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Syndicate 4000

Annual Report

Year ended
31 December 2017

Contents

Directors and Advisers

Managing agent

Pembroke Managing Agency Limited

Registered office
Level 3
8 Fenchurch Place
London
EC3M 4AJ

Registered number
583265

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
T.A.B.H. Glover, ACII (resigned 1 January 2018)
A.C.G. Mackay, MA (Hons), ACII (appointed 1 January 2018)

Bankers
Citibank N.A.
HSBC
Lloyds
Royal Bank of Canada

Investment managers
Conning Asset Management Limited (resigned 1 July 2017)
Liberty Mutual Group Asset Management Inc. (appointed 1 July 2017)

Auditor
Ernst & Young LLP

Managing Agent's Report

The Directors of Pembroke Managing Agency Limited ("PMA") present the Managing Agent's Report for Syndicate 4000 ("the Syndicate") for the year ended 31 December 2017.

Principal activity

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

The Syndicate's allocated capacity for the 2017 year of account was £346.0m (2016: £285.0m). The capacity for the 2018 year of account is £398.0m.

Management of the Syndicate

Capital to support the underwriting of the Syndicate is provided by Ironshore Corporate Capital Limited, which is ultimately owned (with effect from 1 May 2017) by Liberty Mutual Holding Company Inc.

PMA also manages Syndicate 2014 and Syndicate 6125. Capital to support the underwriting of these syndicates is provided by third parties that are unrelated to Ironshore. However, for the 2018 year of account, Ironshore Corporate Capital Limited has a participation on Syndicate 2014. Transactions between these syndicates and entities within the Ironshore Group are conducted on a normal commercial basis.

Business of the Syndicate

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

During the 2017 financial year gross written premium by operating division was as follows:

	2017 **£000**	**2016** **£000**
Liability	186,863	159,554
Marine	73,552	81,161
Specialty Short Tail	66,757	50,123
Property	50,503	30,537
Personal Accident	36,672	43,590
Total	414,347	364,965

Business of the Syndicate - Liability Division

Professional Lines
The portfolio is extremely diverse and is intentionally designed to minimise economic correlation with the Financial Institutions business. To that end, professions that are involved in the valuation or sale of 'asset class' products are avoided. The business is built upon professional indemnity, directors & officers liability and medical malpractice products.

Mergers & Acquisitions
The Syndicate seeks to exploit the high technical barriers to entry in this class and continue to further develop its reputation as a lead market, through its technically strong and experienced underwriting teams. The Syndicate has an established reputation as a lead market in this line of business.

The Syndicate offers warranties and indemnities for parties to mergers & acquisitions, as well as tax specific covers. The book is geographically diversified, with the majority of business emanating from the UK, Western Europe, Australia and the US. Further geographical diversification is anticipated in 2018.

Managing Agent's Report (continued)

Business of the Syndicate - Liability Division (continued)

Financial Institutions
Business is written across a broad range of financial institutions. In response to the economic environment, the Syndicate's exposure to US and Eurozone domiciled accounts continues to reduce. The unit targets institutional facing business rather than retail exposure. The three main product lines transacted are crime, professional indemnity and directors' & officers' liability insurance.

Business of the Syndicate - Marine Division

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

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

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

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

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

Business of the Syndicate – Specialty Short Tail Division

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

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

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

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

Managing Agent's Report (continued)

Business of the Syndicate – Specialty Short Tail Division (continued)

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

Business of the Syndicate - Property Division

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

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

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

Construction & Engineering
Construction & Engineering is underwritten on a worldwide basis through the European offices of a coverholder; Ironshore Agency Limited ("IAL") (an Ironshore group company). Construction products include erection risk, including machinery breakdown on an all risk basis. Risks are selected on a project as well as on an annual contract basis.

Business of the Syndicate - Personal Accident Division

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

Strategic partnerships through special purpose arrangements

The PMA Strategic Partnership Team has a proven track record of forming and profitably growing SPAs and standalone syndicates supported by third party capital providers.

SPA 6110 and Syndicate 2014
Formed for the 2012 year of account, Syndicate 6110 was a Special Purpose Arrangement ("SPA") managed by PMA and hosted by Syndicate 4000. Following a successful start-up phase under the management of PMA, Lloyd's approved the application to create a standalone successor, Syndicate 2014, which was formed for the 2014 year of account. It benefitted from the continued support of a significant proportion of the capital providers of Syndicate 6110, as well as attracting further investment from trade capital.

Syndicate 6110 operated for the 2012 and 2013 underwriting years of account, both of which closed profitably. The 2014 and 2015 years of account of Syndicate 2014 have also both closed profitably.

