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Syndicate 2014

Annual Report

Year ended
31 December 2016

Contents

Directors and Advisers

Managing agent

Registered office

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

Registered number

5832065

Directors

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

Company secretary

N.G. Hardman Bbus CPA

Syndicate

Active Underwriter

D.M. Indge, FCII

Bankers

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

Investment Managers

Conning Asset Management Limited

Auditors

PKF Littlejohn LLP

Managing Agent's Report

The Directors of Pembroke Managing Agency Limited ("PMA") present the Managing Agent's Report for Syndicate 2014 (the 'Syndicate') for the year ended 31 December 2016.

Principal activities

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

The Syndicate's allocated capacity for the 2016 year of account was £129.3m (2015: £99.6m).

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

Management of the Syndicate

The Syndicate is managed by PMA, which is a wholly owned subsidiary of the Ironshore group of companies ("Ironshore"), a Bermudian based insurance and reinsurance group with shareholders' funds at 31 December 2016 of $2.1bn (2015: $2.0bn). The ultimate parent company of PMA and Ironshore is Fosun International Ltd ("Fosun"), an international conglomerate and investment company. Fosun is incorporated in Hong Kong and headquartered in Shanghai. Fosun is registered on the main board of the Hong Kong stock exchange.

On 5 December 2016, Fosun announced that it had entered into a definitive agreement with Liberty Mutual Group ("Liberty") to divest of its interest in Ironshore. Liberty is a mutual insurer and reinsurer that operates on a global basis. At the date of this Annual Report, the completion of the transaction remains subject to regulatory approval.

The Directors of PMA do not anticipate that the acquisition of Ironshore by Liberty will have a significant impact on the future development and trading prospects of the Syndicate.

The business of the Syndicate is conducted through the underwriting of the following accounts; property, casualty treaty, liability, marine, political risks and accident & health.

Business of the Syndicate - Property

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

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

Business of the Syndicate – Casualty Treaty

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

Business of the Syndicate - Liability

The liability account underwrites the following lines of business; professional indemnity, general liability and directors & officers liability. The majority of the account is written through delegated authorities, and benefits from a broad geographic segmentation of exposures.

Managing Agent's Report (continued)

Business of the Syndicate - Marine

The Syndicate underwrites cargo, marine liability and war & terrorism. Cargo lines of business include; stock, stock throughput, general cargo, consequential loss and cargo liability. The majority of the Syndicate's exposures are in Europe and North America, with business being accepted through a range of placement methods.

The marine liability line of business underwrites the following sub-classes; general marine liability, energy liability and ports & terminals. The geographical segmentation of exposures is diverse, with business placed with the Syndicate through a variety of methods.

The war & terrorism line of business is underwritten on a worldwide basis, with the current focus being the development of the political violence sub-class.

Business of the Syndicate – Political risks

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

Business of the Syndicate – Accident & health

The accident & health account has a number of lines of business, including; general personal accident, sports personal accident, treaty excess of loss and medical expenses. The majority of business is accepted through delegated authorities from a follow position.

Key financial indicators

The Syndicate's key financial indicators are as follows:

	2016 **£000**	**2015** **£000**
Syndicate capacity	129,336	99,641
Gross written premium	144,806	91,916
(Loss)/profit for the financial year	(16,452)	426
Combined ratio	117.0%	99.1%
Investments, cash and deposits	123,274	50,989

Review of financial performance

The Syndicate reports a loss for the financial year of £16.5m (2015: profit £0.4m), on increased gross written premiums of £144.8m (2015: £91.9m). The loss for the financial year is attributable to catastrophe and risk losses incurred during the year, and is reflected in the increased net combined ratio of 117.0% (2015: 99.1%)

Gross written premiums

The Syndicate continues to develop a reputation as a leading provider of specialist commercial insurance and reinsurance products at Lloyd's. Insurance acceptances accounted for 44.2% (2015: 32.2%) of the Syndicate's business, with reinsurance acceptances accounting for 55.8% (2015: 67.8%).

Gross written premiums for the financial year were £144.8m (2015: £91.9m). The increase in gross written premiums has been achieved through the careful selection and managed introduction of new underwriting teams since the formation of the Syndicate as well as through the organic growth of existing lines where opportunities have arisen.

In addition to the Syndicate's growth strategies, gross written premiums benefited from the appreciation of the US Dollar against the Syndicate's functional and reporting currency, Pounds Sterling. Business written in US Dollars accounted for 72% (2015: 86%) of premium income.

