select Specialist Lines

The book represents a small part of the overall Syndicate's income. All business demonstrates strict profit criteria over a period of time. The main areas of business are kidnap and ransom, environmental and casualty, but additional income is sourced from nuclear physical damages and liability exposure and protection and indemnity reinsurance.

Trade Credit

The Syndicate's Trade Credit products are organized around the international and domestic trade flows of our clients. Internationally and domestically domiciled, manufacturing and trading companies and financial institutions benefit from our flexible underwriting guidelines and availability of country and buyer limit capacities.

Agriculture

The Agriculture book is a diversified portfolio of risks, accepted by way of both proportional and non-proportional treaties. Products marketed to clients include; crop, livestock, bloodstock, forestry and aquaculture, covering multi-peril, named peril, and parametric weather. The Syndicate benefits from an experienced team of technically strong underwriters located in the UK, as well as local markets including; the US, Australia, New Zealand and China.

Product Recall

The Product Recall book offers the following types of coverage; contamination, recall expenses and trade name restoration to selected trades. The majority of the portfolio is underwritten from a lead position, with risks being underwritten on a claims made basis, with policies typically covering periods of between 12 and 18 months.

Business of the Syndicate - Property Division

Property

The Property book has international exposures, with both primary and excess layer business being written. The underwriting strategy of the book is to minimise catastrophe exposure. Risks written include construction sites, factories (particularly electronic and food manufacturers) and public buildings.

Property Reinsurance

The Property Reinsurance account relates predominantly to underwriting on behalf of Special Purpose Syndicate 6125, which commenced underwriting for the 2016 year of account. The Syndicate retains 10% of exposures, ceding the remaining 90% to Syndicate 6125. Business is underwritten on a proportional and non-proportional basis, with a broad geographical segmentation of exposures.

Onshore and Offshore Energy

The types of risk written include oil and gas exploration and production including fixed platforms, onshore processing and transmission, cost of well control, hull and machinery insurance for drilling contractors with mobile drilling rigs. This is an international book with a natural bias towards mature oil and gas provinces.

Construction & Engineering

Construction & Engineering is underwritten on a worldwide basis, through coverholder Ironshore Agency Limited's European offices. Construction products include erection risk, including machinery breakdown on an all risk basis. Risks are selected on a project as well as on an annual contract basis.

Managing Agent's Report (continued)

Business of the Syndicate - Personal Accident

The Personal Accident account is written on a worldwide basis with risks placed through a broad range of methods. The account comprises of the following sub-classes; individual and group accidental death and disability, worldwide excess of loss, medical expenses and kidnap and ransom.

Business of the Syndicate – Strategic Partnerships through Special Purpose Arrangements

For the 2016 year of account, PMA entered into a strategic partnership agreement with Patria Re S.A. ('Patria') which resulted in the formation of a Special Purpose Arrangement ('SPA'). The SPA vehicle is Patria Syndicate 6125 which is hosted by Syndicate 4000. Patria Syndicate 6125 is a wholly aligned syndicate, with capital to support underwriting provided by Patria Corporate Member Limited ('PCM'). Patria and PCM are wholly owned subsidiaries of Peña Verde S.A.B. ('Peña Verde). Peña Verde is a Mexican domiciled insurance and reinsurance group with an established presence in Central and South America.

As is the case with all SPAs, Patria Syndicate 6125 sources its underwriting by way of quota share reinsurance cessions from its host, which is Syndicate 4000. In addition to a Property Treaty book of business whereby Syndicate 4000 cedes 90% of the book to Syndicate 6125, Peña Verde and Syndicate 4000 have also entered into an exposure exchange agreement covering a selection of short tail lines of business. These binding commercial arrangements, supported by cooperation agreements, form the foundations of a long term strategic partnership that will enhance and develop the underwriting prospects of both parties. The Directors of PMA are of the view that this approach differentiates the service offering of PMA from other turnkey providers whose focus is solely on income generation at the expense of third party capital providers.

The PMA Strategic Partnership Team is led by PMA Director and Ironshore Financial Institutions Practice Leader Chris Brown. PMA has a proven track record of forming and profitably growing SPAs and standalone syndicates supported by third party capital providers. Formed for the 2012 year of account, Syndicate 6110 was an SPA managed by PMA and hosted by Syndicate 4000. Following a successful start-up phase under the management of PMA, Lloyd's approved the application to create standalone successor, Syndicate 2014, which was formed for the 2014 year of account. It benefited from the continued support of a significant proportion of the capital providers of Syndicate 6110, as well as attracting further investment from trade capital.

Syndicate 6110 operated for the 2012 and 2013 underwriting years of account, both of which closed profitably. Additionally, Syndicate 2014 closed its first underwriting year of account profitably on 31 December 2016.

The forming and profitable growth of further underwriting businesses for third party capital providers, and the development of mutually beneficial commercial relationships through strategic partnerships, is a focus for the future development of the Syndicate.

