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# Syndicate 2014

# Annual Report

# Year ended
# 31 December 2017

# Contents

# Directors and Advisers

### Managing agent

Pembroke Managing Agency Ltd

*Registered office*

Level 3
8 Fenchurch Place
London
EC3M 4AJ

*Registered number*

5832065

*Directors*

| | |
|---|---|
| G.E. Barnes, BA (Hons), FCII | Executive (resigned 11 May 2017) |
| M.J. Beacham | Independent Non-Executive |
| C.D. Brown, ACII | Executive (resigned 11 May 2017, appointed 15 March 2018*) |
| N.J. Davenport, LLB (Hons) | Non-Executive (appointed 11 May 2017) |
| K. Ethirajan | Executive (appointed 23 February 2017) |
| I.R. Garven, BA (Hons), FCA | Executive (resigned 28 March 2017) |
| T.A.B.H. Glover, ACII | Executive |
| A.M. Kaufman, FCAS, MAAA, FIA (HON), ARM, CPCU | Independent Non-Executive, Chairman |
| S. Keshani, MEng (Hons), FIA | Executive (resigned 11 May 2017) |
| I.G. Lever, B.Acc, CA (Scotland) | Executive (appointed 19 January 2017) |
| F.W. Robinson, CPA | Non-Executive (appointed 11 May 2017) |
| T. Seymour, MA (Oxon), ACA | Independent Non-Executive |
| J.A.S. Wash, BSc (Hons), ACA | Executive (resigned 11 May 2017) |
| M.H. Wheeler, ACII | Executive (resigned 6 March 2018) |
| D.N. White | Executive (appointed 15 March 2018*) |

* subject to regulatory approval

*Company secretary*

N.G. Hardman, Bbus, CPA

### Syndicate

*Active Underwriter*

D.M. Indge, FCII (resigned 19 January 2018)
D.R. Jones (appointed 19 January 2018)

*Bankers*

Citibank N.A.
HSBC
Lloyds
Royal Bank of Canada

*Investment Managers*

Conning Asset Management Limited

*Auditors*

PKF Littlejohn LLP

# Managing Agent's Report

The Directors of Pembroke Managing Agency Limited ("PMA") present the Managing Agent's Report for Syndicate 2014 (the "Syndicate") for the year ended 31 December 2017.

**Principal activities**

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 2017 year of account was £136.9m (2016: £129.3m). The capacity for the 2018 year of account is £150.0m.

Having successfully completed the Lloyd's three year "new entrant" process, initially through the 2012 and 2013 years of account of Special Purpose Syndicate 6110, and subsequent formation of Syndicate 2014 for the 2014 year the account, the management of PMA have continued to advance the development of the Syndicate.

**Management of the Syndicate**

The Syndicate is managed by PMA, which is ultimately owned (with effect from 1 May 2017), by Liberty Mutual Holding Company Inc.

**Business of the Syndicate - Property**

The Property account comprises two distinct accounts, Property Binders and Property Treaty. The majority of the Syndicate's Property Treaty book of business is written on an excess of loss basis and relates to catastrophe, per risk and aggregate risks in North America. The Syndicate also underwrites a proportional book of business relating to single island contracts mainly in the Caribbean.

The Property Binder's book of business provides cover to homeowners and owners of commercial premises in the United States and Canada. As well as physical damage, the Syndicate provides liability cover.

**Business of the Syndicate – Casualty Treaty**

The Casualty Treaty account is predicated on cedants whose clients are domiciled in the United States, Canada and Bermuda. Products written by the Syndicate include workers' compensation, general liability, professional lines, per-person exposed and catastrophe excess of loss and medical malpractice.

**Business of the Syndicate - Liability**

The Liability account underwrites the following lines of business: Professional Indemnity, General Liability and Directors' & Officers' Liability. The majority of the account is written through delegated authorities and benefits from a broad geographic segmentation of exposures.

**Business of the Syndicate - Marine**

The Syndicate underwrites Cargo, Marine Liability and War & Terrorism. Cargo lines of business include Stock, Stock Throughput, General Cargo, Consequential Loss and Cargo Liability. The majority of the Syndicate's exposures are in Europe and North America, with business being accepted through a range of placement methods.

The Marine Liability line of business underwrites the following sub-classes: General Marine Liability, Energy Liability and Ports & Terminals. The geographical segmentation of exposures is diverse, with business placed with the Syndicate through a variety of methods.

The War & Terrorism line of business is underwritten on a worldwide basis, with the current focus being the development of the Political Violence sub-class.

# Managing Agent's Report (continued)

**Business of the Syndicate – Political Risks**

The Political Risks account provides cover for events or administrative decisions that lead to economic, commercial, or financial losses for clients that export to, invest in, or import from foreign countries. Products written by the Syndicate include trade credit, contract frustration, confiscation, expropriation, nationalisation and deprivation.

**Business of the Syndicate – Accident & Health**

The Accident & Health account has a number of lines of business, including General Personal Accident, Sports Personal Accident, Treaty Excess of Loss and Medical Expenses. The majority of business is accepted through delegated authorities from a follow position.

**Key financial indicators**

The Syndicate's key financial indicators are as follows:

| | **2017**<br>**£000** | **2016**<br>**£000** |
|---|---|---|
| Syndicate capacity | 136,900 | 129,336 |
| Gross written premium | 185,570 | 144,806 |
| Loss for the financial year | (21,107) | (16,452) |
| Combined ratio | 117.1% | 117.0% |
| Investments, cash and deposits | 139,324 | 123,274 |

**Review of financial performance**

The Syndicate reports a loss for the financial year of £21.1m (2016: £16.5m loss), on increased gross written premiums of £185.6m (2016: £144.8m). The loss for the financial year is attributable to catastrophe and risk losses incurred during the year, and is reflected in the increased net combined ratio of 117.1% (2016: 117.0%).

*Gross written premiums*

The Syndicate is a provider of specialist commercial insurance and reinsurance products at Lloyd's. Insurance acceptances accounted for 54.1% (2016: 44.2%) of the Syndicate's business, with reinsurance acceptances accounting for 45.9% (2016: 55.8%).

Gross written premiums for the financial year were £185.6m (2016: £144.8m). The increase in gross written premiums has been achieved through the careful selection and managed introduction of new underwriting teams since the formation of the Syndicate as well as through the organic growth of existing lines where opportunities have arisen.

In addition to the Syndicate's growth strategies, gross written premiums benefitted from the appreciation of the average US dollar rate against the Syndicate's functional and reporting currency, pounds sterling. Business written in US dollars accounted for 73.1% (2016: 72.4%) of premium income.

Gross written premiums for the financial year were as follows:

| | **2017**<br>**£000** | **2016**<br>**£000** |
|---|---|---|
| Property | 60,488 | 51,718 |
| Casualty Treaty | 36,499 | 36,157 |
| Liability | 57,545 | 34,857 |
| Marine | 22,902 | 14,677 |
| Political Risks | 7,044 | 5,788 |
| Accident and Health | 1,092 | 1,609 |
| | 185,570 | 144,806 |

# Managing Agent's Report (continued)

**Review of financial performance (continued)**

*Net combined ratio*

Net claims incurred during the year have resulted in a marginal increase in the net combined ratio to 117.1% (2016: 117.0%). The principal driver for the net loss ratio of 77.4% (2016: 77.9%) is a combination of catastrophe and risk loss activity during the current accident year.

The 2017 Atlantic hurricane season was extremely destructive with Hurricanes Harvey, Irma and Maria causing widespread damage across several US states, including Florida and Texas, and surrounding regions. The Syndicate was not immune to these losses with the Property Treaty and Property Binder classes experiencing net loss ratios of 92.7% and 117.5% respectively.

**Investments**

*Investment return*

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Income from investments | 1,658 | 762 |
| Realised (losses)/gains on investments | (212) | 2 |
| Unrealised losses on investments | (171) | (509) |
| Total investment return | 1,275 | 255 |

*Investment manager's performance compared to benchmark*

Conning Asset Management Ltd ("Conning") manage the Syndicate's US Situs Credit for Reinsurance Trust Fund ("CRTF"). The fund is maintained as regulatory collateral for the underwriting of reinsurance business in the United States.