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

Managing Agent's Report (continued)

Strategic partnerships through special purpose arrangements (continued)

SPA 6125 (continued)
As is the case with all SPAs, Patria Syndicate 6125 sources its underwriting by way of quota share reinsurance cessions from its host, which is Syndicate 4000.

In addition to the Property Treaty book of business wherein Syndicate 4000 cedes 90% of the book to Syndicate 6125, Peña Verde and Syndicate 4000 have also entered into an exposure exchange agreement covering a selection of short tail lines of business. These binding commercial arrangements, supported by cooperation agreements, form the foundations of a long term strategic partnership that aims to enhance and develop the underwriting prospects of both parties. The Directors of PMA are of the view that this approach differentiates the service offering of PMA from other turnkey providers whose focus is solely on fee income generation.

The forming and profitable growth of further underwriting businesses for third party capital providers, and the development of mutually beneficial commercial relationships through strategic partnerships, is a focus for the future development of Syndicate 4000.

Review of financial performance

The Syndicate's key financial indicators are as follows:

	2017 £000	2016 £000
Syndicate capacity	346,000	285,000
Gross written premium	414,347	364,965
(Loss)/profit for the financial year	(28,853)	7,256
Total comprehensive (loss)/income for the financial year	(28,727)	8,663
Combined ratio	111.5%	100.1%
Investments, cash and deposits	397,233	355,743

The Syndicate has demonstrated an increased level of premium income during the year, but has an overall loss of £28.9m (2016: £7.3m profit) largely as a result of claims activity, both catastrophe events and reserve strengthening.

Gross written premiums
Despite continuing challenging trading conditions, with rates static for much of the year, the Syndicate reports gross written premiums for the financial year of £414.3m (2016: £365.0m), representing an increase of 13.5% (2016: 51.0%) on the prior year. 39% of the premium growth can be attributed to the Mergers & Acquisitions ("M&A") business, where the growth of the team during 2016 led to increased opportunities in 2017, particularly in the USA; M&A gross written premium for the year was £92.3m (2016: £73.0m). The Political Risks division was responsible for 14% of our growth and like M&A reflects our strong desire for expansion in areas requiring cross border transactions.

The Syndicate continued to develop distribution opportunities as well as recruit talented underwriting teams to support further growth and diversification. IAL began binding risks on behalf of the Syndicate in 2016. IAL is incorporated in the UK and has a branch network across continental Europe, with offices in Rotterdam, Cologne and Zurich.

Claims incurred
The increase in the net loss ratio to 67.2% (2016: 59.3%) is driven by catastrophe events. The combined impact of hurricanes Harvey, Irma and Maria on the Syndicate was £19.8m ($25.5m) on a net basis (excluding reinstatement premiums). There has also been some strengthening of prior year reserves, predominantly affecting the Agriculture, Professional Liability and Financial Institutions classes.

The responsiveness of the Syndicate's outward reinsurance arrangements partially mitigates the impact of these events.

Other
Investment return in 2017 was £5.4m (2016: £5.5m). Net operating expenses (note 5) in 2017 were £132.7m (2016: £107.2m), with the increase reflecting premium growth, a lower rate of expense deferral and an element of one-off costs.

Balance sheet
Syndicate assets have increased by £83.2m to £818.7m (2016: £735.5m) and the total liabilities have increased by £120.1m to £865.3m (2016: £745.2m) as a result of business growth.

Managing Agent's Report (continued)

Future prospects

Trading environment
The catastrophe events of 2017 have led to some rate improvements but the extent of these is yet to be seen.

Strategic approach to growth
The Syndicate has a sustained track record of disciplined and profitable growth. However, the 2015 year of account is closing at a loss of £5.4m after foreign exchange losses of £7.8m. Earlier underwriting years managed by PMA closed profitably. At the date of this Annual Report, the 2016 and 2017 open years of account are anticipated to close profitably. The growth and profitability of the Syndicate through the soft market validates the approach to managing the Syndicate which is characterised by careful risk selection, opportunistic organic growth of existing lines of business where conditions permit and the carefully managed introduction of new products and high calibre underwriting teams.

The Syndicate continues to plan to achieve further disciplined growth in regional markets through the Ironshore distribution network of coverholders, particularly in continental Europe through IAL.

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 Market, as it is anticipated to result in change for the insurance industry.

The strategy to develop an Ironshore coverholder network in Europe for the benefit of the Syndicate will encounter greater challenge as a result of Brexit. Access to the single market is therefore a priority for the Syndicate as well as the Lloyd's and London Market. The 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 for its staff that is safe and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

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

Environmental matters

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

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 serving during the year

The Directors and 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.

