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Syndicate 4000

Annual Report

Year ended
31 December 2018

SYNDICATE 4000

CONTENTS

	Page
Directors and Advisers	4
Managing Agent’s Report	5 – 9
Statement of Managing Agent’s Responsibilities	10
Independent Auditor’s Report to the Members of Syndicate 4000	11 – 12
Statement of Comprehensive Income	13
Statement of Changes in Members’ Balances	14
Statement of Financial Position	15
Statement of Cash Flows	16
Notes to the Annual Report	17 – 37

SYNDICATE 4000

DIRECTORS AND ADVISERS

Managing Agent

Pembroke Managing Agency Limited

Registered Office

Level 3
8 Fenchurch Place
London
EC3M 4AJ

Registered Number

583265

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

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

Bankers

Citibank N.A.
HSBC
Royal Bank of Canada

Investment Manager

Liberty Mutual Group Asset Management Inc.

Auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

SYNDICATE 4000

MANAGING AGENT'S REPORT

The Directors of Pembroke Managing Agency Limited ("PMA") present the Managing Agent's Report for Syndicate 4000 ("the Syndicate") for the year ended 31 December 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 £398.0m (2017: £346.0m). The capacity for the 2019 year of account is £236.0m. Capital to support the underwriting of the Syndicate is provided by entities that are ultimately owned by Liberty Mutual Holding Company Inc.

- Liberty Corporate Capital (Two) Limited ("LCC2") (formerly Ironshore Corporate Capital Limited) for the 2018 and prior years of account.
- Ironshore CC (Three) Limited ("ICC3") (for the 2019 year of account).

PMA also manages Syndicate 2014, Syndicate 6125 and Syndicate 1947. For the 2018 and 2019 years of account, LCC2 has participations on Syndicate 2014. Otherwise, capital to support the underwriting of these syndicates is provided by third parties that are unrelated to the Liberty Group. Transactions between these syndicates and entities within the Liberty Group are conducted on a normal commercial basis.

Business of the Syndicate

The Syndicate continues to be a provider of specialist commercial insurance and reinsurance products and aims to write a low volatility portfolio of niche property and casualty classes of business. The portfolio is built around business which has a high technical barrier to entry. 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**
Mergers & Acquisitions ("M&A")	71,849	92,300
Property	54,721	40,454
Liability	90,580	91,672
Political Risks & Political Violence	50,986	50,417
Marine/Energy	37,524	29,382
Accident & Health ("A&H")	54,005	36,276
Agriculture	22,524	25,266
Select Specialist Lines	11,979	21,139
Lines in run-off	28,793	27,441
Total	422,961	414,347

Further details of the product areas are provided below.

<u>Mergers & Acquisitions</u>

The Syndicate has an established reputation as a lead market in this line of business. The Syndicate offers warranties and indemnities for parties to mergers & acquisitions, as well as tax specific covers. The book is geographically diversified, with the majority of business emanating from the UK, Western Europe, Australia and the US.

<u>Property</u>

The Property book has global exposures, written on both a Direct and Facultative basis as well as through a specialist Property Binders division. The underwriting strategy of the book is to minimise catastrophe exposure. Risks written include construction sites, factories (particularly electronic and food manufacturers) and public buildings. The Property Reinsurance account relates predominantly to underwriting on behalf of Special Purpose Syndicate 6125, with Syndicate 4000 retaining 10% of exposures.

Liability

The Liability product area comprises Professional Lines and Financial Institutions accounts. These are diverse portfolios, designed to minimise economic correlation between the two accounts. The accounts comprise crime, professional indemnity, directors' & officers' liability and medical malpractice products. The Financial Institutions account targets institutional facing business rather than retail exposure.

Political Risks & Political Violence

This product area comprises Political Risks (cover for confiscation, contract frustration), Trade Credit and War & Terrorism (covers damage to property / business interruption due to war, terrorism, strikes and riots), written on a worldwide basis.

Marine / Energy

This product area includes two elements: Specie & Fine Art / High Value Cargo (typically written with lead positions) and Marine Liability. The Marine Liability book includes both traditional Marine Liability and Energy Liability (predominantly offshore). This product area includes an international Onshore & Offshore Energy book.

Accident & Health

The A&H product area includes individual and group accidental death and disability, worldwide excess of loss, medical expenses and kidnap and ransom cover.

Agriculture

The Agriculture book is a diversified portfolio of risks, accepted by way of both proportional and non-proportional treaties. Products include crop, livestock, bloodstock, forestry and aquaculture. In addition to underwriters located in the UK, the book is serviced by coverholders based in local markets.

