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Syndicate 2014

Annual Report

Year ended
31 December 2018

CONTENTS

SYNDICATE 2014
DIRECTORS AND ADVISERS

Managing Agent

Pembroke Managing Agency Limited

Registered Office

Level 3
8 Fenchurch Place
London
EC3M 4AJ

Registered Number

5832065

Directors

M.J. Beacham	Independent Non-Executive
C.D. Brown, ACII	Executive (appointed 15 March 2018)
N.J. Davenport, LLB (Hons)	Non-Executive
K. Ethirajan	Executive
T.A.B.H. Glover, ACII	Executive
A.M. Kaufman, FCAS, MAAA, FIA (HON), ARM, CPCU	Independent Non-Executive, Chairman
I.G. Lever, B.Acc, CA (Scotland)	Executive
F.W. Robinson, CPA	Non-Executive
T.M. Seymour, MA (Oxon), ACA	Independent Non-Executive
M.H. Wheeler, ACII	Executive (resigned 6 March 2018)
D.N. White	Executive (appointed 15 March 2018)

Company Secretary

P. Longville

Syndicate

Active Underwriter

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

Bankers

Citibank N.A.
HSBC
Royal Bank of Canada

Investment Manager

Conning Asset Management Limited

Auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

The Directors of Pembroke Managing Agency Limited ("PMA") present the Managing Agent's Report for Syndicate 2014 (the "Syndicate") for the year ended 31 December 2018.

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 2018 year of account was £150.0m (2017: £136.9m). The capacity for the 2019 year of account is £138.0m.

Management of the Syndicate

The Syndicate is managed by PMA, which is ultimately owned by Liberty Mutual Holding Company Inc. On 14 March 2019, PMA's ultimate parent, Liberty Mutual Holding Company Inc., announced that it had reached an agreement to sell PMA to Hamilton Insurance Group, subject to regulatory approval.

For the 2018 and 2019 years of account, Liberty Corporate Capital (Two) Limited, which is ultimately owned by Liberty Mutual Holding Company Inc., has a participation on the Syndicate.

Business of the Syndicate

The Syndicate is a provider of specialist commercial insurance and reinsurance products at Lloyd's. The underwriting selection process is supported by robust rating models. During the 2018 financial year gross written premium by product area was as follows:

	2018 **£000**	**2017** **£000**
Property Treaty	33,075	38,645
Casualty Treaty	50,487	36,499
Liability	71,445	57,545
Marine	13,732	14,266
Political Risks	5,616	7,044
Accident & Health ("A&H")	2,080	1,092
Lines in run-off	23,269	30,479
Total	199,704	185,570

The split between insurance and reinsurance by year of account is as follows:

	2018	**2017**	**2016**
Insurance	57%	56%	55%
Reinsurance	43%	44%	45%

Further details of the product areas are provided below.

<u>Property Treaty</u>

The majority of the Syndicate's Property Treaty book of business is written on an excess of loss basis and relates to catastrophe, per risk and aggregate risks in North America. The Syndicate also underwrites a small proportional book of business.

<u>Casualty Treaty</u>

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

<u>Liability</u>

The Liability account underwrites the following lines of business: Professional Indemnity, General Liability, Directors' & Officers' Liability and Mergers and Acquisitions. The majority of the account is written through facilities and benefits from a broad geographic segmentation of exposures, all outside the USA.

Marine

The Syndicate underwrites Marine Liability and War & Terrorism. The Marine Liability line of business underwrites two sub-classes, namely Marine Liability and Energy Liability. The geographical segmentation of exposures is diverse, with business placed with the Syndicate through a variety of methods. The War & Terrorism line of business is underwritten on a worldwide basis, with the current focus being the development of the Political Violence sub-class.

Political Risks

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

Accident & Health

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

Lines in Run-Off

Lines in run-off comprise Cargo and Property Binders, which were placed into run-off during 2018.

Review of Financial Performance

The Syndicate's key financial indicators are as follows:

	2018 £000	**2017 £000**
Syndicate capacity	150,000	136,900
Gross written premium	199,704	185,570
Loss for the financial year	(17,499)	(21,107)
Combined ratio	111.8%	117.1%
Investments, cash and deposits	183,485	139,324

The Syndicate reported a loss for the financial year of £17.5m (2017: £21.1m loss), on increased gross written premiums. The loss for the financial year is attributable to loss events (detailed below) and reserving movements during the year, and is reflected in the net combined ratio of 112% (2017: 117%).

Gross Written Premiums

Gross written premiums for the financial year were £199.7m (2017: £185.6m), reflecting growth in liability classes and a beneficial foreign exchange impact. This is despite the 2018 underwriting year ultimate expectations being reduced by £10.0m reflecting business lines exited. Business written in US dollars accounted for 60.4% (2017: 73.1%) of premium income.

Claims Incurred

Net claims incurred during the year have resulted in a net claims ratio of 71% (2017: 77%). The principal drivers were a combination of catastrophe events (notably Californian Wildfires and Hurricane Michael) and reserve deterioration on certain products (predominantly longer tail classes). This compares to the 2017 net claims ratio which was impacted by the destructive 2017 Atlantic hurricane season. The ultimate losses for Hurricanes Harvey, Irma and Maria reduced during 2018 by £0.9m (excluding foreign currency movements).

Investment Return

Investment return in 2018 was £2.8m (2017: £1.2m).

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

Review of Financial Performance (continued)

Investment Return (continued)

At 31 December 2018, the trust fund details were as follows:

Fund	Value	Calendar year yield	Benchmark yield
US CRTF	US $148.4m	1.34%	1.26%
Canadian LCTF	CAD $47.6m	1.36%	1.18%

Net Operating Expenses

Net operating expenses (note 5) in 2018 were £62.3m (2017: £54.5m), reflecting an increase in acquisition costs due to an increased level of premium income.

Balance Sheet

Increased balances across the balance sheet are reflective of the early stage of development of the Syndicate and the addition of a new underwriting year. Assets have increased to £341.5m (2016: £270.3m). Premium growth contributed to the increase of financial investments to £164.4m (2017: £122.2m). The Syndicate's liabilities of £405.1m (2017: £315.4m) increased reflecting reserving movements and business growth.