Auditor

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

Disclosure of information to the auditor

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 auditor is unaware and each director has taken all the steps that he ought to have taken as director to make himself aware of any relevant audit information and to establish that the Syndicate's auditor is 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 Accounts in accordance with applicable law and regulations.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate accounts; and
- 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 4000

Opinion

We have audited the Syndicate Annual Accounts of Syndicate 4000 ("the Syndicate") for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 21, 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 FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Syndicate Annual Accounts:

- give a true and fair view 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 Syndicate Annual Accounts section of our report below. We are independent of the Syndicate in accordance with the ethical requirements that are relevant to our audit of the Syndicate Annual Accounts 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.

Use of our report

This report is made solely to the Syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an 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.

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

Independent Auditor’s Report to The Members of Syndicate 4000 (continued)

Other information

The other information comprises the information included in the annual report, other than the Syndicate Annual Accounts and our auditor’s report thereon. The managing agent is responsible for the other information.

Our opinion on the Syndicate Annual Accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Syndicate Annual Accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Syndicate Annual Accounts 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 Syndicate Annual Accounts 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter 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 managing agent’s report for the financial year in which the Syndicate Annual Accounts are prepared is consistent with the Syndicate Annual Accounts, and
- the managing agent’s report 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 Managing Agent’s Report.

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

- the managing agent in respect of the Syndicate has not kept adequate accounting records;
- the Syndicate Annual Accounts are not in agreement with the accounting records;
- we have not received all the information and explanations we require for our audit; or
- certain disclosures of the managing agents’ emoluments specified by law are not made.

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent’s Responsibilities set out on page 10, the managing agent is responsible for the preparation of the Syndicate Annual Accounts 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 the Syndicate Annual Accounts that are free from material misstatement, whether due to fraud or error.

In preparing the Syndicate Annual Accounts, 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.

Independent Auditor's Report to The Members of Syndicate 4000 (continued)

Auditor's responsibilities for the audit of the Syndicate Annual Accounts

Our objectives are to obtain reasonable assurance about whether the Syndicate Annual Accounts 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 Syndicate Annual Accounts.

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

Andrew R Blackmore (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
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	414,347	364,965
Outward reinsurance premiums		(80,961)	(59,858)
Net premiums written		333,386	305,107
Change in the provision for unearned premiums			
Gross amount		(42,978)	(44,488)
Reinsurers' share		8,633	2,187
Change in the net provision for unearned premiums		(34,345)	(42,301)
Earned premiums, net of reinsurance		299,041	262,806
Allocated investment return transferred from the non-technical account		5,374	5,531
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(167,617)	(133,788)
Reinsurers' share		32,283	54,708
Net claims paid		(135,334)	(79,080)
Change in the provision for claims			
Gross amount		(93,464)	(83,048)
Reinsurers' share		27,937	6,192
Change in the net provision for claims		(65,527)	(76,856)
Claims incurred, net of reinsurance		(200,861)	(155,936)
Net operating expenses	5	(132,671)	(107,167)
Balance on the technical account for general business		(29,117)	5,234

All the amounts above are in respect of continuing operations.

Statement of Comprehensive Income

For the year ended 31 December 2017

Non-technical account

	Note	2017 £000	2016 £000
Balance on the technical account for general business		(29,117)	5,234
Investment income	9	5,783	4,908
Realised gains on investments	9	477	814
Investment expenses and charges	9	(258)	(312)
Unrealised (losses)/gains on investments	9	(628)	121
Allocated investment return transferred to the technical account	9	(5,374)	(5,531)
Foreign exchange gains		264	2,022
(Loss)/profit for the financial year		(28,853)	7,256
Other comprehensive income - currency translation differences		1,359	1,384
Fair value (losses)/gains on available for sale investments		(1,233)	23
Total comprehensive (loss)/income for the financial year		(28,727)	8,663

Statement of Changes in Members' Balances

For the year ended 31 December 2017

	Profit and loss account £000	Available for sale reserve £000	Total members' balances £000
Balance at 1 January 2017	(9,713)	23	(9,690)
Underlying loss for the financial year	(29,836)	-	(29,836)
Fair value losses realised on available for sale investments	983	(983)	-
Loss for the financial year	(28,853)	(983)	(29,836)
Unrealised fair value losses recognised on available for sale investments	-	(250)	(250)
Fair value currency translation differences	1,359	-	1,359
Non-standard personal expenses	103	-	103
Payments of profits to members' personal reserve funds	(8,260)	-	(8,260)
Balance at 31 December 2017	(45,364)	(1,210)	(46,574)

For the year ended 31 December 2016

	Profit and loss account £000	Available for sale reserve £000	Total members' balances £000
Balance at 1 January 2016	(13,444)	-	(13,444)
Underlying profit for the financial year	7,112	-	7,112
Fair value losses realised on available for sale investments	144	(144)	-
Profit for the financial year	7,256	(144)	7,112
Unrealised fair value losses recognised on available for sale investments	-	167	167
Fair value currency translation differences	1,384	-	1,384
Non-standard personal expenses	652	-	652
Payments of profits to members' personal reserve funds	(5,561)	-	(5,561)
Balance at 31 December 2016	(9,713)	23	(9,690)