Managing Agent's Report (continued)

Review of financial performance (continued)

Gross written premiums (continued)

Gross written premiums for the financial year were as follows:

	2016 £000	2015 £000
Property	51,718	42,203
Casualty treaty	36,157	24,905
Liability	34,857	14,001
Marine	14,677	6,562
Political Risks	5,788	2,893
Accident and health	1,609	1,352
	144,806	91,916

Net combined ratio

Net claims incurred during the year have resulted in an increase in the net combined ratio to 117.0% (2015: 99.1%). The principal driver for the net loss ratio of 77.9% (2015: 58.2%) is a combination of catastrophe and risk loss activity during the current accident year.

On 1 May 2016, the Syndicate incurred catastrophe losses from the Fort McMurray Wildfires in Alberta, Canada. The gross losses of £18.1m were partially mitigated by the responsiveness of the Syndicate's outwards reinsurance program, with net losses incurred for this event of £4.0m.

Further catastrophe gross and net losses were incurred in relation to the following events; Hurricane Matthew (gross £2.8m, net £2.5m), Texas Hail Storms and Flooding (gross £2.5m, net £2.2m) and the Gatlinburg Wildfires (gross £2.2m, net £2.0m).

Review of financial position

As at 31 December 2016, net liabilities of the Syndicate were £21.2m (2015: net liabilities £4.1m). As set out in the Review of Financial Performance, net losses incurred as a result of catastrophes and risk losses were the key drivers behind the increase.

Assets

Assets have increased to £226.4m (2015: £99.6m) as premium growth impacts financial investments of £111.8m (2015: £47.1m) and insurance debtors of £48.3m (2015: £28.7m). The increase in the reinsurers share of claims outstanding to £28.6m (2015: £10.8m) is due to the recognition of anticipated recoveries from reinsurers on catastrophe losses incurred as well as through the continued growth of the Syndicate.

Asset categories that have a significant proportion of transactions denominated in US Dollars have appreciated in Pounds Sterling, the functional and reporting currency of the Syndicate. The US Dollar rate of exchange to Sterling at the balance sheet date was 1.224 (2015: 1.483), with a significant shift in the rate experienced in the immediate aftermath of the UK's decision leave the European Union.

Liabilities

Accordingly, the Syndicate's liabilities of £247.6m (2015: £103.6m) increased due to the factors that also impacted assets.

Liability categories that have a significant proportion of transactions denominated in US Dollars include; unearned premium provisions, gross claims provisions and amounts payable to reinsurers.

Managing Agent’s Report (continued)

Investments

Investment return

	2016 £000	2015 £000
Income from investments	762	22
Realised gains on investments	2	-
Unrealised (losses) on investments	(509)	-
Total investment return	255	22

Investment manager’s performance compared to benchmark

During the first quarter of 2016, Conning Asset Management Ltd (‘Conning’) were appointed as investment managers to the Syndicate by the Directors of PMA. Conning manages the Syndicate’s US Situs Credit for Reinsurance Trust Fund (‘CRTF’). The fund is maintained as regulatory collateral for the underwriting of reinsurance business in the United States.

As at 31 December 2016 the valuation of the trust fund was $82.6m and the calendar year yield achieved was 0.39% as compared to a benchmark of 1.01%. The adverse variance to the benchmark yield was due to the following factors; timing differences arising from the disposal of cash equivalents and the purchase of the target composition of the portfolio, significant cash flows arising from changes in funding requirements and mismatches between the portfolio and the benchmark due to the investment restrictions placed on the CRTF by New York Insurance Law, over which the investment manager had limited scope to influence.

Future prospects

Trading environment

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

The Syndicate seeks to navigate through this challenging environment, through the application of a strategic approach to growth that is predicated on its underwriting philosophy.

Strategic approach to growth and underwriting philosophy

It is the strategy of the Syndicate to only underwrite lines of business that offer the best opportunity to deliver an underwriting profit to capital providers. The long term strategy however is to build a portfolio that is based predominantly on short tail insurance supported by a material amount of long tail insurance and short and long tail reinsurance.

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

The philosophy of the underwriting teams is to target high quality clients and intermediaries with the aim of building a balanced portfolio of risks based on long standing relationships. In order to mitigate the risk of portfolio imbalance during the formative years, the Syndicate purchases conservative per risk and "clash" reinsurance protections.