Select Specialist Lines

The main areas of Select Specialist Lines are Product Recall and Surety, with additional niche, specialty covers.

Lines in Run-Off

Lines in run-off include Marine Re, Cargo and Casualty, which have now been placed into run-off.

Strategic Partnerships Through Special Purpose Arrangements ("SPAs")

The PMA Strategic Partnership Team forms and develops SPAs and syndicates supported by third party capital.

For the 2012 and 2013 years of account, Syndicate 6110 was an SPA managed by PMA and hosted by Syndicate 4000. This was succeeded by a standalone successor syndicate, Syndicate 2014, from the 2014 year of account onwards.

For the 2016 year of account, PMA entered into a strategic partnership agreement with Patria Re S.A. ("Patria") which resulted in the formation of an SPA, Patria Syndicate 6125 which is a wholly aligned Special Purpose Arrangement. The capital to support underwriting is provided by Patria Corporate Member Limited ("PCM"). Patria and PCM are wholly owned subsidiaries of Peña Verde S.A.B. ("Peña Verde"). Peña Verde is a Mexican domiciled insurance and reinsurance group with an established presence in Central and South America. As is the case with all SPAs, Patria Syndicate 6125 sources its underwriting by way of quota share reinsurance cessions from its host, which is Syndicate 4000.

In addition to the Property Treaty book of business wherein Syndicate 4000 cedes 90% of the book to Syndicate 6125, Peña Verde and Syndicate 4000 have also entered into an exposure exchange agreement covering a selection of short tail lines of business.

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

Review of Financial Performance

The Syndicate's key financial indicators are as follows:

	2018 £000	2017 £000
Syndicate capacity	398,000	346,000
Gross written premium	422,961	414,347
Profit/(loss) for the financial year	23,855	(28,853)
Total comprehensive income/(loss) for the financial year	22,065	(28,727)
Combined ratio	94.9%	111.5%
Investments, cash and deposits	461,591	397,233

The Syndicate reports a profit for the year of £23.9m reflecting a benign year and an element of favourable prior year development, notably on Political Risks & Political Violence (2017: £28.9m loss, largely as a result of claims activity, both catastrophe events and reserve strengthening). The impact of the 2018 hurricanes and wildfires was marginal, being contained within planned loss ratios.

Gross Written Premiums

The Syndicate reports gross written premiums for the financial year of £423.0m (2017: £414.3m), representing an increase of 2.1% (2017: 13.5%) on the prior year. The rating environment remained challenging for most divisions, although there has been some evidence of changing market conditions. The Property, Marine/Energy and A&H product areas all experienced double digit growth in the year. This was offset by a reduction in M&A business (with reduced levels of business in the US) and the decision to reduce or cease some lines during 2018.

Claims Incurred

The decrease in the net loss ratio to 51.8% (2017: 67.2%) reflects a benign period of catastrophe events (compared to 2017 hurricane impact), with an element of favourable prior year development on attritional losses.

Investment Return

Investment return in 2018 was £5.9m (2017: £5.4m).

Net Operating Expenses

Net operating expenses (note 5) in 2018 were £147.3m (2017: £132.7m), with the increase reflecting a higher acquisition cost ratio due to business mix changes and increased variable pay costs.

Balance Sheet

Syndicate assets have increased by £172.6m to £991.3m (2017: £818.7m) and the total liabilities have increased by £141.1m to £1,006.4m (2017: £865.3m) as a result of business growth.

Future Prospects

Trading Environment

The rating environment outlook is more positive for 2019 and the syndicate will build momentum accordingly.

The lower level of stamp capacity for 2019 reflects strategic changes within the wider Liberty Group, in particular with regard to the M&A division and steps taken in 2018 on certain divisions. These reductions are partially offset by plans to extend into new areas during 2019 (notably Cyber).

Strategic Review

During the year, the Liberty Mutual Group decided to centralise its M&A insurance offerings with the formation of one Global Transaction Solutions ("GTS") group. As a result, the PMA M&A underwriting team will transfer to Liberty and will cease to place business on Syndicate 4000 with effect from 1 January 2019. PMA management are planning to hire a new M&A team to replace this business.

On 14 March 2019, PMA's ultimate parent, Liberty Mutual Holding Company Inc., announced that it had reached an agreement to sell PMA and ICC3 to Hamilton Insurance Group, subject to regulatory approval.

Strategy

The Syndicate has a sustained track record of disciplined and profitable growth. The 2016 year of account is closing at a profit of £32.0m. With the exception of 2015 (which was impacted by foreign exchange losses), earlier underwriting years managed by PMA closed profitably. At the date of this Annual Report, the 2017 and 2018 open years of account are anticipated to close profitably.