As at 31 December 2017, the valuation of the trust fund was £71.2m and the calendar year yield achieved a return of 1.48% as compared to a benchmark of 1.95%. The adverse variance to the benchmark yield was due mismatches between the portfolio and the benchmark due to the investment restrictions placed on the CRTF by New York Insurance Law, over which the investment manager had limited scope to influence.

**Review of financial position**

*Assets*

Assets have increased to £270.3m (2016: £226.4m). Premium growth drove the increase of financial investments to £122.2m (2016: £111.8m). The increase in the reinsurers' share of claims outstanding to £50.2m (2016: £28.6m) is due to the recognition of anticipated recoveries from reinsurers on catastrophe losses incurred as well as through the continued growth of the Syndicate.

*Liabilities*

Accordingly, the Syndicate's liabilities of £315.4m (2016: £247.6m) increased due to the factors that also impacted assets.

# Managing Agent's Report (continued)

**Future prospects**

*Trading environment and strategy*

2017 was a challenging year for the Syndicate due to staff changes and a result heavily affected by the catastrophe losses in the US and the Caribbean. The catastrophe events of 2017 have led to some rate improvements but the extent of these is yet to be seen.

The Syndicate has completed a strategic review and the Pembroke/Willis joint venture arrangement was dissolved in February 2018. The Syndicate now has a clear future direction, with the long term strategy being to build a portfolio that is balanced between insurance and reinsurance and also balanced between long tail and short tail; which will inevitably fluctuate according to the market cycle.

The strategy of the Syndicate continues to be only to write lines of business that offer the best opportunity to deliver an underwriting profit to capital providers. The philosophy of the underwriting teams is to target high quality clients and intermediaries with the aim of building a balanced portfolio of risks based on long standing relationships. Classes of business that have not performed to date are being closely analysed to identify the necessary remedial steps.

Underwriting teams adopt an inclusive approach to assessing risks in order to form a technical and comprehensive view of each proposal. This is achieved by using robust analytical tools, applying common sense and supplementing their own expertise, market knowledge and analysis with input from other teams such as actuarial, exposure management and claims.

In order to mitigate the risk of portfolio imbalance during the formative years, the Syndicate purchases conservative per risk and clash reinsurance protections.

*The UK decision to leave the European Union ("Brexit")*

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

Although Europe does not currently represent a significant source of income for the Syndicate, the macroeconomic uncertainty and the threat to existing trading relationships is a concern in need of address. Access to the single market is therefore a priority for Lloyd's and the Syndicate. The Syndicate will adhere to the Lloyd's Brexit plan.

**Research and development**

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

**Staff matters**

PMA recognises that its staff members are key resources and seeks to provide a good working environment 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.

# Managing Agent's Report (continued)

### 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 annually and reviewed on a quarterly basis. The ORSA 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 in note 2 to the Annual Report.

### Directors and officers of the managing agent

The Directors and the Company Secretary of the managing agent, who served during the year ended 31 December 2017 and up to the date of this report, are detailed on page 3.

### Annual General Meeting

The Directors do not propose to hold an annual general meeting for the Syndicate. If any members' agent or direct corporate supporter of the Syndicate wishes to meet with them, the Directors will be happy to do so.

### Auditors

Due to Ironshore participating on the 2018 year of account, the Board has decided to appoint Ernst & Young LLP as auditor of Syndicate 2014 for the year ended 31 December 2018.

### Disclosure of information to auditors

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

### Board approval

Approved by order of the Board of Pembroke Managing Agency Limited:

T.A.B.H. Glover
Director
15 March 2018

# Statement of Managing Agent's Responsibilities

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

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

In preparing the Syndicate Annual Accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- assess the Syndicate's ability to continue to write new business, disclosing as applicable, matters related to its ability to continue to operate and use the going concern basis of accounting, unless the managing agent intends to cease to operate the Syndicate or has no realistic alternative but to do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate Annual Accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditor’s Report to the Members of Syndicate 2014

**Opinion**

We have audited the financial statements of Syndicate 2014 (the “Syndicate”) for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Members’ Balances, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Syndicate’s members, as a body, in accordance with Part 2 the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Syndicate and the Syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.
In our opinion, the financial statements:

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

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Syndicate in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

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

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

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The managing agent is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

# Independent Auditor's Report to the Members of Syndicate 2014 (continued)

**Opinions on other matters prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008**

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

- the information given in the report of the Directors of the managing agent for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the report of the Directors of the managing agent has been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

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

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

- adequate accounting records have not been kept on behalf of the Syndicate; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of managing agent emoluments and other benefits specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of the managing agent**

As explained more fully in the statement of managing agent's responsibilities, the managing agent is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the managing agent determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

**Neil Coulson (Senior Statutory Auditor)**
**For and on behalf of PKF Littlejohn LLP**
**Statutory Auditor**

1 Westferry Circus
Canary Wharf
London E14 4HD

15 March 2018

# Statement of Comprehensive Income
**For the year ended 31 December 2017**

**Technical account – general business**

| | Note | 2017 £000 | 2016 £000 |
|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | |
| Gross premiums written | 3 | 185,570 | 144,806 |
| Outward reinsurance premiums | | (37,090) | (29,887) |
| Net premiums written | | 148,480 | 114,919 |
| Change in the provision for unearned premiums | | | |
| Gross amount | | (13,952) | (21,705) |
| Reinsurers' share | | 2,921 | 1,544 |
| Change in the net provision for unearned premiums | | (11,031) | (20,161) |
| **Earned premiums, net of reinsurance** | | 137,449 | 94,758 |
| **Allocated investment return transferred from the non-technical account** | | 1,227 | 213 |
| **Claims incurred, net of reinsurance** | | | |
| Claims paid | | | |
| Gross amount | | (65,654) | (25,283) |
| Reinsurers' share | | 10,805 | 3,036 |
| Net claims paid | | (54,849) | (22,247) |
| Change in the provision for claims | | | |
| Gross amount | | (75,891) | (72,361) |
| Reinsurers' share | | 24,303 | 20,761 |
| Change in the net provision for claims | | (51,588) | (51,600) |
| **Claims incurred, net of reinsurance** | 4 | (106,437) | (73,847) |
| **Net operating expenses** | 5 | (54,526) | (36,989) |
| **Balance on the technical account for general business** | | (22,287) | (15,865) |

All the amounts above are in respect of continuing operations.

# Statement of Comprehensive Income (continued)
**For the year ended 31 December 2017**

**Non-technical account**

| | Note | 2017 £000 | 2016 £000 |
|---|---|---|---|
| **Balance on the technical account for general business** | | (22,287) | (15,865) |
| Investment income | 9 | 1,658 | 762 |
| Realised (losses)/gains on investments | 9 | (212) | 2 |
| Unrealised losses on investments | 9 | (171) | (509) |
| Investment expenses and charges | 9 | (48) | (42) |
| Allocated investment return transferred to the technical account | | (1,227) | (213) |
| Exchange gains and losses | | 1,180 | (587) |
| **Loss for the financial year** | | (21,107) | (16,452) |

There was no other comprehensive income.

# Statement of Changes in Members' Balances
**For the year ended 31 December 2017**

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Balance due from members at 1 January | (21,226) | (4,051) |
| Loss for the financial year | (21,107) | (16,452) |
| Payments of profit to members' personal reserve funds | (2,478) | - |
| Non-standard personal expenses paid on behalf of members | (366) | (723) |
| Exchange differences | 64 | - |
| **Balance due from members at 31 December** | (45,113) | (21,226) |