Review of financial performance

The Syndicate's key financial indicators are as follows:

	2016 £000	2015 £000
Syndicate capacity	285,000	270,000
Gross written premium	364,965	241,764
Profit for the financial year	7,256	14,287
Total comprehensive income	8,663	14,287
Combined ratio	100.1%	94.2%
Investments, cash and deposits	355,743	270,227

Managing Agent's Report (continued)

Review of financial performance (continued)

Gross written premiums

Despite challenging trading conditions which feature rate reductions across the majority of lines of business, the Syndicate reports gross written premiums for the financial year of £365.0m (2015: £241.8m), representing an increase of 51.0% (2015: -3.2%) on the prior year. The appreciation of the US Dollar against Sterling as a result of financial market's reaction to the referendum on UK membership of the EU was a key contributory factor for the increase. The Syndicate concludes 60% (2015: 61%) of gross written premium in US Dollars, and although the functional currency of the Syndicate is also US Dollars, the reporting currency for this Annual Report is Sterling.

In addition to the impact of foreign exchanges rates, the Syndicate continued to develop distribution opportunities as well as recruit talented underwriting teams to support further growth and diversification. During the financial year, Ironshore Agency Limited ('IAL') began to bind risks on behalf of the Syndicate. IAL is incorporated in the UK and has a branch network across continental Europe, with offices in Amsterdam, Cologne and Zurich.

During the financial year the Syndicate acquired underwriting teams to support further growth and diversification. This is reflected in the introduction of several new lines of business for the 2016 year of account which include; Agriculture, Product Recall and Construction & Engineering.

The Syndicate also seeks to exploit opportunities to develop existing lines of business. During the financial year underwriters have been recruited to support the growth of Mergers & Acquisitions business. Mergers & Acquisition insurance has high technical barriers to entry, and the Syndicate's talented team has been strengthened to capitalise on emerging opportunities. The Syndicate has an established reputation as a lead market in this line of business.

Claims incurred

The increase in the net loss ratio of 6.3% to 59.3% (2015: 53.0%) accounts for the increase in the net combined ratio to 100.1% (2015: 94.2%). The net loss ratio increase was a result of risk loss activity, as opposed to attritional or catastrophe loss activity. The only notable catastrophe event to impact the results of the Syndicate during the year was the Fort McMurray Wildfire. Gross and net losses incurred in relation to this event total £4.3m and £2.7m respectively.

The responsiveness of the Syndicate's outward reinsurance arrangements partially mitigated the impact of the risk losses incurred during the financial year.

Assets

Syndicate assets have increased by £207.2m to £735.5m (2015: £528.3m) as a result of growth in gross written premiums and the appreciation in converted Sterling of US Dollar denominated assets, particularly within insurance receivables and financial investments, which was a result of foreign exchange rate movements.

Liabilities

Accordingly the total liabilities of the Syndicate have increased by £203.5m to £745.2m (2015: £541.7m) due to the factors that also impacted the growth in assets. US Dollar denominated liabilities particularly within unearned premium provisions and claims provisions, account for the majority of the increase.

Managing Agent's Report (continued)

Investments

Investment return – investment manager

	2016 £000	2015 £000
Income from investments	4,057	3,682
Realised gains/(losses) on investments	814	(86)
Unrealised gains/(losses) on investments	121	(420)
Total investment return	4,992	3,176

Investment manager's performance compared to benchmark yield by major currency

The investment manager during the year was Conning Asset Management Limited.

	2016 Yield %	2016 Benchmark %	2015 Yield %	2015 Benchmark %
US Dollars	1.90	1.85	1.44	1.33
Sterling	2.17	2.14	n/a	n/a
Canadian Dollars	0.93	0.89	2.63	2.74
Euro	1.65	0.65	n/a	n/a

Future prospects

Trading environment

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

Strategic approach to growth

The Syndicate has a sustained track record of disciplined and profitable growth. Since PMA assumed management of the Syndicate, all underwriting years have closed profitability. At the date of this Annual Report, the open years of account are also anticipated to close profitably. The growth and profitability of the Syndicate through the soft market validates the approach to managing the Syndicate which is characterised by; careful risk selection, opportunistic organic growth of existing lines of business where conditions permit and the carefully managed introduction of new products and high calibre underwriting teams.

The Syndicate plans to achieve further disciplined growth in regional markets through the Ironshore distribution network of coverholders, particularly in Continental Europe through Ironshore Agency Limited.

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

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

The strategy to develop an Ironshore coverholder network in Europe for the benefit of the Syndicate will encounter greater challenge as a result of Brexit. Access to the single market is therefore a priority for the Syndicate as well as the Lloyd's and London Market. The Lloyd's Brexit plan is keenly anticipated, as is its leadership in representing the interests of Lloyd's underwriters both at home and abroad.

Managing Agent's Report (continued)

Solvency II

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

Research and development

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

Staff matters

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

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

Environmental matters

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

Principal 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 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. Additional information relating to these risks is provided in note 2 to the Annual Report.

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.

Managing Agent's Report (continued)

Principal risks and uncertainties (continued)

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.

Credit risk

The key aspect of credit risk is the risk of default by a reinsurer, insurance intermediary or debt holder. 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.

Managing Agent's Report (continued)

Principal risks and uncertainties (continued)

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 or derivative forward contracts.