The profitability of the Syndicate's business through the soft market validates the approach to managing the Syndicate which is characterised by careful risk selection, opportunistic organic growth of existing lines of business where conditions permit and the carefully managed introduction of new products and high calibre underwriting teams.

The 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 for its staff that is safe and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

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

Environmental Matters

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

Principal Risks and Uncertainties

The Board sets risk appetite annually as part of the Syndicate's business planning and capacity setting process. PMA has established a Risk Committee which meets at least quarterly to review and update the risk register and to monitor performance against risk appetite using a series of key risk indicators. An Own Risk and Solvency Assessment ("ORSA") is completed annually and reviewed on a quarterly basis. The ORSA is used to monitor changes in the risk profile of PMA and to ensure that PMA meets its current and future capital requirements.

The principal risks and uncertainties facing the Syndicate are set out in note 2 to the Annual Report.

Directors and Officers Serving During the Year

The Directors and Company Secretary of the managing agent, who served during the year ended 31 December 2018 and up to the date of this report, are detailed on page 4.

Annual General Meeting

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

Auditor

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

Disclosure of Information to the Auditor

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

Board Approval

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

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

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

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

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

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

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

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business'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 4000

Opinion

We have audited the syndicate annual accounts of Syndicate 4000 ('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 profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 4000 (continued)

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 13, 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 4000

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	422,961	414,347
Outward reinsurance premiums		(80,595)	(80,961)
Net premiums written		342,366	333,386
Change in the provision for unearned premiums			
Gross amount		(2,774)	(42,978)
Reinsurers' share		2,358	8,633
Change in the net provision for unearned premiums		(416)	(34,345)
Earned premiums, net of reinsurance		341,950	299,041
Allocated investment return transferred from the non-technical account		5,873	5,374
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(175,516)	(167,617)
Reinsurers' share		41,824	32,283
Net claims paid		(133,692)	(135,334)
Change in the provision for claims			
Gross amount		(76,725)	(93,464)
Reinsurers' share		33,385	27,937
Change in the net provision for claims		(43,340)	(65,527)
Claims incurred, net of reinsurance		(177,032)	(200,861)
Net operating expenses	5	(147,318)	(132,671)
Balance on the technical account for general business		23,473	(29,117)
NON-TECHNICAL ACCOUNT			
Investment income	9	7,170	5,783
Realised (losses)/gains on investments	9	(907)	477
Investment expenses and charges	9	(390)	(258)
Unrealised losses on investments	9	-	(628)
Allocated investment return transferred to the technical account	9	(5,873)	(5,374)
Foreign exchange gains		382	264
Profit/(loss) for the financial year		23,855	(28,853)
Other comprehensive income – currency translation differences		(1,096)	1,359
Fair value losses on available for sale investments		(694)	(1,233)
Total comprehensive income/(loss) for the financial year		22,065	(28,727)

All the amounts above are in respect of continuing operations.

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

	Profit and loss account £000	Available for sale reserve £000	Total members' balances £000
Balance at 1 January 2018	(45,364)	(1,210)	(46,574)
Underlying profit for the financial year	24,762	-	24,762
Fair value profits realised on available for sale investments	(907)	907	-
Profit for the financial year	23,855	907	24,762
Fair value currency translation differences	(2,697)	-	(2,697)
Non-standard personal expenses	(237)	-	(237)
Payments of profits to members' personal reserve funds	9,639	-	9,639
Balance at 31 December 2018	(14,804)	(303)	(15,107)

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

SYNDICATE 4000

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
ASSETS			
Investments			
Financial investments	10	377,028	330,989
Reinsurers' share of technical provisions			
Provision for unearned premiums	15	42,776	38,924
Claims outstanding	15	140,971	102,844
		183,747	141,768
Debtors due within one year			
Debtors arising out of direct insurance operations – intermediaries	11	129,622	119,699
Debtors arising out of reinsurance operations	12	86,718	63,977
Other debtors – due from other syndicates	13	54,383	27,370
		270,723	211,046
Debtors due after one year			
Debtors arising out of direct insurance operations – intermediaries	11	69	267
Debtors arising out of reinsurance operations	12	15	39
Other debtors – due from other syndicates	13	6,875	4,001
		6,959	4,307
Other assets			
Cash at bank and in hand		27,614	16,447
Other assets	10	56,949	49,797
		84,563	66,244
Prepayments and accrued income			
Deferred acquisition costs	14	66,294	62,807
Other prepayments & accrued income		2,001	1,575
		68,295	64,382
TOTAL ASSETS		991,315	818,736
MEMBERS' BALANCES AND LIABILITIES			
Members' balances		(15,107)	(46,574)
Technical provisions			
Provision for unearned premiums	15	266,219	254,143
Claims outstanding	15	618,131	523,820
		884,350	777,963
Creditors due within one year			
Creditors arising out of direct insurance operations – intermediaries		2,265	1,229
Creditors arising out of reinsurance operations		94,950	68,856
Other creditors		18,269	11,353
		115,484	81,438
Accruals and deferred income		6,588	5,909
TOTAL MEMBERS' BALANCES AND LIABILITIES		991,315	818,736