Future prospects

Trading Environment

In January 2018 David Jones was appointed Active Underwriter. Capacity was reduced for 2019 to £138m (from £150m) following the decision to exit both the Cargo and Property Binder classes of business in July 2018. Rates are beginning to strengthen and the outlook is positive.

Strategy

The joint venture between Ironshore and Willis that was called Acappella has been dissolved by mutual agreement. The Syndicate retains the Acappella brand and remains a PMA managed Syndicate.

The strategy of the Syndicate continues to be to write lines of business that offer the best opportunity to deliver an underwriting profit to capital providers across the underwriting cycle. The philosophy of the underwriting team is to target high quality clients and intermediaries with the aim of building a balanced portfolio of risks based on long standing relationships.

The Syndicate buys conservative per risk and clash reinsurance protections. During 2018, a review of the reinsurance purchased by the Syndicate was undertaken which has resulted in further efficiencies being made to the 2019 programs.

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 Syndicate will utilise Lloyd's Brussels as appropriate.

Research and Development

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

Staff Matters

PMA recognises that its staff members are key resources and seeks to provide a good working environment that is safe and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters. Human resources key performance indicators are reviewed periodically by committees of the Board, and all such indicators are in line with the expectations of the Directors.

Environmental Matters

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

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 the Company Secretary of the managing agent, who served during the year ended 31 December 2018 and up to the date of this report, are detailed on page 3.

Annual General Meeting

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

Auditor

The Board appointed Ernst & Young LLP as auditor of Syndicate 2014 for the year ended 31 December 2018. 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 auditors are unaware and each Director has taken all the steps that he/she ought to have taken as Director to make himself/herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Board Approval

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

T.A.B.H. Glover
Chief Executive Officer
21 March 2019

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 2014

Opinion

We have audited the syndicate annual accounts of Syndicate 2014 ('the Syndicate') for the year ended 31 December 2018 which comprise the Income Statement, 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 18, 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 2018 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.

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.

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; or
- 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 agent's 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 8, 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.

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.

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.

Robert Bruce (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 March 2019

SYNDICATE 2014
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
Earned premiums, net of reinsurance			
Gross premiums written	3	199,704	185,570
Outward reinsurance premiums		(41,334)	(37,090)
Net premiums written		158,370	148,480
Change in the provision for unearned premiums			
Gross amount		(5,905)	(13,952)
Reinsurers' share		1,948	2,921
Change in the net provision for unearned premiums		(3,957)	(11,031)
Earned premiums, net of reinsurance		154,413	137,449
Allocated investment return transferred from the non-technical account		2,807	1,227
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(87,415)	(65,654)
Reinsurers' share		32,219	10,805
Net claims paid		(55,196)	(54,849)
Change in the provision for claims			
Gross amount		(54,975)	(75,891)
Reinsurers' share		(222)	24,303
Change in the net provision for claims		(55,197)	(51,588)
Claims incurred, net of reinsurance	4	(110,393)	(106,437)
Net operating expenses	5	(62,296)	(54,526)
Balance on the technical account for general business		(15,469)	(22,287)
NON-TECHNICAL ACCOUNT			
Investment income	9	3,488	1,658
Realised losses on investments	9	(414)	(212)
Unrealised losses on investments	9	(130)	(171)
Investment expenses and charges	9	(137)	(48)
Allocated investment return transferred to the technical account		(2,807)	(1,227)
Exchange gains and losses		(2,030)	1,180
Loss for the financial year		(17,499)	(21,107)

All the amounts above are in respect of continuing operations.

There was no other comprehensive income.

SYNDICATE 2014
STATEMENT OF CHANGES IN MEMBERS' BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 **£000**	**2017** **£000**
Balance due from members at 1 January	(45,113)	(21,226)
Loss for the financial year	(17,499)	(21,107)
Payments of profit to members' personal reserve funds	(1,551)	(2,478)
Non-standard personal expenses paid on behalf of members	478	(366)
Other	80	64
Balance due from members at 31 December	(63,605)	(45,113)

SYNDICATE 2014
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
ASSETS			
Investments			
Financial investments	10	164,426	122,243
Reinsurers' share of technical provisions			
Provision for unearned premiums	14	12,816	10,531
Claims outstanding	14	51,932	50,271
		64,748	60,802
Debtors due within one year			
Debtors arising out of direct insurance operations – intermediaries	11	26,739	24,574
Debtors arising out of reinsurance operations	12	40,833	24,718
Other debtors		763	27
		68,335	49,319
Debtors due after one year			
Debtors arising out of direct insurance operations		14	-
Debtors arising out of reinsurance operations		8	-
		22	-
Other assets			
Cash at bank and in hand		1,929	3,602
Other assets	10	17,130	13,479
		19,059	17,081
Prepayments and accrued income			
Deferred acquisition costs	13	22,833	20,196
Other prepayments & accrued income		2,069	626
		24,902	20,822
TOTAL ASSETS		341,492	270,267
MEMBERS' BALANCES AND LIABILITIES			
Members' balances		(63,605)	(45,113)
Technical provisions			
Provision for unearned premiums	14	79,722	71,188
Claims outstanding	14	269,921	205,270
		349,643	276,458
Creditors due within one year			
Creditors arising out of insurance operations		188	-
Creditors arising out of reinsurance operations		19,462	18,388
Other creditors	15	35,158	19,238
		54,808	37,626
Accruals and deferred income		646	1,296
TOTAL MEMBERS' BALANCES AND LIABILITIES		341,492	270,267

The Syndicate Annual Accounts on pages 11 to 32 were approved by the Board of Pembroke Managing Agency Limited on 21 March 2019 and were signed on its behalf by:

I.G. Lever
Chief Financial Officer

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £000	2017 £000
Cash flow from operating activities		
Operating result	(17,499)	(21,107)
Adjustments:		
Increase in technical provisions	73,185	72,795
Increase in reinsurers' share of technical provisions	(3,946)	(23,988)
(Increase)/decrease in debtors	(19,065)	2,653
Increase/(decrease) in creditors	17,182	(8,106)
Movement in other assets/liabilities	(8,659)	(8,183)
Investment return	(2,807)	(1,227)
Net cash inflow from operating activities	38,391	12,837
Cash flows from investing activities		
Purchase of equity and debt instruments	(69,469)	(36,698)
Sale of equity and debt instruments	27,591	23,144
Investment income received	2,937	1,397
Foreign exchange	-	2,341
Net cash outflow from investing activities	(38,941)	(9,816)
Cash flows from financing activities		
Payments of profit to members' personal reserve funds	(1,551)	(2,478)
Other	478	283
Net cash outflow from financing activities	(1,073)	(2,195)
Net (decrease)/increase in cash and cash equivalents	(1,623)	826
Cash and cash equivalents at 1 January	3,602	2,776
Foreign exchange on cash and cash equivalents	(50)	-
Cash and cash equivalents at 31 December	1,929	3,602

1. Statement of Accounting Policies

<u>General Information</u>

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

<u>Compliance with Accounting Standards</u>

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.

<u>Basis of Preparation</u>

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

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

<u>Going Concern Basis</u>

These Financial statements are prepared on a going concern basis.

Syndicates by their nature only underwrite for single underwriting years on behalf of their supporting members, however this is within a context of not finalising results until after 36 months so that typically there are three underwriting years in progress at any given time. In addition, syndicates will normally expect to continue to trade for more underwriting years into the future and has continued underwriting beyond 2018.

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 17) to continue in operational existence for the foreseeable future.

<u>Use of Judgements and Estimates</u>

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.

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.

1. Statement of Accounting Policies (continued)

Use of Judgements and Estimates (continued)

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate managing agent's 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.

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.

1. Statement of Accounting Policies (continued)

Basis of Accounting (continued)

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 2018 and 31 December 2017, the Syndicate did not have an unexpired risk provision.

Foreign Currencies

The Syndicate's functional and presentation currency is pounds sterling. Transactions in US dollars, Canadian dollars, Australian dollars and euros are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

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

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

The rates of exchange used to translate foreign currency monetary balances at year end to pounds sterling are as follows:

	31 December 2018	***31 December 2017***
US dollar	1.27	1.35
Canadian dollar	1.74	1.69
Euros	1.11	1.13
Australian dollar	1.81	1.73

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"), depending on the purpose for which the investments were acquired or originated. Where the intention is to only dispose of investment assets if required for liquidity purposes, the Syndicate classifies these assets as 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.

1. Statement of Accounting policies (continued)

Basis of Accounting (continued)

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.

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.

Taxation

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

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

Pension Costs

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

1. Statement of Accounting policies (continued)

Basis of accounting (continued)

Profit Commission

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

Profit commission payable to Lloyd's coverholders or producing brokers has been provided for on all years of account and recognised within acquisition costs.

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.

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

PMA has an established risk management function for the Syndicate with a clear remit from the Board. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board. The Risk Management Framework sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations. It 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.

2. Risk management (continued)

Insurance Risk - Underwriting

The Syndicate separately defines underwriting risk appetite in respect of market losses and syndicate-specific losses, with appetite for the former being greater.

Underwriting risk appetite is expressed at the highest level, as a maximum event-specific net underwriting loss as a percentage of syndicate capacity for a specific year of account. Detailed stochastic modelling of underwriting risk, both gross and net of reinsurance, using dynamic financial analysis techniques supports this approach.

PMA's Board approves the risk appetite limit, after consultation with capital providers considering the relativity between willingness to lose and potential forecast profitability for each year of account. The risk appetite will therefore reflect the view of forecast profitability, utilising the Syndicate's latest business plan assumptions.

Principal Risks

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

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

Reinsurance

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

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

Underwriting Committee

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

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

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

Diversification

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

Claims Management

To reduce the risk exposure of the Syndicate, PMA has put in place strict claim review policies to assess all new and ongoing claims. PMA performs regular detailed reviews of claims handling procedures and conducts frequent investigations of possible fraudulent claims.

The following table gives an indication of the likely quantum and scale of the largest (on a gross basis) Realistic Disaster Scenarios estimated for 2018 (highest gross event loss for year ended 31 December 2017 was California Earthquake – Los Angeles at £78,852,000).

2. Risk Management (continued)

Insurance Risk – Underwriting (continued)

Claims Management (continued)

Realistic Disaster Scenarios	Gross event loss £000	Net event loss £000
California Earthquake – Los Angeles	103,452	24,383
Two Events – North East Windstorm	102,023	24,439
Gulf of Mexico windstorm	87,166	6,532

The Syndicate monitors exposures through a combination of deterministic modelling as part of the Realistic Disaster Scenarios Framework and stochastic modelling as part of Lloyd's catastrophe model reporting requirements. The Syndicate monitors total net claims on a 1-in-200 multiple event basis against capital requirements.

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 by underwriting year on an actuarial best estimate basis. Booked reserves provide the basis for syndicate results and forecasts.

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

The following table illustrates the sensitivity of the financial year results (before managing agent's profit commission) to changes in the net loss ratio (negative movements reflect a decrease in results / members' balances).

Impact on result and members' balances (change in net reserves)	2018 £000	2017 £000
Net loss ratio - increase of 5%	(7,721)	(6,872)
Net loss ratio - increase of 10%	(15,441)	(13,745)

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 reserves.

Reserving risk is controlled by the robust application of actuarial methodologies, stepped sign-off procedures, quarterly tracking of projected ultimate loss ratios, reassessment of methodologies where appropriate, regular dialogue between actuaries and practitioners, and access to historical loss data.

Regulatory Risk

PMA is required to comply with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. PMA has a Compliance Officer, who monitors regulatory developments and assesses the impact on PMA policy. PMA also carries out a compliance-monitoring programme as documented in the Compliance Framework.

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. Lloyd's is subject to the Solvency II capital 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.

2. Risk Management (continued)

Regulatory Risk (continued)

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements only apply at overall and member level respectively, not at syndicate level. Accordingly, the capital requirement in respect of the Syndicate is not disclosed in these financial statements.