Interest rate risk

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 2016 and up to the date of this report, were as follows:

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

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

Company secretary

N.G. Hardman Bbus CPA

Annual General Meeting

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

Managing Agent's Report (continued)

Auditors

Ernst & Young 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 Directors' report confirm that, so far as they are individually aware, there is no relevant audit information of which the Syndicate's auditors are unaware and each Director has taken all the steps that he/she ought to have taken as Director to make himself/herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Board approval

Approved by order of the Board of Pembroke Managing Agency Limited

J.A.S. Wash
Managing Director
20 March 2017

T.A.B.H. Glover
Director, Active Underwriter
20 March 2017

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate Annual Accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (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 syndicate accounts; and
- prepare the syndicate 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 4000

We have audited the syndicate annual accounts of syndicate 4000 ('the syndicate') for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Changes in Member's Balances , the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

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

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 14, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

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

Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

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

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

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

Matters on which we are required to report by exception

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

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

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

Statement of Comprehensive Income

For the year ended 31 December 2016

Technical account – General business

	Note	2016 £000	2015 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	364,965	241,764
Outward reinsurance premiums		(59,858)	(50,309)
Net premiums written		305,107	191,455
Change in the provision for unearned premiums			
Gross amount		(44,488)	7,410
Reinsurers' share		2,187	(3,563)
Change in the net provision for unearned premiums	17	(42,301)	3,847
Earned premiums, net of reinsurance		262,806	195,302
Allocated investment return transferred from the non-technical account		5,531	3,381
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(133,788)	(99,496)
Reinsurers' share		54,708	30,817
Net claims paid		(79,080)	(68,679)
Change in the provision for claims			
Gross amount		(83,048)	(26,442)
Reinsurers' share		6,192	(8,380)
Change in the net provision for claims		(76,856)	(34,822)
Claims incurred, net of reinsurance	17	(155,936)	(103,501)
Net operating expenses	5	(107,167)	(80,537)
Balance on the technical account for general business		5,234	14,645

All the amounts above are in respect of continuing operations.

Statement of Comprehensive Income
For the year ended 31 December 2016

Non-technical account

	Note	**2016 £000**	**2015 £000**
Balance on the technical account for general business		5,234	14,645
Investment income	9	4,908	4,068
Realised gains/(losses) on investments	9	814	(86)
Investment expenses and charges	9	(312)	(181)
Unrealised gains/(losses) on investments	9	121	(420)
Allocated investment return transferred to the technical account	9	(5,531)	(3,381)
Exchange gains and losses		2,022	(358)
Profit for the financial year		7,256	14,287
Other comprehensive income - currency translation differences		1,384	-
Other comprehensive income - investment return		23	-
Total comprehensive income for the financial year		8,663	14,287

Statement of Changes in Member's Balances
For the year ended 31 December 2016

	2016 £000	**2015 £000**
Balance due from members at 1 January	(13,444)	(2,133)
Total comprehensive income for the financial year	8,663	14,287
Profit distributed to members – 2013/2012 year of account	(9,164)	(27,659)
Non-standard personal expenses	652	(708)
Unearned profit distributed to members – 2013/2012 year of account	3,603	2,769
Balance due from members at 31 December	(9,690)	(13,444)

Statement of Financial Position

As at 31 December 2016

ASSETS	Note	2016 £000	2015 £000
Investments			
Financial investments	10	291,588	227,135
Reinsurers' share of technical provisions			
Provision for unearned premiums	17	32,213	26,564
Claims outstanding	17	79,768	65,747
		111,981	92,311
Debtors due within one year			
Debtors arising out of direct insurance operations – intermediaries	12	153,166	70,609
Debtors arising out of reinsurance operations	13	29,904	27,924
Other debtors	14	20,421	8,552
		203,491	107,085
Debtors due after one year			
Debtors arising out of direct insurance operations – intermediaries	12	26	2,904
Debtors arising out of reinsurance operations	13	70	90
		96	2,994
Other assets			
Cash at bank and in hand	19	19,098	19,187
Other assets	11	45,057	28,404
		64,155	47,591
Prepayments and accrued income			
Deferred acquisition costs	18	62,758	48,297
Other prepayments & accrued income		1,471	2,873
		64,229	51,170
TOTAL ASSETS		735,540	528,286

Statement of Financial Position
As at 31 December 2016

MEMBER'S BALANCES AND LIABILITIES		2016 £000	2015 £000
Member's balances			
Member's balances		(9,690)	(13,444)
Technical provisions			
Provision for unearned premiums	17	225,118	155,630
Claims outstanding	17	457,606	323,422
		682,724	479,052
Creditors due within one year			
Creditors arising out of direct insurance operations – intermediaries	15	374	46,746
Creditors arising out of reinsurance operations	16	47,772	1,404
Other creditors		8,137	6,207
		56,283	54,357
Creditors due after one year			
Creditors arising out of direct insurance operations – intermediaries	15	-	1,176
Creditors arising out of reinsurance operations	16	-	70
		-	1,246
Accruals and deferred income		6,223	7,075
TOTAL MEMBER'S BALANCES AND LIABILITIES		735,540	528,286