The Syndicate Annual Accounts on pages 13 to 37 were approved by the Board of Pembroke Managing Agency Limited on 21 March 2018 and were signed on its behalf by:

I. G. Lever
Chief Financial Officer

SYNDICATE 4000

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Cash flow from operating activities			
Operating result		23,855	(28,853)
Adjustments:			
Increase in gross technical provisions		79,499	95,239
Increase in reinsurers' share of gross technical provisions		(37,210)	(29,787)
Increase in debtors		(47,932)	(11,766)
Increase in creditors		30,352	25,155
Movement in other assets and liabilities		(7,942)	(5,097)
Investment return		(5,873)	(5,374)
Other		293	126
Net cash inflow from operating activities		35,042	39,643
Cash flows from investing activities			
Purchase of equity and debt instruments		(151,551)	(94,619)
Sale of equity and debt instruments		128,998	77,281
Investment income received		6,814	6,002
Foreign exchange		-	20,620
Net cash (outflow)/inflow from investing activities		(15,739)	9,284
Cash flows from financing activities			
Profit distributed to members (2014 year of account)		-	(10,562)
Cash call from members (2015 year of account)		5,367	-
Other		(116)	-
Net cash outflow from financing activities		5,251	(10,562)
Net increase in cash and cash equivalents		24,554	38,365
Cash and cash equivalents at 1 January		79,324	42,610
Foreign exchange on cash and cash equivalents		3,131	(1,651)
Cash and cash equivalents at 31 December		107,009	79,324
Comprises:			
Cash at bank and in hand		27,614	16,447
Short term deposits with financial institutions	10	79,395	62,877
Cash and cash equivalents at 31 December		107,009	79,324

1. Statement of Accounting Policies

General Information

The Syndicate comprises a single corporate member of the Society of Lloyd's that underwrites insurance business in the London market. The corporate member is LCC2 (formerly Ironshore Corporate Capital Limited). The registered address of the corporate member and Managing Agent is Level 3, 8 Fenchurch Place, London, EC3M 4AJ.

Compliance with Accounting Standards

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

Basis of Preparation

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

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

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

Going Concern Basis

These financial statements are prepared on a going concern basis.

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

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

The Syndicate has considerable financial resources together with long term relationships with a number of brokers and policyholders across different classes of business and geographical areas. As a consequence, the Directors believe that the Syndicate is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Syndicate has adequate resources including the Funds at Lloyd's of the members supporting the Syndicate (as detailed in note 17) to continue in operational existence for the foreseeable future.

Use of Judgements and Estimates

In preparing these financial statements, the Directors of the managing agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

1. Statement of Accounting Policies (continued)

<u>Use of Judgements and Estimates (continued)</u>

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

Provision for Claims Outstanding

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

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

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

<u>Basis of Accounting</u>

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.

1. Statement of Accounting Policies (continued)

Basis of Accounting (continued)

Acquisition Costs

Acquisition costs include direct costs such as brokerage and commission, and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies. The deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date; this is then earned in future periods in line with the associated premium income.

Claims Provisions and Related Recoveries

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

The provision for claims outstanding is assessed on an individual case by case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated IBNR at the balance sheet date based on statistical methods.

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

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

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

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. The methods used, and the estimates made, are reviewed regularly.

Unexpired Risks Provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition cost deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return. As at 31 December 2018 and 31 December 2017, the Syndicate did not have an unexpired risk provision.

Foreign Currencies

The Syndicate's functional currency is US dollars. The financial statements are presented in pounds sterling, which is the Syndicate's reporting currency, in order for them to be consistent with returns provided to Lloyd's. Transactions in pounds sterling, 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.

1. Statement of accounting policies (continued)

Basis of Accounting (continued)

Foreign Currencies (continued)

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

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

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
Euro	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.

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.

1. Statement of accounting policies (continued)

Basis of Accounting (continued)

Investment Return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments are held to support underwriting liabilities.

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

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

Taxation

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

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

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

Pension Costs

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

Profit Commission

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

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

Insurance Receivables

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

1. Statement of accounting policies (continued)

Basis of accounting (continued)

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 capital provider LCC2, 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.

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.