Lloyd's Capital Setting Process

In order to meet Lloyd's requirements, each syndicate is required to calculate its SCR for the prospective underwriting year. This amount must be sufficient to cover a 1-in-200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCR of syndicates is subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

Lloyd's applies capital uplift to the member's Solvency Capital Requirement, known as the Economic Capital Uplift, to derive the Syndicate's final Economic Capital Assessment (ECA). The purpose of this uplift (which is a Lloyd's not a Solvency II requirement) is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the Syndicate's SCR to ultimate. The ECA for a corporate member is determined by Lloyd's with reference to the ECAs of the syndicates on which the member participates, and the member's share of each syndicate.

Provision of Capital by Members

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

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The key aspect of credit risk is the risk of default by a reinsurer, insurance intermediary or debtholder. The table below provides information regarding the credit risk exposure of the Syndicate 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 2018	**AAA £000**	**AA £000**	**A £000**	**BBB and below £000**	**Not rated £000**	**Total £000**
Variable yield securities	14,140	-	8,826	-	-	22,966
Debt securities	43,244	31,115	62,924	4,177	-	141,460
Overseas deposits	10,012	2,328	1,564	1,096	2,130	17,130
Reinsurers' share of outstanding claims	-	287	33,345	-	18,300	51,932
Reinsurance debtors not yet past due	-	-	1,047	-	4,253	5,300
Cash at bank and in hand	-	1,929	-	-	-	1,929
Total	67,396	35,659	107,706	5,273	24,683	240,717

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

2. Risk Management (continued)

Credit Risk (continued)

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

Broker credit risk limits are also determined depending on the grading of the relevant broker and exposures monitored against limits on a monthly basis. Investment credit risk is managed through investment management guidelines and quarterly compliance reports.

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 2018	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	22,966	-	-	-	-	22,966
Debt securities	141,460	-	-	-	-	141,460
Overseas deposits	17,130	-	-	-	-	17,130
Reinsurers' share of outstanding claims	51,932	-	-	-	-	51,932
Reinsurance debtors	5,300	-	5,422	-	-	10,722
Cash at bank and in hand	1,929	-	-	-	-	1,929
Insurance debtors	18,943	4,327	3,135	81	267	26,753
Other debtors	59,805	4,872	3,529	91	303	68,600
Total	319,465	9,199	12,086	172	570	341,492

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	51,178	-	-	-	-	51,178
Debt securities	71,065	-	-	-	-	71,065
Overseas deposits	13,479	-	-	-	-	13,479
Reinsurers' share of outstanding claims	50,271	-	-	-	-	50,271
Reinsurance debtors	3,931	-	720	596	589	5,836
Cash at bank and in hand	3,602	-	-	-	-	3,602
Insurance debtors	10,093	2,662	3,607	4,273	3,939	24,574
Other debtors	39,136	2,045	2,771	3,283	3,027	50,262
Total	242,755	4,707	7,098	8,152	7,555	270,267

As at the balance sheet date, all financial assets of the Syndicate are unimpaired (2017: all unimpaired).

Liquidity Risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with financial instruments and the payment of claims. 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.

2. Risk management (continued)

Liquidity Risk (continued)

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

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

As at 31 December 2018	Up to one year £000	One to three years £000	Three to five years £000	Greater than five years £000	Total £000
Claims outstanding	97,341	101,885	42,869	27,826	269,921
Creditors	54,808	-	-	-	54,808
Total	152,149	101,885	42,869	27,826	324,729

As at 31 December 2017	Up to one year £000	One to three years £000	Three to five years £000	Greater than five years £000	Total £000
Claims outstanding	71,571	77,159	33,887	22,653	205,270
Creditors	37,626	-	-	-	37,626
Total	109,197	77,159	33,887	22,653	242,896

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 the result and members' balances of the effects of changes in interest rates on fixed rate financial assets and variable rate financial assets.

Interest rate risk	2018 £000	2017 £000
Impact of 50 basis point increase on result	(1,709)	(961)
Impact of 50 basis point decrease on result	1,709	961
Impact of 50 basis point increase net assets	(1,709)	(961)
Impact of 50 basis point decrease net assets	1,709	961

Currency Risk

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

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

The table below summarises the exposure of financial assets and liabilities to foreign currency exchange risk at the balance sheet date.

2. Risk Management (continued)

Market Risk (continued)

Currency Risk (continued)

As at 31 December 2018	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	Total £000
Financial investments	-	137,056	-	27,370	-	164,426
Overseas deposits	2,297	1,587	-	5,093	8,153	17,130
Reinsurers' share of technical provisions	9,353	41,559	4,244	8,016	1,576	64,748
Insurance assets	13,123	45,879	4,676	2,335	1,581	67,594
Cash at bank and in hand	877	-	534	-	518	1,929
Other debtors, prepayments, accrued income	6,874	11,742	4,031	1,637	1,381	25,665
Total assets	32,524	237,823	13,485	44,451	13,209	341,492
Technical provisions	(42,755)	(225,187)	(37,215)	(28,817)	(15,669)	(349,643)
Insurance liabilities	(17,998)	(2,116)	2,375	(4,111)	2,200	(19,650)
Other creditors, accruals, deferred income	(5,596)	(29,399)	(809)	-	-	(35,804)
Total liabilities	(66,349)	(256,702)	(35,649)	(32,928)	(13,469)	(405,097)
Currency surplus / (deficiency)	(33,825)	(18,879)	(22,164)	11,523	(260)	(63,605)

As at 31 December 2017	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	Total £000
Financial investments	-	94,664	-	27,579	-	122,243
Overseas deposits	1,211	1,334	-	4,771	6,163	13,479
Reinsurers' share of technical provisions	2,757	44,707	1,469	10,353	1,516	60,802
Insurance assets	14,953	36,044	(3,143)	(17)	1,455	49,292
Cash at bank and in hand	1,492	-	767	-	1,343	3,602
Other debtors, prepayments, accrued income	5,469	11,787	1,154	1,086	1,353	20,849
Total assets	25,882	188,536	247	43,772	11,830	270,267
Technical provisions	(30,895)	(195,480)	(15,055)	(23,085)	(11,943)	(276,458)
Insurance liabilities	(2,128)	(5,190)	(793)	(9,883)	(394)	(18,388)
Other creditors, accruals, deferred income	(10,785)	(9,612)	(137)	-	-	(20,534)
Total liabilities	(43,808)	(210,282)	(15,985)	(32,968)	(12,337)	(315,380)
Currency surplus / (deficiency)	(17,926)	(21,746)	(15,738)	10,804	(507)	(45,113)

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.