The annual accounts on pages 16 to 41 were approved by the Board of Pembroke Managing Agency Limited on 20 March 2017 and were signed on its behalf by:

I.R. Garven
Finance Director

Statement of Cash Flows
For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Cash flow from operating activities			
Operating result		7,256	14,287
Adjustments:			
Increase in gross technical provisions		203,672	25,384
(Increase)/decrease in reinsurers' share of gross technical provisions		(19,671)	10,080
(Increase)/decrease in debtors		(89,895)	14,582
Increase/(decrease) in creditors		683	(17,163)
Movement in other assets and liabilities		(30,565)	(11,551)
Investment return		(5,531)	(3,381)
Other		1,407	-
Net cash inflow from operating activities		67,356	32,238
Cash flows from investing activities			
Purchase of equity and debt instruments		(168,248)	(84,607)
Sale of equity and debt instruments		154,558	90,432
Investment income received		4,596	1,805
Foreign exchange		(40,320)	(2,216)
Net cash (outflow)/inflow from investing activities		(49,414)	5,414
Cash flows from financing activities			
Profit distributed to members – 2013(2012) year of account		(9,164)	(27,659)
Other		641	2,061
Net cash outflow from financing activities		(8,523)	(25,598)
Net increase in cash and cash equivalents		9,419	12,054
Cash and cash equivalents at 1 January		33,191	21,137
Cash and cash equivalents at 31 December	19	42,610	33,191

Notes to the Annual Report
At 31 December 2016

1. Statement of accounting policies

General information

The Syndicate comprises of a single corporate member of the Society of Lloyd's that underwrites insurance business in the London market. The corporate member is Ironshore Corporate Capital Limited. The registered address of the corporate member and managing agent is Level 3, 8 Fenchurch Place, London, EC3M 4AJ.

Compliance with accounting standards

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

Basis of preparation

The financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value.

The financial statements are presented in Pounds Sterling, which is the Syndicate's reporting currency. For 2016, the Syndicate's functional currency was changed from Pound Sterling to US Dollars, in order to better reflect the underlying business of the Syndicate. However, the Syndicate's reporting currency remains Pounds Sterling in order for the Syndicate Accounts to be consistent with returns provided to Lloyd's. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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

The syndicate has elected to early-apply the March 2016 amendments to FRS 102, Fair value hierarchy disclosures. As a result, the fair value hierarchy disclosures, including comparatives, shown in Note 10 are now prepared on a basis consistent with the measurement of the financial instruments.

Going concern basis

These financial statements are prepared on a going concern basis.

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

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

The Syndicate 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 21) 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 2016

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 on-going basis. Revisions to estimates are recognised prospectively.

Provision for claims outstanding
The measurement of the provision for claims outstanding involves judgments 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, judgment is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

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

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

Basis of accounting

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

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

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

Reinsurance premiums ceded
Outwards reinsurance premiums are accounted for and earned in the same accounting period as the premiums for the related direct or inwards business being reinsured.

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 2016

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.

As at 31 December 2016 and 31 December 2015, the Syndicate did not have an unexpired risk provision.

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

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

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

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

Notes to the Annual Report
At 31 December 2016

1. Statement of accounting policies (continued)

<u>Basis of accounting (continued)</u>

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

	31 December 2016	*31 December 2015*
US Dollar	1.224	1.483
Canadian Dollar	1.656	2.056
Euros	1.171	1.357
Australian Dollar	1.700	2.034

Investments
The Syndicate classifies its financial investments as either financial assets at fair value through profit or loss or available for sale. The Syndicate determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as fair value through profit or loss as the Syndicate's documented investment strategy is to manage financial investments acquired on a fair value basis. The available for sale category is used only in cases when the investments are passively managed.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date the Syndicate commits to purchase or sell the asset. Regular way purchase or sales of financial assets require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Financial assets at fair value through profit and loss has two sub categories namely financial assets held for trading and those designated at fair value through profit and loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit and loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- The assets and liabilities are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value gains and losses are reported in other comprehensive income as a separate component of members' balance until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported through the statement of comprehensive income is transferred to the income statement.

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

Notes to the Annual Report
At 31 December 2016

1. Statement of accounting policies (continued)

Basis of accounting (continued)

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 is gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate are included in the Statement of Financial Position under the heading ‘Members’ balances’.

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

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 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.

Insurance receivables
Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement. Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables
Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Insurance liabilities are derecognised when the obligation under the liability is settled, cancelled or expired.

Notes to the Annual Report
At 31 December 2016

1. Statement of accounting policies (continued)

Basis of accounting (continued)

Derecognition of financial assets
A financial asset or, when applicable, a part of a financial asset is derecognised when:
- The rights to the cash flows from the asset have expired; or
- The Syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the Syndicate's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Syndicate could be required to repay. In that case, the Syndicate also recognises an associated liability.