2. Risk Management (continued)

Insurance Risk – Underwriting (continued)

Principal Risks

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

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

Reinsurance

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

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

Underwriting Committee

The Syndicate organises underwriting through product areas. Each underwriting unit reports to the Underwriting Committee and ultimately the PMA Board. This control process ensures that several layers of review occur for underwriting risks, with the focus being on the main components of risk, notably pricing, loss ratio selection, reserving, variations in experience, cycle management, reinsurance protection and catastrophe modelling.

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

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

Diversification

Risks usually cover twelve months' duration, with longer duration risks of up to ten years written in selected accounts such as Political Risks and Mergers & Acquisitions. Risks deliberately emanate from a diverse range of sources. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geographical segmentation.

Claims Management

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

2. Risk Management (continued)

Insurance Risk – Underwriting (continued)

Claims Management (continued)

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 Terrorism Attack – Rockefeller Centre at £80,320,000).

Realistic Disaster Scenarios	**Gross event loss £000**	**Net event loss £000**
Terrorism Attack – Rockefeller Centre	92,841	12,522
Florida Windstorm - Miami	78,077	25,737
California Earthquake – Los Angeles	69,245	17,802

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

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

The following table illustrates the sensitivity of the financial year results (before managing agent's profit commission) to changes in the net loss ratio (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%	(17,098)	(14,952)
Net loss ratio - increase of 10%	(34,195)	(29,904)

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.

2. Risk Management (continued)

<u>Regulatory Risk</u>

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

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

Lloyd's Capital Setting Process

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

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

Provision of Capital by Members

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

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

2. Risk Management (continued)

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The key aspect of credit risk is the risk of default by a reinsurer, insurance intermediary or debt holder. The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2018 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	36,905	-	42,490	-	-	79,395
Debt securities	63,635	99,249	88,188	46,445	116	297,633
Overseas deposits	-	-	56,949	-	-	56,949
Reinsurers' share of outstanding claims	-	5,906	122,870	-	12,195	140,971
Reinsurance debtors not yet past due	-	1,924	25,476	-	1,484	28,884
Cash at bank and in hand	-	24,010	3,604	-	-	27,614
Total	100,540	131,089	339,577	46,445	13,795	631,446

As at 31 December 2017	AAA £000	AA £000	A £000	BBB and below £000	Not rated £000	Total £000
Variable yield securities	-	29,880	32,997	-	-	62,877
Debt securities	69,113	71,441	109,034	18,524	-	268,112
Overseas deposits	-	-	49,797	-	-	49,797
Reinsurers' share of outstanding claims	-	7,205	82,283	13,351	5	102,844
Reinsurance debtors not yet past due	-	796	13,255	3,879	401	18,331
Cash at bank and in hand	-	11,938	4,509	-	-	16,447
Total	69,113	121,260	291,875	35,754	406	518,408

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 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.

2. Risk Management (continued)

Credit Risk (continued)

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

As at 31 December 2018	**Not yet due**	**Past due by three months**	**Past due three to six months**	**Past due over six months**	**Greater than one year**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Variable yield securities	79,395	-	-	-	-	79,395
Debt securities	297,633	-	-	-	-	297,633
Overseas deposits	56,949	-	-	-	-	56,949
Reinsurers share of outstanding claims	140,971	-	-	-	-	140,971
Reinsurance debtors	28,884	12,276	1,710	-	-	42,870
Cash at bank and in hand	27,614	-	-	-	-	27,614
Insurance debtors	81,078	9,336	12,727	22,905	3,645	129,691
Other debtors	199,756	3,157	4,303	7,744	1,232	216,192
Total	912,280	24,769	18,740	30,649	4,877	991,315

As at 31 December 2017	**Not yet due**	**Past due by three months**	**Past due three to six months**	**Past due over six months**	**Greater than one year**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Variable yield securities	62,877	-	-	-	-	62,877
Debt securities	268,112	-	-	-	-	268,112
Overseas deposits	49,797	-	-	-	-	49,797
Reinsurers share of outstanding claims	102,844	-	-	-	-	102,844
Reinsurance debtors	18,331	1,157	1,480	-	3,325	24,293
Cash at bank and in hand	16,447	-	-	-	-	16,447
Insurance debtors	69,320	14,367	11,027	15,127	10,125	119,966
Other debtors	157,630	4,757	3,651	5,009	3,353	174,400
Total	745,358	20,281	16,158	20,136	16,803	818,736

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

Liquidity Risk

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

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

2. Risk Management (continued)

Liquidity Risk (continued)

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

As at 31 December 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	196,677	344,598	52,009	24,847	618,131
Creditors	115,484	-	-	-	115,484
Total	312,161	344,598	52,009	24,847	733,615