	2018 £000	2017 £000
Sterling weakens		
10% against other currencies	(3,309)	(3,021)
20% against other currencies	(7,445)	(6,797)
Sterling strengthens		
10% against other currencies	2,707	2,472
20% against other currencies	4,963	4,531

Operational Risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. PMA seeks to manage this risk with detailed procedures manuals and a structured programme of testing of processes and systems by internal audit.

3. Segmental Analysis

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

2018	**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	756	677	(716)	(205)	(109)	(353)
Marine aviation and transport	5,846	6,852	(2,564)	(2,282)	(1,390)	616
Fire and other damage to property	17,093	18,255	(10,922)	(6,341)	(6,431)	(5,439)
Third party liability	84,037	74,514	(49,663)	(26,796)	(3,290)	(5,235)
Miscellaneous	13,567	15,381	(6,374)	(4,829)	(2,409)	1,769
	121,299	115,679	(70,239)	(40,453)	(13,629)	(8,642)
Reinsurance	78,405	78,120	(72,151)	(22,463)	6,860	(9,634)
Total	199,704	193,799	(142,390)	(62,916)	(6,769)	(18,276)

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

Commissions on direct insurance gross premiums during 2018 were £25.8m (2017: £24.3m).

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:

	2018 £000	**2017 £000**
UK, Channel Islands and Isle of Man	48,513	34,753
Rest of Europe	22,975	14,666
US	99,411	103,706
Other	28,805	32,445
Total	199,704	185,570

4. Claims Incurred, Net of Reinsurance

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 favourable prior year development of £3.9m (2017: adverse development of £0.7m). Prior year claims development is analysed by line of business in the table below.

	2018 **£000**	**2017** **£000**
Accident & health	(119)	(391)
Marine, aviation and transport	1,463	338
Fire and other damage to property	(4,004)	(2,866)
Third party liability	2,620	(4,754)
Miscellaneous	1,629	2,874
Reinsurance	2,353	4,079
Favourable/(adverse) development	3,942	(720)

Gross claims development

Pure underwriting year	**2014** **£000**	**2015** **£000**	**2016** **£000**	**2017** **£000**	**2018** **£000**	**Total** **£000**
Estimate of cumulative claims incurred						
At the end of the underwriting year	30,164	39,891	65,514	87,026	**67,598**	
One year later	39,341	74,262	116,962	**148,598**		
Two years later	41,568	78,905	**134,373**			
Three years later	40,954	**79,836**				
Four years later	**41,050**					
Less: cumulative payments to date	(30,954)	(45,636)	(57,089)	(58,625)	(9,230)	
Gross claims outstanding provision	10,096	34,200	77,284	89,973	58,368	269,921

Net claims development

Pure underwriting year	**2014** **£000**	**2015** **£000**	**2016** **£000**	**2017** **£000**	**2018** **£000**	**Total** **£000**
Estimate of net claims						
At the end of the underwriting year	27,608	35,672	52,603	57,998	**51,559**	
One year later	35,837	58,847	97,526	**101,235**		
Two years later	37,518	63,251	**114,417**			
Three years later	37,140	**66,087**				
Four years later	**36,950**					
Less: cumulative payments to date	(27,695)	(36,557)	(45,310)	(33,466)	(9,231)	
Net claims reserves	9,255	29,530	69,107	67,769	42,328	217,989

5. Net Operating Expenses

	2018 £000	2017 £000
Acquisition costs	53,130	47,506
Change in deferred acquisition costs	(2,008)	(3,906)
Administrative expenses	11,794	11,223
Gross operating expenses	62,916	54,823
Reinsurers' commissions	(620)	(297)
Net operating expenses	62,296	54,526

6. Auditor's Remuneration

	2018 £000	2017 £000
Fees payable to the Syndicate's Auditors for:		
Audit of the Syndicate Annual Accounts	41	31
Other services pursuant to regulations and Lloyd's byelaws	64	45
Other non-audit services	46	-
	151	76

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

7. Staff Numbers and Costs

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

	2018 £000	2017 £000
Wages and salaries	4,475	5,946
Social security costs	995	748
Other pension costs	265	292
Other	264	111
	5,999	7,097

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

	2018 Number	2017 Number
Administration and finance	14	17
Underwriting	36	36
Claims	15	13
Compliance	12	12
Other	3	3
	80	81

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:

	2018 £000	2017 £000
Emoluments	340	835
Pension contributions	2	2
	342	837

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

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

	2018 £000	2017 £000
Emoluments	293	373
Pension contributions	21	-
Emoluments	314	373

9. Investment Return

	2018 £000	2017 £000
Interest from financial instruments designated as at fair value through profit or loss	2,889	1,299
Other interest and similar income	599	359
Investment income	3,488	1,658
Other income from investments designated as at fair value through profit or loss:		
Realised losses	(414)	(212)
Unrealised losses	(130)	(171)
	(544)	(383)
Investment management charges	(137)	(48)
Total investment return transferred to the technical account	2,807	1,227

10. Financial Investments

	2018 Market Value £000	2018 Cost £000	2017 Market Value £000	2017 Cost £000
Shares and other variable yield securities	22,966	22,966	51,178	51,178
Debt securities and other fixed income securities	141,460	142,361	71,065	71,776
	164,426	165,327	122,243	122,954

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.