Statement of Financial Position

As at 31 December 2017

ASSETS	Note	2017 £000	2016 £000
Investments			
Financial investments	10	330,989	291,588
Reinsurers' share of technical provisions			
Provision for unearned premiums	17	38,924	32,213
Claims outstanding	17	102,844	79,768
		141,768	111,981
Debtors due within one year			
Debtors arising out of direct insurance operations – intermediaries	12	119,699	153,166
Debtors arising out of reinsurance operations	13	63,977	29,904
Other debtors – due from other syndicates	14	27,370	20,421
		211,046	203,491
Debtors due after one year			
Debtors arising out of direct insurance operations – intermediaries	12	267	26
Debtors arising out of reinsurance operations	13	39	70
Other debtors – due from other syndicates	14	4,001	-
		4,307	96
Other assets			
Cash at bank and in hand		16,447	19,098
Other assets	11	49,797	45,057
		66,244	64,155
Prepayments and accrued income			
Deferred acquisition costs	18	62,807	62,758
Other prepayments & accrued income		1,575	1,471
		64,382	64,229
TOTAL ASSETS		818,736	735,540

Statement of Financial Position
As at 31 December 2017

MEMBERS' BALANCES AND LIABILITIES	Note	2017 £000	2016 £000
Members' balances			
Members' balances		(46,574)	(9,690)
Technical provisions			
Provision for unearned premiums	17	254,143	225,118
Claims outstanding	17	523,820	457,606
		777,963	682,724
Creditors due within one year			
Creditors arising out of direct insurance operations – intermediaries	15	1,229	374
Creditors arising out of reinsurance operations	16	68,856	47,772
Other creditors		11,353	8,137
		81,438	56,283
Accruals and deferred income		5,909	6,223
TOTAL MEMBERS' BALANCES AND LIABILITIES		818,736	735,540

The Syndicate Annual Accounts on pages 14 to 40 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

	Note	2017 £000	2016 £000
Cash flow from operating activities			
Operating result		(28,853)	7,256
Adjustments:			
Increase in gross technical provisions		95,239	203,672
Increase in reinsurers' share of gross technical provisions		(29,787)	(19,671)
Increase in debtors		(11,766)	(89,895)
Increase in creditors		25,155	683
Movement in other assets and liabilities		(5,097)	(30,565)
Investment return		(5,374)	(5,531)
Other		126	1,407
Net cash inflow from operating activities		39,643	67,356
Cash flows from investing activities			
Purchase of equity and debt instruments		(94,619)	(168,248)
Sale of equity and debt instruments		77,281	154,558
Investment income received		6,002	4,596
Foreign exchange		20,620	(40,320)
Net cash inflow/(outflow) from investing activities		9,284	(49,414)
Cash flows from financing activities			
Profit distributed to members:			
– 2014 year of account (2016: 2013 year of account)		(10,562)	(9,164)
Other		-	641
Net cash outflow from financing activities		(10,562)	(8,523)
Net increase in cash and cash equivalents		38,365	9,419
Cash and cash equivalents at 1 January		42,610	33,191
Foreign exchange on cash and cash equivalents		(1,651)	-
Cash and cash equivalents at 31 December		79,324	42,610
Comprises:			
Cash at bank and in hand		16,447	19,098
Short term deposits with financial institutions	10	62,877	23,512
Cash and cash equivalents at 31 December		79,324	42,610

Notes to the Annual Report
At 31 December 2017

1. Statement of accounting policies

General information

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

Compliance with accounting standards

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

Basis of preparation

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

The financial statements are presented in pounds sterling, which is the Syndicate's reporting currency, in order for them to be consistent with returns provided to Lloyd's. The Syndicate's functional currency is US dollars, in order to better reflect the underlying business of the Syndicate. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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

The Syndicate 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.

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 20) 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.

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

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

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

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

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

Basis of accounting

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

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

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

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

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

Basis of accounting (continued)

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

The provision for claims outstanding is assessed on an individual case by case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated 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 currency is US dollars. The financial statements are presented in pounds sterling, which is the Syndicate's reporting currency, in order for them to be consistent with returns provided to Lloyd's.

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

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

Exchange differences arising on the retranslation of opening balance sheet items at the closing balance sheet rate and the retranslation of the profit and loss account for the year are recorded in the non-technical account. Exchange differences arising on the retranslation from functional to presentational currency are recorded in Other Comprehensive Income.