As at 31 December 2017	**Up to one year £000**	**One to three years £000**	**Three to five years £000**	**Greater than five years £000**	**Total £000**
Claims outstanding	187,836	228,842	67,886	39,256	523,820
Creditors	81,438	-	-	-	81,438
Total	269,274	228,842	67,886	39,256	605,258

Market Risk

Interest Rate Risk

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

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

Interest rate risk	**2018 £000**	**2017 £000**
Impact of 50 basis point increase on result	(4,042)	(3,302)
Impact of 50 basis point decrease on result	4,180	3,475
Impact of 50 basis point increase net assets	(4,042)	(3,302)
Impact of 50 basis point decrease net assets	4,180	3,475

Currency Risk

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

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

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

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	59,931	221,266	31,483	64,348	-	377,028
Reinsurers' share of technical provisions	60,269	108,786	10,686	2,101	1,905	183,747
Insurance assets	56,563	138,001	7,298	8,097	6,465	216,424
Cash and overseas deposits	22,312	7,993	16,241	13,589	24,428	84,563
Other assets	31,236	80,776	10,345	5,307	1,889	129,553
Total assets	230,311	556,822	76,053	93,442	34,687	991,315
Technical provisions	(219,083)	(492,360)	(80,596)	(63,983)	(28,328)	(884,350)
Insurance liabilities	(21,594)	(61,702)	(8,567)	(3,528)	(1,824)	(97,215)
Other creditors	(13,950)	(9,141)	(815)	(871)	(80)	(24,857)
Total liabilities	(254,627)	(563,203)	(89,978)	(68,382)	(30,232)	(1,006,422)
Currency (deficiency)/surplus	(24,316)	(6,381)	(13,925)	25,060	4,455	(15,107)

As at 31 December 2017	**GBP £000**	**USD £000**	**EUR £000**	**CAD £000**	**AUD £000**	**Total £000**
Financial investments	59,184	180,625	31,157	60,023	-	330,989
Reinsurers' share of technical provisions	47,070	84,806	7,842	706	1,344	141,768
Insurance assets	43,154	114,150	9,024	9,656	7,998	183,982
Cash and overseas deposits	17,613	8,191	5,202	11,574	23,664	66,244
Other assets	31,182	53,749	5,234	3,809	1,779	95,753
Total assets	198,203	441,521	58,459	85,768	34,785	818,736
Technical provisions	(195,370)	(443,754)	(51,309)	(65,454)	(22,076)	(777,963)
Insurance liabilities	(17,284)	(40,250)	(8,205)	(2,982)	(1,364)	(70,085)
Other creditors	(11,670)	(4,232)	(1,187)	(64)	(109)	(17,262)
Total liabilities	(224,324)	(488,236)	(60,701)	(68,500)	(23,549)	(865,310)
Currency (deficiency)/surplus	(26,121)	(46,715)	(2,242)	17,268	11,236	(46,574)

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	1,103	(2,199)
20% against other currencies	2,481	(4,949)
Sterling strengthens		
10% against other currencies	(902)	1,800
20% against other currencies	(1,654)	3,299

Operational Risk

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

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	39,400	36,973	(22,382)	(20,810)	(566)	(6,785)
Marine aviation and transport	21,688	22,176	(21,970)	(7,254)	4,169	(2,879)
Fire and other damage to property	64,720	67,433	(45,279)	(26,982)	(4,901)	(9,729)
Third party liability	162,917	159,422	(95,635)	(61,282)	3,708	6,213
Miscellaneous	31,553	40,138	(5,713)	(10,856)	(386)	23,183
	320,278	326,142	(190,979)	(127,184)	2,024	10,003
Reinsurance	102,683	94,045	(61,262)	(27,756)	2,570	7,597
Total	422,961	420,187	(252,241)	(154,940)	4,594	17,600

2017	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross Operating Expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Accident & health	25,989	25,501	(12,751)	(13,840)	(1,909)	(2,999)
Marine aviation and transport	21,881	25,291	(36,164)	(9,939)	9,985	(10,827)
Fire and other damage to property	59,155	60,332	(63,609)	(22,452)	10,087	(15,642)
Third party liability	182,175	132,182	(74,361)	(52,786)	(13,104)	(8,069)
Miscellaneous	43,824	48,017	(21,888)	(15,711)	(10,059)	359
	333,024	291,323	(208,773)	(114,728)	(5,000)	(37,178)
Reinsurance	81,323	80,046	(52,308)	(26,501)	1,450	2,687
Total	414,347	371,369	(261,081)	(141,229)	(3,550)	(34,491)

Commissions on direct insurance gross premiums during 2018 were £83.9m (2017: £77.1m).