2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities	22,966	-	-	22,966
Debt securities and other fixed income securities	22,619	118,841	-	141,460
Other assets: overseas deposits	-	17,130	-	17,130
Total	45,585	135,971	-	181,556

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

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

11. Debtors Arising Out of Direct Insurance Operations

Included within amounts due from intermediaries at 31 December 2018 are £5.3m in relation to payments to loss funds. In previous periods, such payments were offset against claims liabilities, with a corresponding adjustment made to gross IBNR. The revised approach reflects Lloyd's guidance issued in 2017 and has been treated as a refinement of the IBNR estimation process.

12. Debtors Arising Out of Reinsurance Operations

	2018 £000	2017 £000
Due from ceding insurers and intermediaries under reinsurance business	30,111	18,882
Due from reinsurers and intermediaries under reinsurance contracts ceded	10,722	5,836
	40,833	24,718

13. Deferred Acquisition Costs

	2018 £000	2017 £000
Balance at 1 January	20,196	17,205
Change in deferred acquisition costs	2,296	4,173
Effect of exchange rates	341	(1,182)
	22,833	20,196

14. Technical Provisions

	2018			2017		
	Gross £000	RI £000	Net £000	Gross £000	RI £000	Net £000
Incurred claims outstanding:						
Claims notified	57,933	(9,477)	48,456	40,841	(16,304)	24,537
Claims incurred but not reported	147,337	(40,794)	106,543	100,974	(12,319)	88,655
Balance at 1 January	205,270	(50,271)	154,999	141,815	(28,623)	113,192
Change in prior year provisions	6,760	(2,819)	3,941	(1,221)	501	(720)
Expected cost of current year claims	135,631	(29,179)	106,452	142,767	(35,609)	107,158
Claims paid during the year	(87,416)	32,219	(55,197)	(65,654)	10,805	(54,849)
Effect of exchange rates	9,676	(1,882)	7,794	(12,437)	2,655	(9,782)
Balance at 31 December	269,921	(51,932)	217,989	205,270	(50,271)	154,999
Claims notified	82,365	(16,293)	66,072	57,933	(9,477)	48,456
Claims incurred but not reported	187,556	(35,639)	151,917	147,337	(40,794)	106,543
Balance at 31 December	269,921	(51,932)	217,989	205,270	(50,271)	154,999
Unearned premiums:						
Balance at 1 January	71,188	(10,531)	60,657	61,848	(8,191)	53,657
Premiums written during the year	199,704	(41,334)	158,370	185,570	(37,090)	148,480
Premiums earned during the year	(193,798)	39,386	(154,412)	(171,618)	34,169	(137,449)
Effect of exchange rates	2,628	(337)	2,291	(4,612)	581	(4,031)
Balance at 31 December	79,722	(12,816)	66,906	71,188	(10,531)	60,657

15. Other Creditors

	2018 £000	2017 £000
Inter-syndicate loans	31,978	16,894
Amounts due to managing agent	3,180	2,344
	35,158	19,238

16. Related Parties

Capital

Underwriting capacity is provided through a combination of Names and Trade Capital. For the 2015 to 2017 underwriting years, underwriting capacity is not provided by any entity within the Ironshore Inc. group of companies. For the 2018 and 2019 years of account, Liberty Corporate Capital (Two) Limited, which is ultimately owned by Liberty Mutual Holding Company Inc. (Liberty), has a participation on the Syndicate. Liberty is a company domiciled in the USA and it is the ultimate parent of the managing agent, PMA.

Managing Agent

The Syndicate is managed by PMA, a company that is a subsidiary within the Liberty Group. During the financial year the Syndicate incurred managing agent fees of £1.1m (2017: £1.0m). In addition to the fee for managing the Syndicate, PMA recharges costs incurred on behalf of managed syndicates. During the financial year, total expenses recharged to the Syndicate amounted to £10.0m (2017: £9.7m). At the end of the year, £3.5m remains outstanding (2017: £2.3m).

There was no profit commission charged by the managing agent relating to the 2016 closed year of account result of the Syndicate during 2018 (2017: £0.4m on 2015 year of account result).

Inter-syndicate Loans

The Directors of PMA have made a working capital facility available to the Syndicate in the form of an inter-syndicate loan from Syndicate 4000. The balance of the loan as at 31 December 2018 was £32.0m (2017: £16.9m) and is included in other creditors. Interest on amounts outstanding charged to the Syndicate in the financial year totalled £0.9m (2017: £0.3m).

Inwards Reinsurance Contracts

As at 31 December 2018 net technical provisions in respect of inwards reinsurance business from Syndicate 4000 (relating to the 2016 and prior years of account) was £0.6m (2017: £1.6m). All contracts were concluded on commercial terms.

17. 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.

18. Off Balance Sheet Items

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

MANAGING AGENT'S REPORT
2016 CLOSED YEAR OF ACCOUNT

The Directors of the PMA present the Managing Agent's Report for the 2016 closed year of account as at 31 December 2018.

Basis of Preparation

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

Principal Activities

The principal activity of the Syndicate is the underwriting of general insurance and reinsurance business at Lloyd's. The Syndicate's allocated capacity for the 2016 year of account is £129.3m. Capital to support underwriting of the Syndicate was organised through a combination of members' agencies and direct corporate participants.

Business of the 2016 Underwriting Year of Account

Property Treaty

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

Casualty Treaty

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

Liability

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

Marine

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

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

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

Property Binders

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

Political Risks

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

Accident & Health

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

2016 Closed Year of Account Result

The Directors of PMA announce that the Syndicate has closed the 2016 year of account with a total loss of £15.8m at 31 December 2018.

This result represents a deficit on allocated capacity for capital providers of (12.2)%.

Reinsurance to Close

The 2016 underwriting year of account was closed by way of reinsurance to close ("RITC") into the 2017 underwriting year of account. The RITC payable to close the underwriting year of account was £109.0m.

The RITC of the 2016 underwriting year of account was approved by the Directors of PMA on 21 March 2019.

Directors

The Directors of PMA that served during the financial year ended 31 December 2018 are disclosed on shown on page 3 in the Annual Report.