2. Risk management

Risk framework

The primary objective of the Syndicate's risk and financial management framework is to protect the Syndicate's capital provider Ironshore Corporate Capital Limited, 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 2016

2. Risk management (continued)

Insurance risk – Underwriting (continued)

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

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

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

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

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

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

Realistic Disaster Scenarios	**Gross Event Loss £000**	**Gross Event Loss % of ECA**	**Net Event Loss £000**	**Net Event Loss % of ECA**
California Earthquake – Los Angeles	78,060	30%	15,572	6%
Terrorism – Rockefeller Centre	74,219	29%	11,510	4%
Political Risks – South East Asia/China	25,832	10%	22,966	9%

The table below sets out the concentration of outstanding claim liabilities by type of contract:

	31 December 2016			**31 December 2015**		
	Gross liabilities £'000	**Reinsurance of liabilities £'000**	**Net liabilities £'000**	**Gross liabilities £'000**	**Reinsurance of liabilities £'000**	**Net liabilities £'000**
Direct insurance:						
Accident & Health	17,970	351	17,619	11,831	338	11,493
Marine aviation and transport	16,679	4,675	12,005	14,032	2,464	11,568
Fire and other damage to property	41,421	8,343	33,078	29,444	6,972	22,472
Third party liability	180,676	25,236	155,439	130,070	24,303	105,768
Miscellaneous	46,432	17,762	28,670	30,904	10,713	20,191
	303,178	56,367	246,811	216,281	44,790	171,491
Reinsurance	154,428	23,401	131,027	107,141	20,957	86,184
Total	457,606	79,768	377,838	323,422	65,747	257,675

Notes to the Annual Report
At 31 December 2016

2. Risk management (continued)

Claims management (continued)

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

	31 December 2016			31 December 2016		
	Gross liabilities	Reinsurance of liabilities	Net liabilities	Gross liabilities	Reinsurance of liabilities	Net liabilities
	£'000	£'000	£'000	£'000	£'000	£'000
EU	18,238	3,179	15,059	9,560	1,943	7,616
UK	7,569	1,319	6,250	5,622	1,143	4,479
USA	49,073	8,554	40,519	31,809	6,466	25,343
Other	382,726	66,716	316,010	276,431	56,195	220,236
Total	457,606	79,768	377,838	323,422	65,747	257,675

Insurance risk – Reserving

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

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

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

Impact on profit and members' balance	2016	2015
	£000	£000
Net loss ratio – increase of 5%	(13,140)	(9,765)
Net loss ratio - increase of 10%	(26,281)	(19,530)

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.

Notes to the Annual Report
At 31 December 2016

2. Risk management (continued)

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. Accordingly the capital requirement in respect of the Syndicate is not disclosed in these financial statements.

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 is 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.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

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

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2016 by classifying assets according to Standard & Poor's credit ratings of the counterparties 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.

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2. Risk management (continued)

Credit Risk (continued)

As at 31 December 2016	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Variable yield securities	-	14,271	9,241	-	-	23,512
Debt securities	75,427	81,042	100,949	10,658	-	268,076
Overseas deposits	-	-	45,057	-	-	45,057
Reinsurers share of outstanding claims	-	7,767	67,407	3,768	826	79,768
Reinsurance debtors	-	1,431	20,904	1,090	438	23,863
Cash at bank and in hand	-	9,958	9,140	-	-	19,098
Total	75,427	114,469	252,698	15,516	1,264	459,374

As at 31 December 2015	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Variable yield securities	-	5,363	8,641	-	-	14,004
Debt securities	61,696	86,222	62,565	2,648	-	213,131
Overseas deposits	-	23,905	-	-	-	23,905
Reinsurers share of outstanding claims	-	33,822	31,904	-	21	65,747
Reinsurance debtors	-	21,112	4,942	-	792	26,846
Cash at bank and in hand	-	10,168	6,021	-	2,998	19,187
Total	61,696	180,592	114,073	2,648	3,811	362,820

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.

During the year, no credit exposure limits were exceeded.

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 2016	Not yet due £000	Past due by three months £000	Past due three to six months £000	Past due over six months £000	Greater than one year £000	Total £000
Variable yield securities	23,512	-	-	-	-	23,512
Debt securities	268,076	-	-	-	-	268,076
Overseas deposits	45,057	-	-	-	-	45,057
Reinsurers share of outstanding claims	79,768	-	-	-	-	79,768
Reinsurance debtors	23,863	2,033	367	-	-	26,263
Cash at bank and in hand	19,098	-	-	-	-	19,098
Insurance debtors	62,865	18,035	26,481	32,791	13,020	153,192
Other Debtors	118,387	437	641	794	315	120,574
Total	640,626	20,505	27,489	33,585	13,335	735,540

As at the balance sheet date, all financial assets of the Syndicate are unimpaired (2015: nil).

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2. Risk management (continued)

Credit Risk (continued)

As at 31 December 2015	Not yet due £000	Past due by three months £000	Past due three to six months £000	Past due over six months £000	Greater than one year £000	Total £000
Variable yield securities	14,004	-	-	-	-	14,004
Debt securities	213,131	-	-	-	-	213,131
Overseas deposits	23,905	-	-	-	-	23,905
Reinsurers share of outstanding claims	65,747	-	-	-	-	65,747
Reinsurance debtors	26,846	1,031	87	29	21	28,014
Cash at bank and in hand	19,187	-	-	-	-	19,187
Insurance debtors	67,494	1,551	2,839	954	675	73,513
Other debtors	8,552	-	-	-	-	8,552
Total	438,866	2,582	2,926	983	696	446,053

Liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

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.