Notes to the Annual Report
At 31 December 2017

1. Statement of accounting policies (continued)

Basis of accounting (continued)

Foreign currencies (continued)
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
Euro	1.13	1.17
Australian dollar	1.73	1.70

Financial investments
As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 – Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

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

The classification depends on the purpose for which the investments were acquired or originated. Prior to the Liberty acquisition on 1 May 2017, financial assets were classified as FVPL as the Syndicate's documented investment strategy was to manage financial investments acquired on a fair value basis. The AFS category was used only in cases when the investments were passively managed.

Due to the acquisition by the Liberty Group on 1 May 2017, the investment classification was re-assessed and it was determined that investment assets should be held as AFS, reflecting the intention only to dispose if required for liquidity purposes.

FVPL assets comprise two sub categories: financial assets held for trading and those designated as FVPL at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as FVPL, the following criteria must be met:

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

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

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

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

Notes to the Annual Report
At 31 December 2017

1. Statement of accounting policies (continued)

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

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.

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.

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.

Unrealised and realised gains and losses in financial investments are recognised based on the appropriate classification of financial investments and are covered under the accounting policy for financial investments.

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

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

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

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

Profit commission
Profit commission due from the Syndicate to the managing 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.

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

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

Notes to the Annual Report
At 31 December 2017

1. Statement of accounting policies (continued)

Basis of accounting (continued)

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

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

2. Risk management

Risk framework

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

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

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

Insurance risk - underwriting

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.

Notes to the Annual Report
At 31 December 2017

2. Risk management (continued)

Insurance risk – underwriting (continued)

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

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

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

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

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

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

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

Diversification
Risks usually cover twelve months' duration, with longer duration risks of up to ten years written in selected accounts such as Political Risks and Mergers and Acquisitions. 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
To reduce the risk exposure of the Syndicate PMA has put in place strict claim review policies to assess all new and on-going claims, regular detailed reviews of claims handling procedures and frequent investigation of possible fraudulent claims.

The following table gives an indication of the likely quantum and scale of the largest Realistic Disaster Scenarios (on a gross basis) estimated for 2017.

Realistic Disaster Scenarios	**Gross event loss £000**	**Net event loss £000**
California Earthquake – Los Angeles	60,266	8,692
Terrorism – Rockefeller Centre	80,320	9,716
Terrorism – One World Centre	74,926	9,616

Notes to the Annual Report
At 31 December 2017

2. Risk management (continued)

Insurance risk – underwriting (continued)

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

	31 December 2017			31 December 2016		
	Gross liabilities £000	Reinsurance of liabilities £000	Net liabilities £000	Gross liabilities £000	Reinsurance of liabilities £000	Net liabilities £000
EU	9,267	1,844	7,423	18,238	3,179	15,059
UK	24,807	4,937	19,870	7,569	1,319	6,250
USA	69,003	12,335	56,668	49,073	8,554	40,519
Other	420,743	83,728	337,015	382,726	66,716	316,010
Total	523,820	102,844	420,976	457,606	79,768	377,838

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 and an actuarial best estimate basis. Booked reserves provide the basis for the syndicate results and forecasts.

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

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

Impact on result and members' balances (change in net reserves)	2017 £000	2016 £000
Net loss ratio - increase of 5%	(14,952)	(13,140)
Net loss ratio - increase of 10%	(29,904)	(26,281)

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.

Notes to the Annual Report
At 31 December 2017

2. Risk management (continued)

<u>Regulatory risk</u>

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 a capital uplift to the Syndicate'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 members' 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 debt holder. 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**	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Variable yield securities	-	29,880	32,997	-	-	62,877
Debt securities	69,113	71,441	109,034	18,524	-	268,112
Overseas deposits	-	-	49,797	-	-	49,797
Reinsurers share of outstanding claims	-	7,205	82,283	13,351	5	102,844
Reinsurance debtors not yet past due	-	796	13,255	3,879	401	18,331
Cash at bank and in hand	-	11,938	4,509	-	-	16,447
Total	69,113	121,260	291,875	35,754	406	518,408

As at 31 December 2016	**AAA**	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Variable yield securities	-	14,271	9,241	-	-	23,512
Debt securities	75,427	81,042	100,949	10,658	-	268,076
Overseas deposits	-	-	45,057	-	-	45,057
Reinsurers share of outstanding claims	-	7,767	67,407	4,529	65	79,768
Reinsurance debtors not yet past due	-	1,431	20,904	1,171	357	23,863
Cash at bank and in hand	-	9,958	9,140	-	-	19,098
Total	75,427	114,469	252,698	16,358	422	459,374

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 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.