Disclosure of information to the auditors

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

Board Approval

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

T.A.B.H. Glover
Chief Executive Officer
21 March 2019

SYNDICATE 2014

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the Managing Agent's Report and Syndicate Underwriting Year Accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 2008 Regulations) require the managing agent to prepare Syndicate Underwriting Year Accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 2014 FOR THE 2016 CLOSED UNDERWRITING YEAR OF ACCOUNT

Opinion

We have audited the syndicate underwriting year accounts for the 2016 year of account of Syndicate 2014 ('the Syndicate') for the three years ended 31 December 2018 which comprise the Income Statement, 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 12, 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 underwriting year accounts:

- give a true and fair view of the loss for the 2016 closed year of account;
- 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 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate underwriting year 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 underwriting year 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.

Conclusions Relating to Going Concern Basis of Accounting

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 underwriting accounts on the basis that the recorded assets and liabilities will be realised and discharged in the normal course of business is not appropriate; or
- the managing agent has not disclosed in the syndicate underwriting accounts any identified material uncertainties that may cast significant doubt on the ability of the Syndicate to realise its assets and discharge its liabilities in the normal course of business.

Other Information

The other information comprises the information included in the annual report and the Three Year Summary of Results of Closed Years marked as unaudited, other than the syndicate underwriting year accounts and our auditor's report thereon. The managing agent is responsible for the other information.

Our opinion on the syndicate underwriting year 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 underwriting year accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year 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 underwriting year 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.

Matters on Which We Are Required to Report by Exception

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

- the managing agent in respect of the Syndicate has not kept adequate accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

Responsibilities of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 35, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) 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 underwriting year accounts that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Syndicate Underwriting Year Accounts

Our objectives are to obtain reasonable assurance about whether the syndicate underwriting year 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 underwriting year 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.

Use of Our Report

This report is made solely to the Syndicate's members, as a body, in accordance with The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) and 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.

Robert Bruce (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 March 2019

SYNDICATE 2014

STATEMENT OF COMPREHENSIVE INCOME
2016 CLOSED YEAR OF ACCOUNT
FOR THE THREE YEARS ENDED 31 DECEMBER 2018

	Note	**£000**
Syndicate allotted capacity		129,336
TECHNICAL ACCOUNT – GENERAL BUSINESS		
Premium income, net of reinsurance		
Gross premiums written	3	188,358
Outward reinsurance premiums		(31,061)
Earned premiums, net of reinsurance		157,297
Reinsurance to close premiums received, net of reinsurance	4	46,482
Allocated investment return transferred from the non-technical account		2,331
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		(69,642)
Reinsurers' share		13,749
Net claims paid		(55,893)
Reinsurance to close premium payable, net of reinsurance	5	(109,001)
Claims incurred, net of reinsurance		(164,894)
Net operating expenses	6	(59,658)
Balance on the technical account for general business		(18,442)
NON-TECHNICAL ACCOUNT		
Income from investments	8	3,279
Gains on the realisation of investments	8	96
Losses on the realisation of investments	8	(534)
Unrealised gains on investments	8	140
Unrealised losses on investments	8	(512)
Investment management charges	8	(138)
Allocated investment return transferred to the general business technical account		(2,331)
Profit on exchange		3,371
Loss for the 2016 closed year of account		(15,071)

As the 2016 Year of Account following a reinsurance to close is no longer trading, all operations relate to ceased activities for this year of account.

There was no other comprehensive income.

Amounts due from members	**£000**
Loss for the 2016 closed year of account	(15,071)
Members' agent fee advances	(684)
Amounts due to members at 31 December 2018	(15,755)

SYNDICATE 2014

STATEMENT OF FINANCIAL POSITION
2016 CLOSED YEAR OF ACCOUNT
AS AT 31 DECEMBER 2018

	Note	**£000**
ASSETS		
Investments	9	76,199
Debtors	10	17,773
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	5	15,987
Other assets		
Cash at bank and in hand		1,165
Overseas deposits		11,146
Prepayments and accrued income		
Other prepayments and accrued income		477
Amounts due from members		15,755
TOTAL ASSETS		138,502
LIABILITIES		
Reinsurance to close premium payable – gross amount	5	124,987
Creditors	11	13,487
Accruals and deferred income		28
TOTAL LIABILITIES		138,502

The underwriting year accounts on pages 38 to 48 were approved by the Board of Pembroke Managing Agency Limited on 21 March 2019 and were signed on its behalf by:

I.G. Lever
Chief Financial Officer

SYNDICATE 2014

STATEMENT OF CASH FLOWS
2016 CLOSED YEAR OF ACCOUNT
FOR THE THREE YEARS ENDED 31 DECEMBER 2018

	£000
Cash flow from operating activities	
Loss for the closed year of account	(15,071)
Adjustments for:	
Increase in reinsurance to close payable	109,001
Increase in debtors, prepayments and accrued income	(18,250)
Increase in creditors, accruals and deferred income	13,515
Increase in other assets	(11,146)
Exclude investment return	(2,331)
Net cash inflow from operating activities	75,718
Cash flows from investing activities	
Purchase of equity and debt instruments	(77,148)
Investment income received	3,279
Net cash outflow from investing activities	(73,869)
Cash flows from financing activities	
Members' agent fee advances	(684)
Net cash outflow from financing activities	(684)
Net increase in cash and cash equivalents	1,165
Cash and cash equivalents at 1 January 2016	-
Cash and cash equivalents at 31 December 2018	1,165

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

1. Accounting Policies

General Information

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

Compliance with Accounting Standards

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

Basis of Preparation

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

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

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2016 year of account which has been closed by reinsurance to close as at 31 December 2018. Consequently, the statement of financial position represents the assets and the liabilities of the 2016 year of account at the date of closure. The statement of comprehensive income reflects the transactions for that year of account during the three year period until closure.

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

Use of Judgments and Estimates

The key accounting judgement, assumptions and estimates made in the preparation of these Underwriting Year Accounts are those relating to the determination of the Reinsurance to Close to transfer all the assets and liabilities from the 2016 Year of Account.