# Statement of Financial Position

**As at 31 December 2017**

| ASSETS | Note | 2017 £000 | 2016 £000 |
|---|---|---|---|
| **Investments** | | | |
| Financial investments | 10 | 122,243 | 111,812 |
| **Reinsurers' share of technical provisions** | | | |
| Provision for unearned premiums | 11 | 10,531 | 8,191 |
| Claims outstanding | 11 | 50,271 | 28,623 |
| | | 60,802 | 36,814 |
| **Debtors due within one year** | | | |
| Debtors arising out of direct insurance operations – intermediaries | | 24,574 | 20,222 |
| Debtors arising out of reinsurance operations | 12 | 24,718 | 28,066 |
| Other debtors | | 27 | - |
| | | 49,319 | 48,288 |
| **Other assets** | | | |
| Cash at bank and in hand | 13 | 3,602 | 2,776 |
| Other assets | 14 | 13,479 | 8,686 |
| | | 17,081 | 11,462 |
| **Prepayments and accrued income** | | | |
| Deferred acquisition costs | 15 | 20,196 | 17,205 |
| Other prepayments & accrued income | | 626 | 808 |
| | | 20,822 | 18,013 |
| **TOTAL ASSETS** | | 270,267 | 226,389 |

| MEMBERS' BALANCES AND LIABILITIES | Note | 2017 £000 | 2016 £000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Members' balances | | (45,113) | (21,226) |
| **Technical provisions** | | | |
| Provision for unearned premiums | 11 | 71,188 | 61,848 |
| Claims outstanding | 11 | 205,270 | 141,815 |
| | | 276,458 | 203,663 |
| **Creditors due within one year** | | | |
| Creditors arising out of reinsurance operations | 16 | 18,388 | 29,259 |
| Other creditors | 17 | 19,238 | 13,099 |
| | | 37,626 | 42,358 |
| **Accruals and deferred income** | | 1,296 | 1,594 |
| **TOTAL MEMBERS' BALANCES AND LIABILITIES** | | 270,267 | 226,389 |

The annual accounts on pages 12 to 33 were approved by the Board of Pembroke Managing Agency Limited on 15 March 2018 and were signed on its behalf by:

I.G. Lever
Finance Director

# Statement of Cash Flows
**For the year ended 31 December 2017**

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating result | (21,107) | (16,452) |
| *Adjustments:* | | |
| Increase in gross technical provisions | 72,795 | 118,057 |
| Increase in reinsurers' share of gross technical provisions | (23,988) | (26,015) |
| Decrease/(increase) in debtors | 2,653 | (23,203) |
| (Decrease)/increase in creditors | (8,106) | 28,367 |
| Movement in other assets/liabilities | (8,183) | (15,344) |
| Investment return | (1,227) | (213) |
| **Net cash inflow from operating activities** | 12,837 | 65,197 |
| **Cash flows from investing activities** | | |
| Purchase of equity and debt instruments | (36,698) | (67,872) |
| Sale of equity and debt instruments | 23,144 | 8,703 |
| Investment income received | 1,397 | 721 |
| Foreign exchange | 2,341 | (6,020) |
| **Net cash outflow from investing activities** | (9,816) | (64,468) |
| **Cash flows from financing activities** | | |
| Payments of profit to members' personal reserve funds | (2,478) | - |
| Other | 283 | (724) |
| **Net cash outflow from financing activities** | (2,195) | (724) |
| **Net increase in cash and cash equivalents** | 826 | 5 |
| Cash and cash equivalents at 1 January | 2,776 | 2,771 |
| **Cash and cash equivalents at 31 December** | 3,602 | 2,776 |

# Notes to the Annual Report
**At 31 December 2017**

## 1. Statement of Accounting policies

General information

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

Compliance with accounting standards

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

Basis of preparation

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

The financial statements are presented in pounds sterling, which is the Syndicate's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The Syndicate elected to early-apply the March 2016 amendments to FRS 102, fair value hierarchy disclosures. As a result, the fair value hierarchy disclosures comparatives shown in note 10 were 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 and has continued underwriting beyond 2017.

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, note 2 to the Annual Report provides 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 19) 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 2017**

## 1. Statement of Accounting policies (continued)

Use of judgements and estimates (continued)

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

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

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

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

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

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

Basis of accounting

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

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

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

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

*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; this is then earned in future periods in line with the associated premium income.

# Notes to the Annual Report
**At 31 December 2017**

## 1. Statement of Accounting policies (continued)

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

*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 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 2017 and 31 December 2016, the Syndicate did not have an unexpired risk provision.

*Foreign currencies*
The Syndicate's functional and presentation currency is pounds sterling.

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

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

# Notes to the Annual Report
**At 31 December 2017**

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

Basis of accounting (continued)

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

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

| | *31 December 2017* | *31 December 2016* |
|---|---|---|
| US dollar | 1.35 | 1.22 |
| Canadian dollar | 1.69 | 1.66 |
| Euros | 1.13 | 1.17 |
| Australian dollar | 1.73 | 1.70 |

*Investments*
Investments are stated at fair value at the balance sheet date. For this purpose, deposits with credit institutions and overseas deposits are stated at amortised cost.

*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.

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

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments are held to support underwriting liabilities.

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

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

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

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

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

# Notes to the Annual Report
**At 31 December 2017**

## 1. Statement of Accounting policies (continued)

Basis of accounting (continued)

*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.

## 2. Risk management

Risk framework

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

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

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

Insurance risk - underwriting

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 willingness 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.

*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.

# Notes to the Annual Report
**At 31 December 2017**

## 2. Risk management (continued)

Insurance risk - underwriting (continued)

*Reinsurance*
Reinsurance allows the Syndicate to manage capital exposure to both frequency and severity. This includes the management of any systemic issues impacting a particular area of the account, as well as catastrophic losses across all business areas. Business is written on the basis of generating a gross profit, regardless of the supporting reinsurance arrangements. Business planning and modelling assumptions are based on the expectation that reinsurers will make a profit. The core reinsurance providers to the Syndicate remain constant.

*Underwriting committee*
The underwriters report to the Underwriting Committee which in turn reports to the PMA Board. This control process ensures that several layers of review occur for underwriting risks, with the focus being on the main components of risk, notably pricing, loss ratio selection, reserving, variations in experience, cycle management, reinsurance protection and catastrophe modelling.

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

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

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

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

The following table gives an indication of the likely quantum and scale against the Economic Capital Assessment (ECA) of Realistic Disaster Scenarios estimated during 2017.

| **Realistic Disaster Scenarios** | **Gross event loss £000** | **Net event loss £000** |
|---|---|---|
| California Earthquake – Los Angeles | 78,852 | 20,929 |
| Two Events – North East Windstorm | 74,041 | 17,001 |
| Gulf of Mexico windstorm | 70,359 | 13,395 |

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 syndicate level. They are prepared on an underwriting year basis, and prepared on an actuarial best estimate basis. Booked reserves provide the basis for syndicate results and forecasts.

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

# Notes to the Annual Report
**At 31 December 2017**

## 2. Risk management (continued)

Insurance risk – reserving (continued)

*Mitigation*
The actuarial best estimate reserves are calculated by PMA. The Actuarial function determines the reserves in conjunction with extensive discussions with the 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 historical 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.

*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 only apply at overall and member level 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 capital uplift to the member's Solvency Capital Requirement, known as the Economic Capital Uplift 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 2017 was 35% of the Syndicate's SCR to ultimate. The ECA for a corporate member is determined by Lloyd's with reference to the ECAs of the syndicates on which the member participates, and the member's share of each syndicate.

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

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

# Notes to the Annual Report
**At 31 December 2017**

## 2. Risk management (continued)

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

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2017 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 and below are classified as speculative grade and have not been rated.

| As at 31 December 2017 | AAA £000 | AA £000 | A £000 | BBB and below £000 | Not rated £000 | Total £000 |
|---|---|---|---|---|---|---|
| Variable yield securities | - | 34,391 | 16,787 | - | - | 51,178 |
| Debt securities | 19,066 | 20,012 | 31,987 | - | - | 71,065 |
| Overseas deposits | 7,959 | 1,769 | 1,660 | 861 | 1,230 | 13,479 |
| Reinsurers share of outstanding claims | - | 2,250 | 24,134 | 15,202 | 8,685 | 50,271 |
| Reinsurance debtors | - | 178 | 3,753 | - | - | 3,931 |
| Cash at bank and in hand | - | - | 3,602 | - | - | 3,602 |
| Total | 27,025 | 58,600 | 81,923 | 16,063 | 9,915 | 193,526 |

| As at 31 December 2016 | AAA £000 | AA £000 | A £000 | BBB and below £000 | Not rated £000 | Total £000 |
|---|---|---|---|---|---|---|
| Variable yield securities | - | 41,093 | 6,032 | - | - | 47,125 |
| Debt securities | 24,933 | 38,545 | 1,209 | - | - | 64,687 |
| Overseas deposits | - | - | 8,686 | - | - | 8,686 |
| Reinsurers share of outstanding claims | - | 1,206 | 27,193 | 224 | - | 28,623 |
| Reinsurance debtors | - | 127 | 1,716 | 50 | - | 1,893 |
| Cash at bank and in hand | - | 2,776 | - | - | - | 2,776 |
| Total | 24,933 | 83,747 | 44,836 | 274 | - | 153,790 |

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.