Managing Agent's Report (continued)

Future prospects (continued)

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

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

Although Europe does not currently represent a significant source of income for the Syndicate, the macroeconomic uncertainty and the threat to existing trading relationships is a concern in need of address. Access to the single market is therefore a priority for Lloyd's and the Syndicate. The Lloyd's Brexit plan is keenly anticipated, as is its leadership in representing the interests of Lloyd's underwriters both at home and abroad.

Solvency II

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

Research and development

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

Staff matters

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

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

Environmental matters

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

Managing Agent's Report (continued)

Risk review

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

The principal risks and uncertainties facing the Syndicate are set out below, including references to Notes to the Annual Report where additional information relating to these risks is provided.

Insurance risk - Underwriting

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

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

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

Insurance risk - Reserving

PMA's reserving policy seeks to ensure appropriate allowance for reserving risk and consistency in reserving from year to year.

Booked reserves represent the level of reserves booked at the Syndicate level. They are prepared on an underwriting year basis, and equal the actuarial best estimate reserves.

Booked reserves provide the basis for the Syndicate results and forecasts.

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

The actuarial best estimate reserves are calculated by PMA. The actuarial team calculates the reserves in conjunction with extensive discussions with underwriting, claims and reinsurance staff. The Directors consider, assess and approve the best estimate calculated, based on which the Directors set the booked reserve.

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

Regulatory risk

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

Managing Agent's Report (continued)

Risk review (continued)

Credit risk

The key aspect of credit risk is the risk of default by a reinsurer, insurance intermediary or debtholder. Exposures to single counterparties are regularly reviewed at Reinsurance Committee, Underwriting Committee and Investment Committee.

PMA predominantly purchases reinsurance from reinsurers rated strong or better by Standard & Poor's (or equivalent). Maximum exposures per reinsurer are set in response to a reinsurer's rating and net assets.

Broker credit risk limits are also determined depending on the grading of the relevant broker and exposures monitored against limits on a monthly basis.

Investment credit risk is managed through investment management guidelines and quarterly compliance reports.

Liquidity risk

The Syndicate is subject to calls on cash resources, mainly in respect of claims on insurance business, on a daily basis. PMA operates and maintains a liquidity risk policy designed to ensure that cash is available to settle liabilities and other obligations when due without excessive cost to the business.

The liquidity risk policy, which is subject to review and approval by the Board on an annual basis, sets limits for cash required to meet expected cash flows. It includes a contingency funding plan, which details the process and provisions for raising additional funds required to meet liabilities in extreme circumstances.

Market risk

The key aspect of market risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between currencies in which assets and liabilities are denominated. Currency matching is reviewed on a quarterly basis and significant mismatches are addressed through currency purchases and sales.

Movements in interest rates will also impact the value of debt and other fixed income securities relative to the value of related liabilities. This risk is managed through asset and liability duration management.

Operational risk

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

Managing Agent's Report (continued)

Directors of the managing agent

The Directors of the Managing Agent, who served during the year ended 31 December 2016 and up to the date of this report, were as follows:

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

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

Company secretary

N.G. Hardman Bbus CPA

Annual General Meeting

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

Auditors

PKF Littlejohn LLP has signified its willingness to continue in office as auditors.

Disclosure of information to auditors

The directors who held office at the date of the approval of this 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

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

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
- prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

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

Independent Auditor's Report to the Members of Syndicate 2014

We have audited the Syndicate Annual Financial Statements for the year ended 31 December 2016 as set out on pages 15 to 36. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

This report is made solely to the Members of the Syndicate 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 that we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Syndicate and the Syndicate's Members as a body for our audit work, for this report, or for the opinion we have formed.

Respective Responsibilities of the Managing Agent and the Auditor

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

Scope of the audit of the Syndicate Annual Financial Statements

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

Opinion on Syndicate Annual Financial Statements

In our opinion the Annual Financial Statements:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2016 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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

- the information given in the Managing Agent's Report for the financial year for which the Annual Financial Statements are prepared is consistent with the Annual Financial Statements; and
- the Managing Agent's Report has been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Syndicate and its environment obtained in the course of the audit we have not identified any 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 Financial Statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Neil Coulson (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP, Statutory Auditor
London
21 March 2017