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

As at 31 December 2016	Up to one year £000	One to three years £000	Three to five years £000	Greater than five years £000	Total £000
Claims outstanding	188,758	179,761	53,426	35,661	457,606
Creditors	56,283	-	-	-	56,283
Total	245,041	179,761	53,426	35,661	513,889

As at 31 December 2015	Up to one year £000	One to three years £000	Three to five years £000	Greater than five years £000	Total £000
Claims outstanding	131,281	127,777	38,396	25,969	323,423
Creditors	54,357	1,246	-	-	55,603
Total	185,638	129,023	38,396	25,969	379,026

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2. Risk management (continued)

Market risk – Currency risk

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

The Syndicate writes a significant proportion of insurance business in currencies other than Pounds Sterling, which creates an 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 2016	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	Total £000
Financial investments	53,824	168,690	12,839	51,541	4,695	291,589
Reinsurers' share of technical provisions	50,387	54,755	4,032	2,146	661	111,981
Insurance assets	32,270	128,639	5,366	10,745	6,146	183,166
Cash and overseas deposits	31,297	7,841	8,073	12,058	4,885	64,154
Other assets	33,342	42,905	3,183	3,661	1,559	84,650
Total assets	201,120	402,830	33,493	80,151	17,946	735,540
Technical provisions	(194,984)	(373,702)	(31,791)	(65,978)	(16,269)	(682,724)
Insurance liabilities	(10,236)	(30,796)	(3,278)	(3,195)	(641)	(48,146)
Other creditors	(23,081)	9,280	(378)	(125)	(56)	(14,360)
Total liabilities	(228,301)	(395,218)	(35,447)	(69,298)	(16,966)	(745,230)
Currency surplus / (deficiency)	(27,181)	7,612	(1,954)	10,853	980	(9,690)

As at 31 December 2015	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	Total £000
Financial investments	-	187,389	-	39,746	-	227,135
Reinsurers' share of technical provisions	35,407	52,074	174	4,479	177	92,311
Insurance assets	19,389	71,706	850	7,546	2,036	101,527
Cash and overseas deposits	19,242	4,289	4,520	12,052	2,989	43,092
Other assets	37,923	22,192	1,002	2,374	730	64,221
Total assets	111,961	337,650	6,546	66,197	5,932	528,286
Technical provisions	(158,538)	(261,448)	(7,895)	(46,055)	(5,116)	(479,052)
Insurance liabilities	(5,824)	(39,213)	(18)	(4,186)	(155)	(49,396)
Other creditors	(9,625)	(3,563)	(6)	(78)	(10)	(13,282)
Total liabilities	(173,987)	(304,224)	(7,919)	(50,319)	(5,281)	(541,730)
Currency surplus / (deficiency)	(62,026)	33,426	(1,373)	15,878	651	(13,444)

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.

	2016 £000	2015 £000
Sterling weakens		
10% against other currencies	(1,590)	5,398
20% against other currencies	(2,915)	12,146
Sterling strengthens		
10% against other currencies	1,944	(4,417)
20% against other currencies	4,373	(8,097)

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2. Risk management (continued)

Market risk – Interest rates

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to market value interest risk. The Syndicate has no significant concentration of interest rate risk. Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit and members' balance of the effects of changes in interest rates on fixed rate financial assets and variable rate financial assets.

Interest rate risk	**2016 £000**	**2015 £000**
Impact of 50 basis point increase on result	(3,386)	(3,117)
Impact of 50 basis point decrease on result	3,410	3,114
Impact of 50 basis point increase net assets	(3,386)	(3,117)
Impact of 50 basis point decrease net assets	3,410	3,114

3. Segmental analysis

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

2016	**Gross premiums written £'000**	**Gross premiums earned £'000**	**Gross claims incurred £'000**	**Gross operating expenses £'000**	**Reinsurance balance £'000**	**Total £'000**
Direct insurance:						
Accident & Health	22,282	28,938	(13,728)	(14,449)	(1,522)	(761)
Marine aviation and transport	17,539	19,013	(20,256)	(7,369)	7,000	(1,612)
Fire and other damage to property	45,486	40,678	(22,233)	(14,706)	(2,769)	970
Third party liability	141,853	99,756	(61,913)	(38,208)	2,403	2,038
Miscellaneous	44,681	47,026	(31,996)	(15,709)	7,763	7,084
	271,841	235,411	(150,126)	(90,441)	12,875	7,719
Reinsurance	93,124	85,066	(66,710)	(23,479)	(2,893)	(8,015)
Total	364,965	320,477	(216,836)	(113,920)	9,982	(297)