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.

During the year, no credit exposure limits were exceeded.

# Notes to the Annual Report
**At 31 December 2017**

## 2. Risk management (continued)

Credit risk (continued)

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

| As at 31 December 2017 | Not yet due | Past due Up to 3 months | Past due three to six months | Past due six to twelve months | Greater than one year | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Variable yield securities | 51,178 | - | - | - | - | 51,178 |
| Debt securities | 71,065 | - | - | - | - | 71,065 |
| Overseas deposits | 13,479 | - | - | - | - | 13,479 |
| Reinsurers share of outstanding claims | 50,271 | - | - | - | - | 50,271 |
| Reinsurance debtors | 3,931 | - | 720 | 596 | 589 | 5,836 |
| Cash at bank and in hand | 3,602 | - | - | - | - | 3,602 |
| Insurance debtors | 10,093 | 2,662 | 3,607 | 4,273 | 3,939 | 24,574 |
| Other | 39,136 | 2,045 | 2,771 | 3,283 | 3,027 | 50,262 |
| Total | 242,755 | 4,707 | 7,098 | 8,152 | 7,555 | 270,267 |

As at the balance sheet date, all financial assets of the Syndicate are unimpaired (2016: all unimpaired).

| As at 31 December 2016 | Not yet due | Past due by three months | Past due three to six months | Past due over six months | Greater than one year | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Variable yield securities | 47,125 | - | - | - | - | 47,125 |
| Debt securities | 64,687 | - | - | - | - | 64,687 |
| Overseas deposits | 8,686 | - | - | - | - | 8,686 |
| Reinsurers share of outstanding claims | 28,623 | - | - | - | - | 28,623 |
| Reinsurance debtors | 1,893 | 672 | - | - | - | 2,565 |
| Cash at bank and in hand | 2,776 | - | - | - | - | 2,776 |
| Insurance debtors | 10,725 | 2,539 | 2,652 | 2,757 | 1,549 | 20,222 |
| Other | 39,730 | 3,202 | 3,344 | 3,476 | 1,953 | 51,705 |
| Total | 204,245 | 6,413 | 5,996 | 6,233 | 3,502 | 226,389 |

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.

# Notes to the Annual Report
**At 31 December 2017**

## 2. Risk management (continued)

Liquidity risk (continued)

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 2017 | Up to one year £000 | One to three years £000 | Three to five years £000 | Greater than five years £000 | Total £000 |
|---|---|---|---|---|---|
| Claims outstanding | 71,571 | 77,159 | 33,887 | 22,653 | 205,270 |
| Creditors | 37,626 | - | - | - | 37,626 |
| Total | 109,197 | 77,159 | 33,887 | 22,653 | 242,896 |

| 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 | 48,174 | 53,219 | 24,026 | 16,396 | 141,815 |
| Creditors | 42,358 | - | - | - | 42,358 |
| Total | 90,532 | 53,219 | 24,026 | 16,396 | 184,173 |

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 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 2017 | GBP £000 | USD £000 | EUR £000 | CAD £000 | AUD £000 | Total £000 |
|---|---|---|---|---|---|---|
| Financial investments | - | 94,664 | - | 27,579 | - | 122,243 |
| Overseas deposits | 1,211 | 1,334 | - | 4,771 | 6,163 | 13,479 |
| Reinsurers' share of technical provisions | 2,757 | 44,707 | 1,469 | 10,353 | 1,516 | 60,802 |
| Insurance assets | 14,953 | 36,044 | (3,143) | (17) | 1,455 | 49,292 |
| Cash at bank and in hand | 1,492 | - | 767 | - | 1,343 | 3,602 |
| Other assets | 5,469 | 11,787 | 1,154 | 1,086 | 1,353 | 20,849 |
| Total assets | 25,882 | 188,536 | 247 | 43,772 | 11,830 | 270,267 |
| Technical provisions | (30,895) | (195,480) | (15,055) | (23,085) | (11,943) | (276,458) |
| Insurance liabilities | (2,128) | (5,190) | (793) | (9,883) | (394) | (18,388) |
| Other creditors | (10,785) | (9,612) | (137) | - | - | (20,534) |
| Total liabilities | (43,808) | (210,282) | (15,985) | (32,968) | (12,337) | (315,380) |
| Currency surplus / (deficiency) | (17,926) | (21,746) | (15,738) | 10,804 | (507) | (45,113) |

# Notes to the Annual Report
**At 31 December 2017**

## 2. Risk management (continued)

Market risk – currency risk (continued)

| As at 31 December 2016 | GBP £000 | USD £000 | EUR £000 | CAD £000 | AUD £000 | Total £000 |
|---|---|---|---|---|---|---|
| Financial investments | - | 78,023 | - | 33,789 | - | 111,812 |
| Reinsurers' share of technical provisions | 3,220 | 15,333 | 1,086 | 16,235 | 940 | 36,814 |
| Insurance assets | 6,052 | 38,376 | 917 | 1,616 | 1,327 | 48,288 |
| Cash and overseas deposits | 2,012 | 704 | 285 | 5,880 | 2,581 | 11,462 |
| Other assets | 4,617 | 9,893 | 1,102 | 1,104 | 1,297 | 18,013 |
| Total assets | 15,901 | 142,329 | 3,390 | 58,624 | 6,145 | 226,389 |
| Technical provisions | (20,341) | (138,366) | (8,318) | (30,052) | (6,586) | (203,663) |
| Insurance liabilities | (1,201) | (6,567) | (565) | (20,488) | (438) | (29,259) |
| Other creditors | (8,921) | (5,770) | (1) | (1) | - | (14,693) |
| Total liabilities | (30,463) | (150,703) | (8,884) | (50,541) | (7,024) | (247,615) |
| Currency surplus / (deficiency) | (14,562) | (8,374) | (5,494) | 8,083 | (879) | (21,226) |

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.

| | 2017 £000 | 2016 £000 |
|---|---|---|
| *Sterling weakens* | | |
| 10% against other currencies | (3,021) | (740) |
| 20% against other currencies | (6,797) | (1,666) |
| *Sterling strengthens* | | |
| 10% against other currencies | 2,472 | 606 |
| 20% against other currencies | 4,531 | 1,111 |

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** | 2017 £000 | 2016 £000 |
|---|---|---|
| Impact of 50 basis point increase on result | (290) | (135) |
| Impact of 50 basis point decrease on result | 289 | 133 |
| Impact of 50 basis point increase net assets | (290) | (135) |
| Impact of 50 basis point decrease net assets | 289 | 133 |

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.

# Notes to the Annual Report
**At 31 December 2017**

## 3. Segmental analysis

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

| 2017 | Gross premiums written £000 | Gross premiums earned £000 | Gross claims incurred £000 | Gross operating expenses £000 | Reinsurance balance £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Direct insurance:** | | | | | | |
| Accident & health | 57 | (25) | (66) | (304) | (114) | (509) |
| Marine aviation and transport | 7,293 | 6,965 | (5,948) | (2,762) | (1,335) | (3,080) |
| Fire and other damage to property | 20,245 | 18,476 | (26,748) | (6,397) | 4,336 | (10,333) |
| Third party liability | 58,455 | 51,246 | (33,341) | (19,168) | (1,918) | (3,181) |
| Miscellaneous | 14,339 | 12,512 | (4,970) | (2,902) | (1,310) | 3,330 |
| | 100,389 | 89,174 | (71,073) | (31,533) | (341) | (13,773) |
| **Reinsurance** | 85,181 | 82,444 | (70,472) | (22,993) | 1,280 | (9,741) |
| **Total** | 185,570 | 171,618 | (141,545) | (54,526) | 939 | (23,514) |

| 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 | 342 | 324 | (38) | (145) | (23) | 118 |
| Marine aviation and transport | 7,480 | 6,311 | (4,637) | (2,314) | (199) | (839) |
| Fire and other damage to property | 11,610 | 8,643 | (5,643) | (3,461) | (1,113) | (1,574) |
| Third party liability | 35,521 | 25,104 | (19,375) | (9,853) | (448) | (4,572) |
| Miscellaneous | 9,091 | 5,044 | (2,176) | (1,739) | (997) | 132 |
| | 64,044 | 45,426 | (31,869) | (17,512) | (2,780) | (6,735) |
| **Reinsurance** | 80,762 | 77,675 | (65,775) | (19,477) | (1,766) | (9,343) |
| **Total** | 144,806 | 123,101 | (97,644) | (36,989) | (4,546) | (16,078) |

Commissions on direct insurance gross premiums during 2017 were £24.3m (2016: £17.5m).