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

All premiums were concluded in the UK.

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

	2018 £000	2017 £000
UK, Channel Islands and Isle of Man	99,314	133,745
Rest of Europe	49,305	58,195
US	151,061	157,055
Other	123,281	65,352
Total	422,961	414,347

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 £42.8m (2017 adverse development: £14.5m). Prior year claims development is analysed by line of business in the table below.

	2018 £000	2017 £000
Accident & health	(2,298)	(1,217)
Marine aviation and transport	955	(959)
Fire and other damage to property	9,356	3,163
Third party liability	10,196	(9,874)
Miscellaneous	19,222	656
Reinsurance	5,338	(6,231)
Favourable / (adverse) development	42,769	(14,462)

Gross Claims Development

Pure underwriting year	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Estimate of cumulative claims incurred								
At the end of the underwriting year	51,580	71,606	62,393	60,905	90,543	115,226	**103,335**	
One year later	108,998	190,262	131,861	144,478	220,124	**247,256**		
Two years later	115,556	205,292	157,498	161,206	**252,485**			
Three years later	115,542	213,006	159,118	**163,333**				
Four years later	134,053	210,123	**149,651**					
Five years later	137,787	**202,304**						
Six years later	**138,123**							
Less: cumulative payments to date	(114,851)	(161,027)	(104,363)	(100,013)	(121,192)	(68,961)	(3,891)	
Ultimate claims reserve – 2012 to 2018	23,272	41,277	45,288	63,320	131,293	178,295	99,444	582,189
Ultimate claims reserve – 2011 & prior								35,942
Gross claims outstanding provision								618,131

Net Claims Development

Pure underwriting year	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Estimate of cumulative claims incurred								
At the end of the underwriting year	33,738	45,588	50,674	51,317	73,379	82,473	**78,226**	
One year later	73,459	123,811	110,816	121,910	177,220	**178,562**		
Two years later	84,270	138,149	119,680	139,492	**204,515**			
Three years later	79,672	138,034	120,937	**135,049**				
Four years later	86,687	136,371	**110,989**					
Five years later	88,371	**128,701**						
Six years later	**87,943**							
Less: cumulative payments to date	(71,258)	(99,945)	(77,098)	(76,956)	(98,032)	(46,606)	(2,715)	
Ultimate claims reserve – 2012 to 2018	16,685	28,756	33,891	58,093	106,483	131,956	75,511	451,375
Ultimate claims reserve – 2011 & prior								25,785
Net claims outstanding provision								477,160

5. Net Operating Expenses

	2018 £000	2017 £000
Acquisition costs	119,901	116,893
Change in deferred acquisition costs	(1,467)	(2,333)
Administrative expenses	36,506	26,669
Gross operating expenses	154,940	141,229
Reinsurers' commissions	(7,622)	(8,558)
Net operating expenses	147,318	132,671

6. Auditor's Remuneration

	2018 £000	2017 £000
Fees payable to the Syndicate's auditor for:		
Audit of the Syndicate Annual Accounts	45	44
Other services pursuant to regulations and Lloyd's byelaws	94	110
Other non-audit services	90	82
	229	236

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

7. Staff Numbers and Costs

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

	2018 £000	2017 £000
Wages and salaries	15,544	12,571
Social security costs	1,704	1,723
Other pension costs	783	603
Other	3,326	517
	21,357	15,414

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	18
Underwriting	88	77
Claims	15	13
Compliance	12	12
Other	3	5
	132	125

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	1,056	2,215
Pension contributions	7	3
	1,063	2,218

In addition to the emoluments disclosed above, no payments (2017: £0.3m) in respect of compensation for loss of office were made to Directors during the year. No other director related compensation or amounts considered to represent key management personnel compensation was charged to the Syndicate.

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

	2018 £000	2017 £000
Emoluments	347	544
Pension contributions	13	-
	360	544

9. Investment Return

	2018 £000	2017 £000
Interest from available for sale investments	4,977	4,477
Interest on cash at bank	1,112	277
Interest on overseas deposits	1,081	1,029
Investment income	7,170	5,783
Other income from investments designated as at fair value through profit or loss:		
Realised (losses)	-	(506)
Unrealised (losses)	-	(628)
	-	(1,134)
Other income from investments designated as available for sale:		
Realised (losses)/gains	(907)	983
Investment management charges	(390)	(258)
Total investment return transferred to the technical account	5,873	5,374

See note 10 for details of the transfer from financial investments designated as fair value through profit or loss to the available for sale classification in 2017.