2015	**Gross premiums written £'000**	**Gross premiums earned £'000**	**Gross claims incurred £'000**	**Gross operating expenses £'000**	**Reinsurance balance £'000**	**Total £'000**
Direct insurance:						
Accident & Health	22,056	17,913	(8,247)	(6,167)	(715)	2,784
Marine aviation and transport	19,569	22,811	(8,423)	(7,858)	(3,716)	2,814
Fire and other damage to property	50,050	52,066	(15,395)	(17,961)	(11,125)	7,585
Third party liability	76,421	78,770	(44,748)	(27,187)	(4,279)	2,556
Miscellaneous	51,550	47,965	(27,250)	(16,526)	(2,586)	1,603
	219,646	219,525	(104,063)	(75,699)	(22,421)	17,342
Reinsurance	22,118	29,649	(21,875)	(10,230)	(3,622)	(6,078)
Total	241,764	249,174	(125,938)	(85,929)	(26,043)	11,264

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3. Segmental analysis (continued)

Commissions on direct insurance gross premiums during 2016 were £72.1m (2015: £52.5m).

The reinsurance balance is the aggregate total of all those items in the technical account which relate to outwards reinsurance transactions including items recorded as reinsurance commission and profit participations.

All premiums were concluded in the UK.

The geographical analysis of gross premiums written by destination is as follows:

	2016 £000	2015 £000
UK	117,704	63,617
Other EU countries	56,426	27,931
US	114,886	62,888
Other	75,949	87,328
Total	364,965	241,764

4. Claims incurred, net of reinsurance

Prior year reserve development

In setting claims provisions the Syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

Claims incurred, net of reinsurance, include adverse prior year development of £11.1m (2015: £5.0m). Prior year claims development is analysed by line of business in the table below.

	2016 £000	2015 £000
Accident & Health	706	(514)
Marine aviation and transport	95	2,091
Fire and other damage to property	1,558	4,614
Third party liability	(7,939)	(5,857)
Miscellaneous	337	(1,413)
Reinsurance	(5,876)	(3,956)
Adverse development	(11,119)	(5,035)

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4. Claims incurred, net of reinsurance (continued)

Gross claims development

Pure underwriting year	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
Estimate of gross claims							
At the end of the underwriting year	47,475	53,154	73,788	64,276	62,579	92,752	
One year later	124,285	112,554	196,650	135,683	148,922		
Two years later	122,784	119,290	212,041	162,172			
Three years later	116,981	119,224	219,551				
Four years later	112,523	138,247					
Five years later	112,028						
Less: gross claims paid	(88,003)	(87,284)	(139,912)	(74,059)	(41,379)	(9,158)	
Gross ultimate claims reserve – 2011-2016	24,025	50,963	79,639	88,113	107,543	83,594	433,877
Gross ultimate claims reserve – 2010 & prior							23,729
Gross claims reserves							457,606

Net claims development

Pure underwriting year	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
Estimate of net claims							
At the end of the underwriting year	35,032	34,718	46,821	52,203	52,666	77,187	
One year later	92,972	75,751	127,729	113,998	125,498		
Two years later	97,203	86,872	142,407	123,198			
Three years later	95,849	82,094	142,154				
Four years later	92,566	89,148					
Five years later	92,161						
Less: net claims paid	(71,518)	(51,030)	(78,017)	(53,145)	(29,829)	(7,149)	
Net ultimate claims reserve – 2011-2016	20,643	38,118	64,137	70,053	95,669	70,038	358,658
Net ultimate claims reserve – 2010 & prior							19,180
Net claims reserves							377,838

5. Net operating expenses

	2016 £000	2015 £000
Acquisition costs	(105,232)	(75,455)
Change in deferred acquisition costs	7,595	4,842
Administrative expenses	(16,283)	(15,316)
Gross operating expenses	(113,920)	(85,929)
Reinsurers' commissions	6,753	5,392
Net operating expenses	(107,167)	(80,537)

6. Auditor's Remuneration

	£000	2015 £000
Fees payable to the Syndicate's Auditors for:		
Audit of the Syndicate annual accounts	34	60
Other services pursuant to regulations and Lloyd's byelaws	108	110
Other non-audit services	80	84
	222	254

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

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7. Staff numbers and costs

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

	2016 £000	2015 £000
Wages and salaries	12,203	10,691
Social security costs	1,335	1,682
Other pension costs	668	771
Other	163	1,178
	14,369	14,322

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

	2016 Number	2015 Number
Administration and finance	23	19
Underwriting	85	76
Claims	12	11
Compliance	16	14
Other	4	3
	140	123

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:

	2016 £000	2015 £000
Emoluments	1,213	668
Pension contributions	64	80
	1,277	748

No other director related compensation was charged to the Syndicate.

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

	2016 £000	2015 £000
Emoluments	222	233
Pension contributions	18	27
	240	260

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9. Investment return

	2016 £000	2015 £000
Interest from financial instruments designated as at fair value through profit or loss	3,173	3,682
Interest from available for sale investments	884	-
Interest on cash at bank	100	44
Interest on overseas deposits	751	342
Investment income	4,908	4,068
Other income from investments designated as at fair value through profit or loss:		
Realised gains/(losses)	670	(86)
Unrealised gains/(losses)	121	(420)
	791	(506)
Other income from investments designated as available for sale:		
Realised gains	144	-
Investment management charges	(312)	(181)
Total investment return transferred to the technical account	5,531	3,381

10. Financial Investments

	2016 Market Value £000	2016 Cost £000	2015 Market Value £000	2015 Cost £000
Short term deposits with financial institutions	23,512	23,512	14,004	14,004
Debt Securities and other fixed income securities				
- Designated at fair value through profit or loss	137,622	138,056	213,131	212,946
- Available for sale	130,454	130,431	-	-
	291,588	291,999	227,135	226,950

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10. Financial Investments (continued)

Included in investments are securities of £292m (2015: £227m) which are listed on recognised exchanges.