All premiums were concluded in the UK.

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

The geographical analysis of gross premiums written by destination:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| UK | 34,753 | 25,289 |
| Other EU countries | 14,666 | 8,753 |
| US | 103,706 | 84,256 |
| Other | 32,445 | 26,508 |
| Total | 185,570 | 144,806 |

# Notes to the Annual Report
**At 31 December 2017**

## 4. Claims incurred, net of reinsurance

*Prior year reserve development*

The movement in the net provision for claims includes adverse prior year development of £0.7m (2016: £1.1m adverse). Prior year claims development is analysed by line of business in the table below.

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Accident & health | (391) | 51 |
| Marine, aviation and transport | 338 | (514) |
| Fire and other damage to property | (2,866) | (850) |
| Third party liability | (4,754) | (1,010) |
| Miscellaneous | 2,874 | 426 |
| Reinsurance | 4,079 | 796 |
| (Adverse)/favourable development | (720) | (1,101) |

*Gross claims development*

| Pure underwriting year | 2014<br>£000 | 2015<br>£000 | 2016<br>£000 | 2017<br>£000 | Total<br>£000 |
|---|---|---|---|---|---|
| *Estimate of gross claims* | | | | | |
| At the end of the underwriting year | 28,778 | 38,164 | 63,464 | 82,488 | |
| One year later | 37,282 | 71,909 | 112,995 | | |
| Two years later | 39,487 | 76,491 | | | |
| Three years later | 38,929 | | | | |
| Less: gross claims paid | (24,556) | (35,177) | (29,744) | (16,156) | |
| Gross claims reserves | 14,373 | 41,314 | 83,251 | 66,332 | 205,270 |

*Net claims development*

| Pure underwriting year | 2014<br>£000 | 2015<br>£000 | 2016<br>£000 | 2017<br>£000 | Total<br>£000 |
|---|---|---|---|---|---|
| *Estimate of net claims* | | | | | |
| At the end of the underwriting year | 26,336 | 34,107 | 50,520 | 55,100 | |
| One year later | 33,963 | 56,673 | 93,948 | | |
| Two years later | 35,639 | 61,078 | | | |
| Three years later | 35,309 | | | | |
| Less: gross claims paid | (21,689) | (28,190) | (24,419) | (16,138) | |
| Net claims reserves | 13,620 | 32,888 | 69,529 | 38,962 | 154,999 |

## 5. Net operating expenses

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Acquisition costs | 47,209 | 33,457 |
| Change in deferred acquisition costs | (3,906) | (6,428) |
| Administrative expenses | 11,223 | 9,960 |
| | 54,526 | 36,989 |

# Notes to the Annual Report
**At 31 December 2017**

## 6. Auditors' remuneration

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Fees payable to the Syndicate's Auditors for: | | |
| Audit of the Syndicate Annual Accounts | 31 | 22 |
| Other services pursuant to regulations and Lloyd's byelaws | 45 | 42 |
| | 76 | 64 |

## 7. Staff numbers and costs

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

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Wages and salaries | 5,946 | 6,546 |
| Social security costs | 748 | 726 |
| Other pension costs | 292 | 344 |
| Other | 111 | 99 |
| | 7,097 | 7,715 |

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

| | 2017 Number | 2016 Number |
|---|---|---|
| Administration and finance | 17 | 22 |
| Underwriting | 36 | 38 |
| Claims | 13 | 12 |
| Compliance | 12 | 16 |
| Other | 3 | 4 |
| | 81 | 92 |

## 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:

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Emoluments | 835 | 792 |
| Pension contributions | 2 | 44 |
| | 837 | 836 |

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

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

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Emoluments | 373 | 384 |

# Notes to the Annual Report
**At 31 December 2017**

## 9. Investment return

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Interest from financial instruments designated as at fair value through profit or loss | 1,299 | 574 |
| Other interest and similar income | 359 | 188 |
| Investment income | 1,658 | 762 |
| Other income from investments designated as at fair value through profit or loss: | | |
| Realised (losses)/gains | (212) | 2 |
| Unrealised losses | (171) | (509) |
| | (383) | (507) |
| Investment management charges | (48) | (42) |
| Total investment return transferred to the technical account | 1,227 | 213 |

## 10. Financial investments

| | 2017 Market Value £000 | 2017 Cost £000 | 2016 Market Value £000 | 2016 Cost £000 |
|---|---|---|---|---|
| Shares and other variable yield securities | 51,178 | 51,178 | 47,125 | 47,125 |
| Debt securities and other fixed income securities | 71,065 | 71,776 | 64,687 | 65,270 |
| | 122,243 | 122,954 | 111,812 | 112,395 |

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.

# Notes to the Annual Report
**At 31 December 2017**

## 10. Financial investments (continued)

| 2017 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| Shares and other variable yield securities | 51,178 | - | - | 51,178 |
| Debt securities and other fixed income securities | 71,065 | - | - | 71,065 |
| Overseas deposits | 13,479 | - | - | 13,479 |
| Total | 135,722 | - | - | 135,722 |

| 2016 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| Shares and other variable yield securities | 47,125 | - | - | 47,125 |
| Debt securities and other fixed income securities | 64,687 | - | - | 64,687 |
| Overseas deposits | 8,686 | - | - | 8,686 |
| Total | 120,498 | - | - | 120,498 |

## 11. Technical provisions

| | | 2017 | | | 2016 | |
|---|---|---|---|---|---|---|
| | Gross £000 | RI £000 | Net £000 | Gross £000 | RI £000 | Net £000 |
| *Incurred claims outstanding:* | | | | | | |
| Claims notified | 40,841 | (16,304) | 24,537 | 7,696 | (412) | 7,284 |
| Claims incurred but not reported | 100,974 | (12,319) | 88,655 | 45,558 | (4,879) | 40,679 |
| Balance at 1 January | 141,815 | (28,623) | 113,192 | 53,254 | (5,291) | 47,963 |
| Change in prior year provisions | (1,221) | 501 | (720) | (256) | (847) | (1,103) |
| Expected cost of current year claims | 142,767 | (35,609) | 107,158 | 97,900 | (22,950) | 74,950 |
| Claims paid during the year | (65,654) | 10,805 | (54,849) | (25,283) | 3,036 | (22,247) |
| Effect of exchange rates | (12,437) | 2,655 | (9,782) | 16,200 | (2,571) | 13,629 |
| Balance at 31 December | 205,270 | (50,271) | 154,999 | 141,815 | (28,623) | 113,192 |
| Claims notified | 57,933 | (9,477) | 48,456 | 40,841 | (16,304) | 24,537 |
| Claims incurred but not reported | 147,337 | (40,794) | 106,543 | 100,974 | (12,319) | 88,655 |
| Balance at 31 December | 205,270 | (50,271) | 154,999 | 141,815 | (28,623) | 113,192 |
| *Unearned premiums:* | | | | | | |
| Balance at 1 January | 61,848 | (8,191) | 53,657 | 32,352 | (5,508) | 26,844 |
| Premiums written during the year | 185,570 | (37,090) | 148,480 | 144,806 | (29,887) | 114,919 |
| Premiums earned during the year | (171,618) | 34,169 | (137,449) | (123,101) | 28,343 | (94,758) |
| Effect of exchange rates | (4,612) | 581 | (4,031) | 7,791 | (1,139) | 6,652 |
| Balance at 31 December | 71,188 | (10,531) | 60,657 | 61,848 | (8,191) | 53,657 |

# Notes to the Annual Report
**At 31 December 2017**

## 12. Debtors arising out of reinsurance operations

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Due from ceding insurers and intermediaries under reinsurance business | 18,882 | 25,501 |
| Due from reinsurers and intermediaries under reinsurance contracts ceded | 5,836 | 2,565 |
| | 24,718 | 28,066 |