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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 £000	Past due by three months £000	Past due three to six months £000	Past due over six months £000	Greater than one year £000	Total £000
Variable yield securities	62,877	-	-	-	-	62,877
Debt securities	268,112	-	-	-	-	268,112
Overseas deposits	49,797	-	-	-	-	49,797
Reinsurers share of outstanding claims	102,844	-	-	-	-	102,844
Reinsurance debtors	18,331	1,157	1,480	-	3,325	24,293
Cash at bank and in hand	16,447	-	-	-	-	16,447
Insurance debtors	69,320	14,367	11,027	15,127	10,125	119,966
Other debtors	157,630	4,757	3,651	5,009	3,353	174,400
Total	745,358	20,281	16,158	20,136	16,803	818,736

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 £000	Past due by three months £000	Past due three to six months £000	Past due over six months £000	Greater than one year £000	Total £000
Variable yield securities	23,512	-	-	-	-	23,512
Debt securities	268,076	-	-	-	-	268,076
Overseas deposits	45,057	-	-	-	-	45,057
Reinsurers share of outstanding claims	79,768	-	-	-	-	79,768
Reinsurance debtors	23,863	2,033	367	-	-	26,263
Cash at bank and in hand	19,098	-	-	-	-	19,098
Insurance debtors	62,865	18,035	26,481	32,791	13,020	153,192
Other debtors	118,387	437	641	794	315	120,574
Total	640,626	20,505	27,489	33,585	13,335	735,540

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.

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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	187,836	228,842	67,886	39,256	523,820
Creditors	81,438	-	-	-	81,438
Total	269,274	228,842	67,886	39,256	605,258

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

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 procedure manuals and a structured programme of testing of processes and systems by internal audit.

Market risk

Interest rate risk
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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	(3,302)	(3,386)
Impact of 50 basis point decrease on result	3,475	3,410
Impact of 50 basis point increase net assets	(3,302)	(3,386)
Impact of 50 basis point decrease net assets	3,475	3,410

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

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

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2. Risk management (continued)

Market risk (continued)

Currency risk (continued)
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	59,184	180,625	31,157	60,023	-	330,989
Reinsurers' share of technical provisions	47,070	84,806	7,842	706	1,344	141,768
Insurance assets	43,154	114,150	9,024	9,656	7,998	183,982
Cash and overseas deposits	17,613	8,191	5,202	11,574	23,664	66,244
Other assets	31,182	53,749	5,234	3,809	1,779	95,753
Total assets	198,203	441,521	58,459	85,768	34,785	818,736
Technical provisions	(195,370)	(443,754)	(51,309)	(65,454)	(22,076)	(777,963)
Insurance liabilities	(17,284)	(40,250)	(8,205)	(2,982)	(1,364)	(70,085)
Other creditors	(11,670)	(4,232)	(1,187)	(64)	(109)	(17,262)
Total liabilities	(224,324)	(488,236)	(60,701)	(68,500)	(23,549)	(865,310)
Currency surplus/(deficiency)	(26,121)	(46,715)	(2,242)	17,268	11,236	(46,574)

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

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	(2,199)	(1,590)
20% against other currencies	(4,949)	(2,915)
Sterling strengthens		
10% against other currencies	1,800	1,944
20% against other currencies	3,299	4,373

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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	25,989	25,501	(12,751)	(13,840)	(1,909)	(2,999)
Marine aviation and transport	21,881	25,291	(36,164)	(9,939)	9,985	(10,827)
Fire and other damage to property	59,155	60,332	(63,609)	(22,452)	10,087	(15,642)
Third party liability	182,175	132,182	(74,361)	(52,786)	(13,104)	(8,069)
Miscellaneous	43,824	48,017	(21,888)	(15,711)	(10,059)	359
	333,024	291,323	(208,773)	(114,728)	(5,000)	(37,178)
Reinsurance	81,323	80,046	(52,308)	(26,501)	1,450	2,687
Total	414,347	371,369	(261,081)	(141,229)	(3,550)	(34,491)

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

Commissions on direct insurance gross premiums during 2017 were £77.1m (2016: £72.1m).

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

All premiums were concluded in the UK.

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

	2017 £000	**2016 £000**
UK	133,745	117,704
Other EU countries	58,195	56,426
US	157,055	114,886
Other	65,352	75,949
Total	414,347	364,965

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4. Claims incurred, net of reinsurance

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

Claims incurred, net of reinsurance, include adverse prior year development of £14.5m (2016: £11.1m).