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

Level 1 - Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 - Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's own models whereby the significant inputs into the assumptions are market observable.

Level 3 - Included in the level 3 category are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, observable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset. These inputs are developed based on the best information available, which might include the Syndicate's own data.

2016	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Short term deposits with financial institutions	23,512	-	-	23,512
Debt securities and other fixed income securities	268,076	-	-	268,076
Total	291,588	-	-	291,588

2015	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Short term deposits with financial institutions	14,004	-	-	14,004
Debt securities and other fixed income securities	213,131	-	-	213,131
Total	227,135	-	-	227,135

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11. Other assets

	2016 £000	2015 £000
Overseas deposits	45,057	23,905
Amounts due from related parties	-	4,499
	45,057	28,404

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

12. Debtors arising out of direct insurance operations

	2016 £000	2015 £000
Amounts due from intermediaries:		
Due within one year	153,166	70,609
Due after one year	26	2,904
	153,192	73,513

13. Debtors arising out of reinsurance insurance operations

	2016 £000	2015 £000
Due within one year	29,904	27,924
Due after one year	70	90
	20,974	28,014

14. Other debtors

	2016 £000	2015 £000
Amounts due from other syndicates	20,421	8,552

15. Creditors arising out of direct insurance operations

	2016 £000	2015 £000
Amounts due to intermediaries:		
Due within one year	374	46,746
Due after one year	-	1,176
	374	47,922

16. Creditors arising out of reinsurance insurance operations

	2016 £000	2015 £000
Due within one year	47,772	1,404
Due after one year	-	70
	47,772	1,474

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17. Technical provisions

		2016			**2015**	
	Gross	**RI**	**Net**	**Gross**	**RI**	**Net**
	£000	£000	£000	£000	£000	£000
Incurred claims outstanding:						
Claims notified	98,248	(28,444)	69,804	90,048	(33,157)	56,891
Claims incurred but not reported	225,174	(37,303)	187,871	203,256	(39,698)	163,558
Balance at 1 January	323,422	(65,747)	257,675	293,304	(72,855)	220,449
Change in prior year provisions	28,060	(16,942)	11,118	8,457	(3,422)	5,035
Expected cost of current year claims	188,776	(43,958)	144,818	117,481	(19,015)	98,466
Claims paid during the year	(133,788)	54,708	(79,080)	(99,496)	30,817	(68,679)
Effect of exchange rates	51,136	(7,829)	43,307	3,676	(1,272)	2,404
Balance as at 31 December	457,606	(79,768)	377,838	323,422	(65,747)	257,675
Claims notified	167,451	(55,427)	112,024	98,248	(28,444)	69,804
Claims incurred but not reported	290,155	(24,341)	265,814	225,174	(37,303)	187,871
Balance as at 31 December	457,606	(79,768)	377,838	323,422	(65,747)	257,675
Unearned premiums						
Balance at 1 January	155,630	(26,564)	129,066	160,364	(29,536)	130,828
Premiums written during the year	364,965	(59,858)	305,107	241,764	(50,309)	191,455
Premiums earned during the year	(320,477)	57,671	(262,806)	(249,174)	53,872	(195,302)
Effect of exchange rates	25,000	(3,462)	21,538	2,676	(591)	2,085
Balance at 31 December	225,118	(32,213)	192,905	155,630	(26,564)	129,066

18. Deferred acquisition costs

	2016	**2015**
	£000	**£000**
Balance at 1 January	48,297	44,010
Change in deferred acquisition costs	7,595	4,842
Effect of exchange rates	6,866	(555)
	62,758	48,297

19. Cash and cash equivalents

	2016	**2015**
	£000	**£000**
Cash at bank and in hand	19,098	19,187
Short term deposits with financial institutions	23,512	14,004
	42,610	33,191

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20. Related parties

Ironshore Corporate Capital Limited is the corporate member of the Syndicate. Ironshore Corporate Capital Limited's immediate parent company is Ironshore International Limited.

The Syndicate is managed by Pembroke Managing Agency Limited. The immediate parent company of Pembroke Managing Agency is Pembroke JV Limited.

The ultimate parent company of Ironshore Corporate Capital Limited and Pembroke Managing Agency Limited is Ironshore Inc., a company incorporated in the Cayman Islands.

The Syndicate has taken advantage of the exemption given by FRS 102 Section 33 Related Party Disclosures to wholly owned subsidiary undertakings, by not disclosing information on related party transactions with entities that are part of the group, or investees of the group qualifying as related parties.

21. 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.

22. Off balance sheet items

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