## 13. Cash and cash equivalents

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Cash at bank and in hand | 3,602 | 2,776 |

## 14. Other assets

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

## 15. Deferred acquisition costs

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Balance at 1 January | 17,205 | 8,964 |
| Change in deferred acquisition costs | 4,173 | 6,561 |
| Effect of exchange rates | (1,182) | 1,680 |
| | 20,196 | 17,205 |

## 16. Creditors arising out of reinsurance insurance operations

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Due within one year | 18,388 | 29,259 |

## 17. Other creditors

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Inter-syndicate loans | 16,894 | 10,582 |
| Amounts due to managing agent | 2,344 | 2,517 |
| | 19,238 | 13,099 |

# Notes to the Annual Report
**At 31 December 2017**

## 18. Related parties

*Capital*

Underwriting capacity is provided through a combination of Names and Trade Capital. For the 2014 to 2017 underwriting years, underwriting capacity is not provided by any entity within the Ironshore Inc. group of companies. However, for the 2018 year of account, Ironshore Corporate Capital Limited, which is ultimately owned (with effect from 1 May 2017) by Liberty Mutual Holding Company Inc. (Liberty), has a participation on the Syndicate. Liberty is a company domiciled in the USA and it is the ultimate parent of the managing agent, PMA.

*Managing agent*

The Syndicate is managed by PMA, a company that is a subsidiary within the Liberty Group. During the financial year the Syndicate incurred managing agent fees of £1.0m (2016: £1.0m). In addition to the fee for managing the Syndicate, PMA recharges costs incurred on behalf of managed syndicates. During the financial year, total expenses recharged to the Syndicate amounted to £9.7m (2016: £9.5m). At the end of the year, £2.3m remains outstanding (2016: £2.5m).

Profit commission of £0.4m relating to the 2015 closed year of account result was charged by the managing agent to the Syndicate in 2017 (2016: £0.6m on 2014 year of account result).

*Inter-syndicate loans*

The Directors of PMA have made a working capital facility available to the Syndicate in the form of an inter-syndicate loan from Syndicate 4000. The balance of the loan as at 31 December 2017 was £16.9m (2016: £10.6m) and is included in other creditors. Interest on amounts outstanding charged to the Syndicate in the financial year totalled £0.3m (2016: £0.4m).

*Experience account*

The Special Purpose Syndicate 6110, from which the Syndicate has its origins, signed a reinsurance to close its 2013 year of account into Syndicate 4000's 2014 year of account. An experience account reinsurance agreement was signed on this business between the Syndicate and Syndicate 4000 so that any development accrues to the 2014 year of account of the Syndicate. This agreement was not renewed with effect from January 2017.

*Inwards reinsurance contracts*

There were no inwards reinsurance premiums from Syndicate 4000 during the financial year (2016: £0.2m). As at 31 December 2017 net technical provisions in respect of this business was £1.6m (2016: £1.8m). All contracts were concluded on commercial terms.

## 19. 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.

## 20. 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.

## Managing Agent's Report
# 2015 Closed Year of Account

The Directors of the PMA present the Managing Agent's Report for the 2015 closed year of account as at 31 December 2017.

**Basis of preparation**

This report is prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

**Principal activities**

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

The origins of the Syndicate are in Special Purpose Arrangement 6110 ("SPA 6110") which was also managed by PMA. SPA 6110 traded for the 2012 and 2013 years of account, closing into 2014 year of account of the host, Pembroke Syndicate 4000.

PMA has continued to develop the Syndicate for the benefit of capital providers through the implementation of expansive and attractive business plans.

**Syndicate capacity and capital providers**

The Syndicate's allocated capacity for 2015 is £99.6m.

Capital to support underwriting of the Syndicate was organised through a combination of members' agencies and direct corporate participants.

**Business of the 2015 underwriting year of account**

*Property Treaty*

The majority of the Property Treaty account is written on an excess of loss basis and relates to catastrophe, per risk and aggregate exposures in North America. The Syndicate also underwrites a proportional book of business relating to single island contracts mainly in the Caribbean.

*Casualty Treaty*

The Casualty Treaty account is predicated on cedants whose clients are domiciled in the United States, Canada and Bermuda. Products written by the Syndicate include workers' compensation, general liability, professional lines, per-person exposed and catastrophe excess of loss and medical malpractice.

*Liability*

The Liability division consists of General Liability, Professional Lines, D&O, Crime and M&A. A large proportion of the division is written via binding authorities and focuses on non-US, SME business.

*Cargo*

The Cargo book follows many Lloyd's syndicates with a bias towards stock throughput programmes predominately on accounts emanating from the US, with a risk management department and a property programme with a strong risk-engineered profile.

*Marine Liability*

The account consists of Marine Liability (including general third party liabilities, ship repairers, charterers, marine contractors, terminal operators), Energy Liability (upstream only) and Ports & Terminals.

*War & Terrorism*

The portfolio comprises of on land business written through a variety of open market and facility placements on a worldwide basis. The Syndicate has the ability to write UK business.

## Managing Agent's Report
# 2015 Closed Year of Account (continued)

**Business of the 2015 underwriting year of account (continued)**

*Property Binders*

The division consists of binding authorities written to Lloyd's coverholders, covering general property including commercial and personal lines (including catastrophe), and transportation business written within the US and Canada.

*Political Risks*

The Political Risks account provides cover for events or administrative decisions that lead to economic, commercial, or financial losses for clients that export to, invest in, or import from foreign countries. Products written by the Syndicate include trade credit, contract frustration, confiscation, expropriation, nationalisation and deprivation.

*Accident & Health*

The Accident & Health account has a number of lines of business, including General Personal Accident, Sports Personal Accident, Treaty Excess of Loss and Medical Expenses. The majority of business is accepted through delegated authorities from a follow position.

**2015 closed year of account result**

The Directors of PMA are pleased to announce the Syndicate has closed the 2015 year of account with a total profit of £2.2m, of which £0.7m related to anticipated profit on unwritten and unearned business at 31 December 2017.

This result represents a return on allocated capacity for capital providers of 2.2%.

**Reinsurance to close**

The 2015 underwriting year of account was closed by way of reinsurance to close ("RITC") into the 2016 underwriting year of account. The RITC payable to close the underwriting year of account was £46.5m.

The RITC of the 2015 underwriting year of account was approved by the Directors of PMA on 15 March 2018.

**Directors**

The Directors of PMA that served during the financial year ended 31 December 2017 are disclosed on shown on page 3 in the Annual Report.

**Disclosure of information to the auditors**

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

By order of the Board
T.A.B.H. Glover
Director
15 March 2018

# Statement of Managing Agent's Responsibilities

The managing agent is responsible for preparing the Managing Agent's Report and Syndicate Underwriting Year 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 Underwriting Year Accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure.

In preparing the Syndicate Underwriting Year Accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the underwriting year accounts.
- assess the Syndicate's ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

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 Underwriting Year Accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditor's Report to the Members of Syndicate 2014 for the 2015 Closed Underwriting Year of Account

## Opinion

We have audited the financial statements of Syndicate 2014 (the "Syndicate") for the 2015 Year of Account for the three years ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom Accounting Standards, including Financial Reporting Standard 102 "*The Financial Reporting Standard applicable in the UK and Republic of Ireland"* (United Kingdom Generally Accepted Accounting Practice), the Insurance Accounts Directive (Lloyd's Syndicate Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005).

This report is made solely to the Syndicate's members, as a body, in accordance with the Regulation 6(4) of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Syndicate Accounting Byelaw (No.8 of 2005). Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Syndicate and the Syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion, the financial statements:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2017 and of its profit for the three years then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Syndicate in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

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

- The managing agent's preparation of the financial statements on the basis that the recorded assets and liabilities will be realised and discharged in the normal course of business is not appropriate; or
- the managing agent has not disclosed in the financial statements any identified material uncertainties that may cast doubt on the ability of the syndicate assets and liabilities to be realised and discharged in the normal course of business.

## Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The managing agent is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

# Independent Auditor's Report to the Members of Syndicate 2014 for the 2015 Closed Underwriting Year of Account (continued)

**Matters on which we are required to report by exception**

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

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

- the managing agent has not kept proper accounting records in respect of the Syndicate; or
- the financial statements are not in agreement with the accounting records.