10. Financial Investments

	2018 Market Value £000	2018 Cost £000	2017 Market Value £000	2017 Cost £000
Short term deposits with financial institutions	79,395	79,395	62,877	62,877
Debt securities and other fixed income securities:				
- Available for sale	297,633	300,582	268,112	270,140
	377,028	379,977	330,989	333,017

As a result of the acquisition by the Liberty Group on 1 May 2017, £116.9m of financial investments designated as fair value through profit or loss were transferred to the available for sale classification to better reflect management intentions. There was no impact on the fair value gains/(losses) reported in the income statement as result of this reclassification.

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

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

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

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

2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Short term deposits with financial institutions	79,395	-	-	79,395
Debt securities and other fixed income securities	32,962	264,671	-	297,633
Other assets: overseas deposits	-	56,949	-	56,949
Total	112,357	321,620	-	433,977

2017	Level 1 £000	Level 2 £000	Level 3 £'000	Total £000
Short term deposits with financial institutions	62,877	-	-	62,877
Debt securities and other fixed income securities	-	268,112	-	268,112
Other assets: overseas deposits	-	49,797	-	49,797
Total	62,877	317,909	-	380,786

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

	2018 £000	**2017 £000**
Amounts due from intermediaries:		
Due within one year	129,622	119,699
Due after one year	69	267
	129,691	119,966

Included within amounts due from intermediaries at 31 December 2018 is £7.9m 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 within one year	86,718	63,977
Due after one year	15	39
	86,733	64,016

Included within debtors arising out of reinsurance operations at 31 December 2018 is £2.5m 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.

13. Other Debtors

	2018 £000	**2017 £000**
Amounts due from other syndicates:		
Due within one year	54,383	27,370
Due after one year	6,875	4,001
	61,258	31,371

14. Deferred Acquisition Costs

	2018 £000	**2017 £000**
Balance at 1 January	62,807	62,758
Change in deferred acquisition costs	1,467	2,333
Effect of exchange rates	2,020	(2,284)
	66,294	62,807

15. Technical Provisions

Year ended 31 December 2018	Provision for unearned premium £000	Claims Outstanding £000
Gross technical provisions:		
Balance at 1 January	254,143	523,820
Movement in the provision	2,774	76,729
Foreign exchange movements	9,302	17,582
Balance at 31 December	266,219	618,131
Reinsurers' share of technical provisions:		
Balance at 1 January	38,924	102,844
Movement in the provision	2,358	33,386
Foreign exchange movements	1,494	4,741
Balance at 31 December	42,776	140,971
Net technical provision:		
Balance at 1 January	215,219	420,976
Balance at 31 December	223,443	477,160

Year ended 31 December 2017	Provision for unearned premium £000	Claims Outstanding £000
Gross technical provisions:		
Balance at 1 January	225,118	457,606
Movement in the provision	42,978	93,464
Foreign exchange movements	(13,953)	(27,250)
Balance at 31 December	254,143	523,820
Reinsurers' share of technical provisions:		
Balance at 1 January	32,213	79,768
Movement in the provision	8,633	27,937
Foreign exchange movements	(1,922)	(4,861)
Balance at 31 December	38,924	102,844
Net technical provision:		
Balance at 1 January	192,905	377,838
Balance at 31 December	215,219	420,976

16. Related Parties

Managing Agent

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

Syndicate 2014

The Directors of PMA have made a working capital facility available to Syndicate 2014, a non-aligned syndicate also managed by PMA, in the form of an inter-syndicate loan from Syndicate 4000. The balance of the loan as at 31 December 2018 was £32.0m (2017: £16.9m) and is included in other debtors in note 13. Interest on amounts outstanding charged to Syndicate 2014 in the financial year totalled £0.9m (2017: £0.3m).

Syndicate 6125

The Syndicate cedes business by way of variable rate quota share arrangements to Special Purpose Syndicate 6125, which is also managed by PMA. The creditor balance relating to this arrangement as at 31 December 2018 is £42.5m (2017: £23.7m), and the debtor balance is £25.6m (2017: £10.9m).

Capital

Capital to support the underwriting of the Syndicate is provided by LCC2 and (with effect from the 2019 year of account) ICC3. LCC2 and ICC3's immediate parent company is Ironshore International Limited which is ultimately owned by Liberty Mutual Holding Company Inc. LCC2 participates on the 2018 and 2019 years of account of Syndicate 2014 on the same commercial basis as other Names participating on that syndicate.

Ultimate Parent Company

The ultimate parent company of LCC2, ICC3 and Pembroke Managing Agency Limited is Liberty Mutual Holding Company Inc., a company registered in the United States of America.

Related Party Disclosure Exemption

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

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.