Prior year claims development is analysed by line of business in the table below:

	2017 £000	**2016 £000**
Accident & health	(1,217)	706
Marine aviation and transport	(959)	95
Fire and other damage to property	3,163	1,558
Third party liability	(9,874)	(7,939)
Miscellaneous	656	337
Reinsurance	(6,231)	(5,876)
Adverse development	(14,462)	(11,119)

Gross claims development

Pure underwriting year	**2011 £000**	**2012 £000**	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**Total £000**
Estimate of cumulative claims incurred								
At the end of the underwriting year	44,786	49,721	69,253	59,927	58,884	87,705	**110,692**	
One year later	117,458	105,000	182,536	127,136	139,872	**212,588**		
Two years later	115,937	111,258	196,938	151,504	**155,805**			
Three years later	110,309	111,287	204,782	**152,833**				
Four years later	106,071	129,018	**202,086**					
Five years later	105,619	**132,620**						
Six years later	**105,570**							
Less: cumulative payments to date	(86,810)	(101,863)	(139,392)	(91,981)	(74,732)	(59,100)	(11,580)	
Ultimate claims reserve – 2011 to 2017	18,760	30,757	62,694	60,852	81,073	153,488	99,112	506,736
Ultimate claims reserve – 2010 & prior								17,084
Gross claims outstanding provision								523,820

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4. Claims incurred, net of reinsurance (continued)

Net claims development

Pure underwriting year	**2011 £000**	**2012 £000**	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**Total £000**
Estimate of cumulative claims incurred								
At the end of the underwriting year	33,030	32,621	44,217	48,704	49,741	73,174	**79,656**	
One year later	87,606	70,976	119,280	106,939	118,316	**171,628**		
Two years later	91,551	81,370	133,048	115,310	**135,249**			
Three years later	90,240	77,051	132,992	**116,389**				
Four years later	87,108	83,973	**131,493**					
Five years later	86,729	**85,451**						
Six years later	**86,111**							
Less: cumulative payments to date	(71,157)	(60,699)	(85,513)	(68,504)	(56,353)	(48,714)	(7,114)	
Ultimate claims reserve – 2011 to 2017	14,954	24,752	45,980	47,885	78,896	122,914	72,542	407,923
Ultimate claims reserve – 2010 & prior								13,053
Net claims outstanding provision								420,976

5. Net operating expenses

	2017 £000	**2016 £000**
Acquisition costs	116,893	105,232
Change in deferred acquisition costs	(2,333)	(7,595)
Administrative expenses	26,669	16,283
Gross operating expenses	141,229	113,920
Reinsurers’ commissions	(8,558)	(6,753)
Net operating expenses	132,671	107,167

6. Auditor’s remuneration

	2017 £000	**2016 £000**
Fees payable to the Syndicate’s auditor for:		
Audit of the Syndicate Annual Accounts	44	34
Other services pursuant to regulations and Lloyd’s byelaws	110	108
Other non-audit services	82	80
	236	222

Auditor’s remuneration is included as part of administrative expenses in note 5.

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7. Staff numbers and costs

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

	2017 £000	2016 £000
Wages and salaries	12,571	12,203
Social security costs	1,723	1,335
Other pension costs	603	668
Other	517	163
	15,414	14,369

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	18	23
Underwriting	77	85
Claims	13	12
Compliance	12	16
Other	5	4
	125	140

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	2,215	1,213
Pension contributions	3	64
	2,218	1,277

In addition to the emoluments disclosed above, payments totalling £0.3m (2016: nil) in respect of compensation for loss of office were made to Directors during the year. No other director related compensation or amounts considered to represent key management personnel compensation was charged to the Syndicate.

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

	2017 £000	2016 £000
Emoluments	544	222
Pension contributions	-	18
	544	240

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9. Investment return

	2017 £000	2016 £000
Interest from financial instruments designated as at fair value through profit or loss	-	3,173
Interest from available for sale investments	4,477	884
Interest on cash at bank	277	100
Interest on overseas deposits	1,029	751
Investment income	5,783	4,908
Other income from investments designated as at fair value through profit or loss:		
Realised (losses)/gains	(506)	670
Unrealised (losses)/gains	(628)	121
	(1,134)	791
Other income from investments designated as available for sale:		
Realised gains	983	144
Investment management charges	(258)	(312)
Total investment return transferred to the technical account	5,374	5,531

Average funds available for investment during the year disclosed in original currency :	2017 '000	2016 '000
Sterling	82,026	61,768
United States dollars	238,486	243,609
Canadian dollars	109,835	105,326
Euro	33,336	15,377
Australian dollars	31,352	10,562
Converted to sterling	370,841	326,250

Gross calendar year investment yield :	2017 %	2016 %
Sterling	1.38	1.94
United States dollars	1.79	2.17
Canadian dollars	1.00	0.89
Euro	0.67	1.09
Australian dollars	1.78	1.63
Converted to sterling	1.52	1.80

"Average funds" are the average of bank balances, overseas deposits and investments held at the end of each quarter during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

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10. Financial investments

	2017 Market Value £000	2017 Cost £000	2016 Market Value £000	2016 Cost £000
Short term deposits with financial institutions	62,877	62,877	23,512	23,512
Debt securities and other fixed income securities:				
- Designated at fair value through profit or loss	-	-	137,622	138,056
- Available for sale	268,112	270,140	130,454	130,431
	330,989	333,017	291,588	291,999

As a result of the acquisition by the Liberty Group, £116.9m of financial investments designated as fair value through profit or loss were transferred to the available for sale classification to better reflect management intentions. There was no impact on the fair value gains/(losses) reported in the income statement as result of this reclassification.