**Responsibilities of the managing agent**

As explained more fully in the statement of managing agent's responsibilities, the managing agent is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the managing agent determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

**Neil Coulson (Senior Statutory Auditor)**
**For and on behalf of PKF Littlejohn LLP**
**Statutory Auditor**

1 Westferry Circus
Canary Wharf
London E14 4HD

15 March 2018

# Statement of Comprehensive Income
# 2015 Closed Year of Account
**For the 36 months ended 31 December 2017**

## Technical account – general business

| | Note | **£000** |
|---|---|---|
| **Syndicate allotted capacity** | | 99,641 |
| **Earned premiums, net of reinsurance** | | |
| Gross premiums written | 3 | 116,635 |
| Outward reinsurance premiums | | (19,915) |
| **Earned premiums, net of reinsurance** | | 96,720 |
| **Reinsurance to close premiums received, net of reinsurance** | 4 | 20,117 |
| **Allocated investment return transferred from the non-technical account** | | 537 |
| **Claims incurred, net of reinsurance** | | |
| Claims paid | | |
| Gross amount | | (40,058) |
| Reinsurers’ share | | 7,382 |
| **Net claims paid** | | (32,676) |
| **Reinsurance to close premium payable, net of reinsurance** | 5 | (46,482) |
| **Claims incurred, net of reinsurance** | | (79,158) |
| **Net operating expenses** | 6 | (38,142) |
| **Balance on the technical account for general business** | | 74 |

# Statement of Comprehensive Income
# 2015 Closed Year of Account
**For the 36 months ended 31 December 2017**

| Non-technical account | Note | £000 |
|---|---|---|
| **Balance on the technical account for general business** | | 74 |
| Income from investments | 8 | 975 |
| Gains on the realisation of investments | 8 | 6 |
| Losses on the realisation of investments | 8 | (101) |
| Unrealised losses on investments | 8 | (302) |
| Investment management charges | 8 | (41) |
| Allocated investment return transferred to the general business technical account | | (537) |
| Profit on exchange | | 2,133 |
| **Profit for the 2015 closed year of account** | | 2,207 |

As the 2015 Year of Account following a Reinsurance to close is no longer trading, all operations relate to ceased activities for this Year of Account.

There was no other comprehensive income.

| Amounts due to members | £000 |
|---|---|
| Profit for the 2015 closed year of account | 2,207 |
| Members' agent fee advances | (656) |
| **Amounts due to members at 31 December 2017** | 1,551 |

# Statement of Financial Position
# 2015 Closed Year of Account
**As at 31 December 2017**

| ASSETS | Note | £000 |
|---|---|---|
| **Investments** | 9 | 34,923 |
| **Debtors** | 10 | 8,329 |
| **Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account** | 5 | 9,323 |
| **Other assets** | | |
| Cash at bank and in hand | | 1,383 |
| Overseas deposits | | 5,672 |
| **Prepayments and accrued income** | | |
| Other prepayments and accrued income | | 214 |
| **TOTAL ASSETS** | | 59,844 |

| LIABILITIES | Note | £000 |
|---|---|---|
| **Amounts due to members** | | 1,551 |
| **Reinsurance to close premium payable – gross amount** | 5 | 55,805 |
| **Creditors** | 11 | 2,161 |
| **Accruals and deferred income** | | 327 |
| **TOTAL LIABILITIES** | | 59,844 |

The underwriting year accounts on pages 39 to 50 were approved by the Board of Pembroke Managing Agency Limited on 15 March 2018 and were signed on its behalf by:

I.G. Lever
Finance Director

# Statement of Cash Flows
# 2015 Closed Year of Account
**As at 31 December 2017**

| | £000 |
|---|---|
| **Cash flow from operating activities** | |
| Profit for the closed year of account | 2,207 |
| *Adjustments for:* | |
| Increase in reinsurance to close payable | 46,482 |
| Increase in debtors, prepayments and accrued income | (8,543) |
| Increase in creditors, accruals and deferred income | 2,488 |
| Increase in other assets | (5,672) |
| Exclude investment return | (537) |
| **Net cash inflow from operating activities** | 36,425 |
| **Cash flows from investing activities** | |
| Purchase of equity and debt instruments | (34,968) |
| Investment income received | 582 |
| **Net cash outflow from investing activities** | (34,386) |
| **Cash flows from financing activities** | |
| Members' agent fee advances | (656) |
| **Net cash outflow from financing activities** | (656) |
| **Net increase in cash and cash equivalents** | 1,383 |
| Cash and cash equivalents at 1 January 2015 | - |
| **Cash and cash equivalents at 31 December 2017** | 1,383 |

Cash and cash equivalents comprise cash at bank and in hand only.

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Closed Year of Account
**As at 31 December 2017**

## 1. Accounting policies

General information

Underwriting capacity is provided by Names and Corporate Members, which are members of the Society of Lloyd's that underwrite insurance business in the London market.

Compliance with accounting standards

These Syndicate Underwriting Year Accounts have been prepared in accordance with United Kingdom Accounting Standards, including both FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts" as far as is necessary to present a true and fair view as well as the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). There were no material departures from those standards.

Basis of preparation

The Syndicate Underwriting Year Accounts have been prepared on a historical cost bass, except for financial assets at fair value through profit or loss that are measured at fair value.

The financial statements are presented in pounds sterling, which is the Syndicate's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2015 year of account which has been closed by reinsurance to close as at 31 December 2017. Consequently, the statement of financial position represents the assets and the liabilities of the 2015 year of account at the date of closure. The statement of comprehensive income reflects the transactions for that year of account during the three year period until closure.

As each syndicate year of account is a separate annual venture, comparatives do not exist and are therefore not included in these accounts.

Use of judgments and estimates

The key accounting judgement, assumptions and estimates made in the preparation of these Underwriting Year Accounts are those relating to the determination of the Reinsurance to Close to transfer all the assets and liabilities from the 2015 Year of Account.

Basis of accounting

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium or by commutation.

*Premiums written*
Gross premiums are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Premiums written are treated as fully earned. Commission and brokerage are charged to the year of account to which the relevant policy is allocated.

*Reinsurance premium ceded*
Initial reinsurance premiums paid to purchase policies that give excess of loss protection on a risk attaching basis are charged to the year of account in which the protection commences. Premiums for other reinsurances such as proportional treaty and excess of loss on a losses occurring basis are charged to the same year of account as the risks being protected.

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Closed Year of Account
**As at 31 December 2017**

## 1. Accounting policies *(continued)*

Basis of accounting (continued)

*Claims paid and related recoveries*
Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

*Reinsurance to close premium payable*
The net reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not yet reported), net of estimated collectible reinsurance recoveries, relating to the year of account and all prior years of account reinsured therein.

The provision for claims outstanding is assessed on an individual 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. In setting the RITC, management have taken into account the estimated level of claims that will arise on any business relating to closed years, which has not yet been fully written or earned.

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

The reinsurers' share of the 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 that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments for the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. However, it should be noted that a reinsurance contract does not extinguish the primary liability of the original underwriter.

*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.

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Closed Year of Account
**As at 31 December 2017**

## 1. Accounting policies *(continued)*

Basis of accounting (continued)

*Operating expenses*
Where expenses are incurred by or on behalf of the managing agent on the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicates are apportioned between the agency company and the syndicates on bases depending on the amount of work performed, resources used and the volume of business transacted. Operating expenses are allocated to the year of account for which they are incurred.

*Taxation*
Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities.

*Profit commission*
Profit commission is charged by the managing agent at a rate of 15% of profit subject to the operation of a deficit clause. Where profit commission is charged, it is included within members' standard personal expenses within administrative expenses.

*Foreign currencies*
The Syndicate's functional and presentation currency is pounds sterling.

Transactions in US dollars, Canadian dollars, euros and Australian dollars are translated at average rates of exchange for each calendar year as an equivalent of transaction rates. The exception to this is that the reinsurance to close payable has been translated at the transaction rates of exchange ruling at the effective date of the contract. 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.

## 2. Risk and capital management

Since 31 December 2017, a reinsurance to close has been completed which transferred all assets and liabilities from the 2015 year of account to the 2016 year of account. Any change in value of the assets or liabilities or further transactions after 31 December 2017 will be borne by the 2016 year of account. The 2015 year of account therefore bears no further risk and accordingly no disclosures relating to risks are disclosed in these underwriting year accounts.