Basis of Accounting

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

Premiums Written

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

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

Reinsurance Premium Ceded

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

1. Accounting policies *(continued)*

Basis of Accounting (continued)

Claims Paid and Related Recoveries

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

Reinsurance to Close Premium Payable

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

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods. In setting the RITC, management have taken into account the estimated level of claims that will arise on any business relating to closed years, which has not yet been fully written or earned.

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

The reinsurers' share of the provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

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

Investment Return

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

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.

1. Accounting Policies *(continued)*

Basis of Accounting (continued)

Operating Expenses

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

Taxation

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

Profit Commission

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

Foreign Currencies

The Syndicate's functional and presentation currency is pounds sterling. Transactions in US dollars, Canadian dollars, euros and Australian dollars are translated at average rates of exchange for each calendar year as an equivalent of transaction rates. The exception to this is that the reinsurance to close payable has been translated at the transaction rates of exchange ruling at the effective date of the contract. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

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

2. Risk and Capital Management

Since 31 December 2018, a reinsurance to close has been completed which transferred all assets and liabilities from the 2016 year of account to the 2017 year of account. Any change in value of the assets or liabilities or further transactions after 31 December 2018 will be borne by the 2017 year of account. The 2016 year of account therefore bears no further risk and accordingly no disclosures relating to risks are disclosed in these underwriting year accounts.

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

3. Segmental Analysis

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

	Gross premiums written £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:					
Accident and health	409	(301)	(131)	(4)	(27)
Marine aviation and transport	11,162	(8,667)	(3,552)	(103)	(1,160)
Fire and other damage to property	23,369	(37,981)	(7,437)	141	(21,908)
Third party liability	70,500	(61,296)	(22,433)	(376)	(13,605)
Miscellaneous	15,106	(11,113)	(4,806)	(25)	(838)
	120,546	(119,358)	(38,359)	(367)	(37,538)
Reinsurance	67,812	(19,466)	(21,578)	(10,003)	16,765
Total	188,358	(138,824)	(59,937)	(10,370)	(20,773)

All contracts of insurance were concluded in the United Kingdom.

4. Reinsurance to Close Premium Received

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

5. Reinsurance to Close Premium Payable

	Reported £000	IBNR £000	Total £000
Gross reinsurance to close premium payable	(47,537)	(72,720)	(120,257)
Reinsurance recoveries anticipated	5,240	8,449	13,689
	(42,297)	(64,271)	(106,568)
Provision for future gross premiums payable			(3,408)
Provision for future reinsurance premium receivable			2,298
			(1,110)
Provision for internal claims administration expenses			(1,323)
			(109,001)

This amount represents a provision for the Reinsurance to Close of the 2016 year of account into the 2017 year of account of Syndicate 2014 as at 31 December 2018, which was subsequently approved by the board of Pembroke Managing Agency Limited on 21 March 2019.

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

6. Net Operating Expenses

	£000
Acquisition costs – brokerage and commissions	43,483
Acquisition costs – other	4,754
Reinsurance commissions and profit participations	(279)
Administrative expenses	11,700
	59,658

Administrative expenses include:	£000
Standard personal expenses	2,728
Auditors' remuneration:	
Fees payable to the Syndicate auditor for the audit of the 2016 accounts	18

Other fees payable to the Syndicate's auditors are detailed in the annual accounts on page 27.

7. Balance on the Technical Account Before Net Operating Expenses and Allocated Investment Return

	£000
Technical account balance before net operating expenses and allocated investment return	38,885
Brokerage and commissions	(43,204)
	(4,319)

8. Investment return

	£000
Interest from financial instruments designated as at fair value through profit or loss	3,061
Other interest and similar income	218
Investment income	3,279
Other income from investments designated as at fair value through profit or loss:	
Net realised losses	(438)
Net unrealised losses	(372)
	(810)
Investment management charges	(138)
Total investment return transferred to the technical account	2,331

9. Investments

	Market value £000	Cost £000
Shares and other variable yield securities	11,707	11,707
Debt securities and other fixed income securities	64,492	64,903
	76,199	76,610

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

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities	11,707	-	-	11,707
Debt securities and other fixed income securities	10,312	54,180	-	64,492
Overseas deposits	-	11,146	-	11,146
Total	22,019	65,326	-	87,345

10. Debtors

	£000
Intermediaries	7,414
Due from reinsurers and intermediaries under reinsurance contracts ceded	9,595
Other debtors	764
	17,773

11. Creditors

	£000
Due to reinsurers	7,677
Inter-syndicate loan from Syndicate 4000	3,912
Other creditors	1,898
	13,487

12. Related parties

Information on related parties is disclosed in note 16 to the Syndicate Annual Accounts on page 32.

SYNDICATE 2014

2016 CLOSED YEAR OF ACCOUNT
THREE YEAR SUMMARY OF RESULTS

The following is provided by way of additional information and does not form part of these accounts. The Three Year Summary of Results is unaudited.

	2014 Year of Account	2015 Year of Account	2016 Year of Account
Syndicate capacity	£74.9m	£99.6m	£129.3m
Net premiums	£40.3m	£96.7m	£157.3m
No. of members	982	967	938

Result for an illustrative share of £10,000:

	£	£	£
Gross premiums (net of brokerage and commissions)	6,425	9,136	11,201
Net premiums	5,376	7,163	8,821
Premium received for RITC	-	2,019	3,594
Net claims	(2,068)	(3,279)	(4,322)
Premium paid for reinsurance to close	(2,687)	(4,665)	(8,428)
Underwriting profit/(loss)	621	1,237	(335)
Operating expenses	(990)	(1,064)	(1,061)
Balance on technical account	(369)	173	(1,396)
Investment return	27	54	180
Profit/(loss) on exchange	972	214	262
Profit/(loss) for the closed year	630	441	(954)
Profit commission	(72)	(39)	-
Other personal expenses	(145)	(181)	(211)
Profit/(loss) after all personal expenses	413	221	(1,165)
Share of commissions and brokerage excluded from above (note 1)	1,086	2,543	3,384

Percentage of illustrative share:

	%	%	%
Gross premium %	64.3	91.4	112.0
Net premium %	53.8	71.6	88.2
Balance on technical account %	(3.7)	1.7	(14.0)

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