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.

2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Short term deposits with financial institutions	62,877	-	-	62,877
Debt securities and other fixed income securities	-	268,112	-	268,112
Total	62,877	268,112	-	330,989

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

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11. Other assets

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

12. Debtors arising out of direct insurance operations

	2017 £000	2016 £000
Amounts due from intermediaries:		
Due within one year	119,699	153,166
Due after one year	267	26
	119,966	153,192

13. Debtors arising out of reinsurance insurance operations

	2017 £000	2016 £000
Due within one year	63,977	29,904
Due after one year	39	70
	64,016	20,974

14. Other debtors

	2017 £000	2016 £000
Amounts due from other syndicates:		
Due within one year	27,370	20,421
Due after one year	4,001	-
	31,371	20,421

15. Creditors arising out of direct insurance operations

	2017 £000	2016 £000
Amounts due to intermediaries:		
Due within one year	1,229	374

16. Creditors arising out of reinsurance insurance operations

	2017 £000	2016 £000
Due within one year	68,856	47,772

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17. Technical provisions

	2017 Gross £000	2017 RI £000	2017 Net £000	2016 Gross £000	2016 RI £000	2016 Net £000
Incurred claims outstanding:						
Claims notified	167,451	(55,427)	112,024	98,248	(28,444)	69,804
Claims incurred but not reported	290,155	(24,341)	265,814	225,174	(37,303)	187,871
Balance at 1 January	457,606	(79,768)	377,838	323,422	(65,747)	257,675
Change in prior year provisions	151,607	(34,969)	116,638	28,060	(16,942)	11,118
Expected cost of current year claims	109,474	(25,251)	84,223	188,776	(43,958)	144,818
Claims paid during the year	(167,617)	32,283	(135,334)	(133,788)	54,708	(79,080)
Effect of exchange rates	(27,250)	4,861	(22,389)	51,136	(7,829)	43,307
Balance as at 31 December	523,820	(102,844)	420,976	457,606	(79,768)	377,838
Claims notified	191,848	(65,339)	126,509	167,451	(55,427)	112,024
Claims incurred but not reported	331,972	(37,505)	294,467	290,155	(24,341)	265,814
Balance as at 31 December	523,820	(102,844)	420,976	457,606	(79,768)	377,838
Unearned premiums						
Balance at 1 January	225,118	(32,213)	192,905	155,630	(26,564)	129,066
Premiums written during the year	414,347	(80,961)	333,386	364,965	(59,858)	305,107
Premiums earned during the year	(371,369)	72,328	(299,041)	(320,477)	57,671	(262,806)
Effect of exchange rates	(13,953)	1,922	(12,031)	25,000	(3,462)	21,538
Balance at 31 December	254,143	(38,924)	215,219	225,118	(32,213)	192,905

18. Deferred acquisition costs

	2017 £000	2016 £000
Balance at 1 January	62,758	48,297
Change in deferred acquisition costs	2,333	7,595
Effect of exchange rates	(2,284)	6,866
	62,807	62,758

19. Related parties

Managing agent
The Syndicate is managed by Pembroke Managing Agency Limited ("PMA"). The immediate parent company of PMA is Pembroke JV Limited.

Syndicate 2014
The Directors of PMA have made a working capital facility available to Syndicate 2014, a non-aligned syndicate also managed by PMA, 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 debtors in note 14. Interest on amounts outstanding charged to Syndicate 2014 in the financial year totalled £0.3m (2016: £0.4m).

Syndicate 6125
The Syndicate cedes business by way of variable rate quota share arrangements to Special Purpose Syndicate 6125, which is also managed by PMA. The creditor balance relating to this arrangement as at 31 December 2017 is £23.7m (2016: £10.7m), and the debtor balance is £10.9m (2016: £3.9m).

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19. Related parties (continued)

Capital
Capital to support the underwriting of the Syndicate is provided by Ironshore Corporate Capital Limited ("ICCL"). ICCL's immediate parent company is Ironshore International Limited which is ultimately owned (with effect from 1 May 2017) by Liberty Mutual Holding Company Inc. ICCL participates on the 2018 year of account of Syndicate 2014 on the same commercial basis as other Names participating on that syndicate.

Ultimate parent company
The ultimate parent company of Ironshore Corporate Capital Limited and Pembroke Managing Agency Limited is Liberty Mutual Holding Company Inc., a company registered in the United States of America.

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

20. 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.

21. 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.