The basis on which capital is managed by the Syndicate in accordance with the requirements of the Society of Lloyd's and the Prudential Regulatory Authority is described in note 2 (page 22) within the Syndicate Annual Accounts.

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Closed Year of Account
**As at 31 December 2017**

### 3. Segmental analysis

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

| | Gross premiums earned £000 | Gross claims incurred £000 | Gross operating expenses £000 | Reinsurance balance £000 | Total £000 |
|---|---|---|---|---|---|
| **Direct insurance:** | | | | | |
| Accident and health | (263) | 189 | 88 | (30) | (16) |
| Marine aviation and transport | 7,530 | (8,413) | (2,505) | 522 | (2,866) |
| Fire and other damage to property | 12,827 | (14,784) | (4,267) | 756 | (5,468) |
| Third party liability | 27,125 | (28,432) | (9,023) | 223 | (10,107) |
| Miscellaneous | 6,420 | 1,281 | (2,136) | (657) | 4,908 |
| | 53,639 | (50,159) | (17,843) | 814 | (13,549) |
| **Reinsurance** | 62,996 | (26,078) | (20,955) | (3,533) | 12,430 |
| **Total** | 116,635 | (76,237) | (38,798) | (2,719) | (1,119) |

All contracts of insurance were concluded in the United Kingdom.

### 4. Reinsurance to close premium received

| | Reported £000 | IBNR £000 | Total £000 |
|---|---|---|---|
| Gross reinsurance to close premium payable | 6,521 | 15,397 | 21,918 |
| Reinsurance recoveries anticipated | (896) | (721) | (1,617) |
| | 5,625 | 14,676 | 20,301 |
| Provision for future gross premiums receivable | | | (2,520) |
| Provision for future reinsurance premium payable | | | 2,108 |
| | | | (412) |
| Provision for internal claims administration expenses | | | 228 |
| | | | 20,117 |

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Closed Year of Account
**As at 31 December 2017**

## 5. Reinsurance to close premium payable

| | Reported £000 | IBNR £000 | Total £000 |
|---|---|---|---|
| Gross reinsurance to close premium payable | (19,496) | (37,361) | (56,857) |
| Reinsurance recoveries anticipated | 4,328 | 5,061 | 9,389 |
| | (15,168) | (32,300) | (47,468) |
| Provision for future gross premiums receivable | | | 1,658 |
| Provision for future reinsurance premium payable | | | (66) |
| | | | 1,592 |
| Provision for internal claims administration expenses | | | (606) |
| | | | (46,482) |

This amount represents a provision for the Reinsurance to Close of the 2015 year of account into the 2016 year of account of Syndicate 2014 as at 31 December 2017, which was subsequently approved by the board of Pembroke Managing Agency Limited on 15 March 2018.

The table of the development of ultimate claims over the last three years is shown within note 4 to the Syndicate Annual Accounts on page 28.

**Reconciliation of reinsurance to close received**

| | Gross £000 | Reinsurers' share £000 | Net £000 |
|---|---|---|---|
| Reinsurance to close premium received at 1 January 2017 | (19,626) | (491) | (20,117) |
| Claims paid in relation to 2014 and prior | (4,845) | 299 | (4,546) |
| Change in provision for 2014 and prior claims | 8,232 | 911 | 9,143 |
| Change in provision for 2014 and prior premiums | 303 | 48 | 351 |
| Effects of movements in exchange rates | 1,563 | (14) | 1,549 |
| Change in reinsurance to close payable for 2014 and prior | 5,253 | 1,244 | 6,497 |
| Reinsurance to close payable for 2014 and prior at 31 December 2017 | (14,373) | 753 | (13,620) |
| Provision for claims in relation to 2015 pure year | (43,090) | 8,636 | (34,454) |
| Provision for premiums in relation to 2015 pure year | 1,658 | (66) | 1,592 |
| Reinsurance to close payable for 2015 pure year | (41,432) | 8,570 | (32,862) |
| Reinsurance to close payable for 2015 and prior at 31 December 2017 | (55,805) | 9,323 | (46,482) |

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Closed Year of Account
**As at 31 December 2017**

## 6. Net operating expenses

| | £000 |
|---|---|
| Acquisition costs – brokerage and commissions | 25,599 |
| Acquisition costs – other | 5,473 |
| Reinsurance commissions and profit participations | (254) |
| Administrative expenses | 7,324 |
| | 38,142 |

| *Administrative expenses include:* | **£000** |
|---|---|
| Standard personal expenses | 2,193 |
| | |
| Auditors' remuneration: | |
| Fees payable to the syndicate auditor for the audit of the 2015 accounts | 22 |
| Other services pursuant to legislation | 77 |

## 7. Balance on the technical account before net operating expenses and allocated investment return

| | £000 |
|---|---|
| Technical account balance before net operating expenses and allocated investment return | 37,679 |
| Brokerage and commissions | (25,345) |
| | 12,334 |

## 8. Investment return

| | £000 |
|---|---|
| Interest from financial instruments designated as at fair value through profit or loss | 834 |
| Other interest and similar income | 141 |
| Investment income | 975 |
| | |
| Other income from investments designated as at fair value through profit or loss: | |
| Realised losses | (95) |
| Unrealised losses | (302) |
| | (397) |
| | |
| Investment management charges | (41) |
| | |
| Total investment return transferred to the technical account | 537 |

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Closed Year of Account
**As at 31 December 2017**

## 9. Investments

| | Market value £000 | Cost £000 |
|---|---:|---:|
| Shares and other variable yield securities | 18,569 | 18,569 |
| Debt securities and other fixed income securities | 16,354 | 16,518 |
| | 34,923 | 35,087 |

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

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

| | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---:|---:|---:|---:|
| Shares and other variable yield securities | 18,569 | - | - | 18,569 |
| Debt securities and other fixed income securities | 16,354 | - | - | 16,354 |
| Overseas deposits | 5,672 | - | - | 5,672 |
| Total | 40,595 | - | - | 40,595 |

## 10. Debtors

| | £000 |
|---|---:|
| Intermediaries | 1,973 |
| Due from reinsurers and intermediaries under reinsurance contracts ceded | 6,310 |
| Other debtors | 46 |
| | 8,329 |

## 11. Creditors

| | £000 |
|---|---:|
| Creditors | (2,480) |
| Inter-syndicate loan from Syndicate 4000 | 4,641 |
| | 2,161 |

## 12. Related parties

Information on related parties is disclosed in note 18 to the Syndicate Annual Accounts on page 33.

# 2015 Closed Year of Account
# Two Year Summary of Results

| | 2014 Year of Account | 2015 Year of Account |
|---|---|---|
| Syndicate capacity | £74.9m | £99.6m |
| Net premiums | £40.3m | £96.7m |
| No. of members | 982 | 967 |

**Result for an illustrative share of £10,000:**

| | £ | £ |
|---|---|---|
| Gross premiums (net of brokerage and commissions) | 6,425 | 9,136 |
| Net premiums | 5,376 | 7,163 |
| Premium received for RITC | - | 2,019 |
| Net claims | (2,068) | (3,279) |
| Premium paid for reinsurance to close | (2,687) | (4,665) |
| Underwriting profit | 621 | 1,238 |
| Operating expenses | (990) | (1,064) |
| Balance on technical account | (369) | 174 |
| Investment return | 27 | 54 |
| Profit on exchange | 972 | 214 |
| Profit for the closed year | 630 | 442 |
| Profit commission | (72) | (39) |
| Other personal expenses | (145) | (181) |
| Profit after all personal expenses | 413 | 222 |
| | | |
| Share of commissions and brokerage excluded from above (note 1) | 1,086 | 2,543 |

**Percentage of illustrative share:**

| | % | % |
|---|---|---|
| Gross premium % | 64.3 | 91.4 |
| Net premium % | 53.8 | 71.6 |
| Balance on technical account % | (3.7) | 1.7 |

Notes
1. In this table, all premiums are stated net of brokerage and commissions, therefore these have been excluded from operating expenses. This presentation has no effect on the overall result for each year.
2. Personal expenses and profit commissions are those that would apply for an illustrative member underwriting a £10,000 share.
3. Net claims include internal claims settlement expenses.