Statement of Comprehensive Income

For the year ended 31 December 2016

Technical account – General business

	Note	2016 £000	2015 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	144,806	91,916
Outward reinsurance premiums		(29,887)	(18,929)
Net premiums written		114,919	72,987
Change in the gross provision for unearned premiums			
Gross amount		(21,705)	(12,251)
Reinsurers' share		1,544	2,697
Change in the net provision for unearned premiums		(20,161)	(9,554)
Earned premiums, net of reinsurance		94,758	63,433
Allocated investment return transferred from the non-technical account		213	22
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(25,283)	(8,020)
Reinsurers' share		3,036	648
Net claims paid		(22,247)	(7,372)
Change in the provision for claims			
Gross amount		(72,361)	(33,248)
Reinsurers' share		20,761	3,705
Change in the net provision for claims		(51,600)	(29,543)
Claims incurred, net of reinsurance	4	(73,847)	(36,915)
Net operating expenses	5	(36,989)	(25,937)
Balance on the technical account for general business		(15,865)	603

All the amounts above are in respect of continuing operations.

Statement of Comprehensive Income and Statement of Changes in Members Balances

For the year ended 31 December 2016

Non-technical account

	Note	2016 £000	2015 £000
Balance on the technical account for general business		(15,865)	603
Investment income	9	762	22
Realised gains on investments	9	2	-
Unrealised gains on investments	9	(509)	-
Investment expenses and charges	9	(42)	-
Allocated investment return transferred to the technical account		(213)	(22)
Exchange gains and losses		(587)	(177)
(Loss)/profit for the financial year		(16,452)	426

There was no other comprehensive income.

Statement of Changes in Members Balances

For the year ended 31 December 2016

	2016 £000	2015 £000
Balance due from members at 1 January	(4,051)	(3,791)
(Loss)/profit for the financial year	(16,452)	426
Non standard personal expenses paid on behalf of members	(723)	(684)
Exchange differences	-	(2)
Balance due from members at 31 December	(21,226)	(4,051)

Statement of Financial Position
As at 31 December 2016

ASSETS	Note	**2016**	**2015**
		£000	**£000**
Investments			
Financial investments	10	111,812	47,131
Reinsurers' share of technical provisions			
Provision for unearned premiums	11	8,191	5,508
Claims outstanding	11	28,623	5,291
		36,814	10,799
Debtors due within one year			
Debtors arising out of direct insurance operations – intermediaries		20,222	8,889
Debtors arising out of reinsurance operations	12	28,066	19,802
Other debtors	13	-	51
		48,288	28,742
Other assets			
Cash at bank and in hand	14	2,776	2,771
Other assets	15	8,686	1,087
		11,462	3,858
Prepayments and accrued income			
Deferred acquisition costs	16	17,205	8,964
Other prepayments & accrued income		808	92
		18,013	9,056
TOTAL ASSETS		226,389	99,586
LIABILITIES			
Capital and reserves			
Members' balances		(21,226)	(4,051)
Technical provisions			
Provision for unearned premiums	11	61,848	32,352
Claims outstanding	11	141,815	53,254
		203,663	85,606
Creditors due within one year			
Creditors arising out of direct insurance operations – intermediaries	17	-	1,883
Creditors arising out of reinsurance operations	18	29,259	3,972
Other creditors	19	13,099	11,511
		42,358	17,366
Accruals and deferred income		1,594	665
TOTAL LIABILITIES		226,389	99,586

The annual accounts on pages 15 to 36 were approved by the Board of Pembroke Managing Agency Limited on 20 March 2017 and were signed on its behalf by:

I.R. Garven
Finance Director

Statement of Cash Flows

For the year ended 31 December 2016

	2016 £000	2015 £000
Cash flow from operating activities		
Operating result	(16,452)	426
Adjustments:		
Increase in gross technical provisions	118,057	47,556
Increase in reinsurers' share of gross technical provisions	(26,015)	(6,702)
Increase in debtors	(23,203)	(9,582)
Increase in creditors	28,367	4,620
Movement in other assets and liabilities	(15,344)	(3,203)
Investment return	(213)	(22)
Net cash inflow from operating activities	65,197	33,093
Cash flows from investing activities		
Purchase of equity and debt instruments	(67,872)	(29,771)
Sale of equity and debt instruments	8,703	-
Investment income received	721	22
Foreign exchange	(6,020)	-
Net cash outflow from investing activities	(64,468)	(29,749)
Cash flows from financing activities		
Other	(724)	(685)
Net cash outflow from financing activities	(724)	(685)
Net increase in cash and cash equivalents	5	2,659
Cash and cash equivalents at 1 January	2,771	112
Cash and cash equivalents at 31 December	2,776	2,771

Notes to the Annual Report
At 31 December 2016

1. Statement of Accounting policies

General information

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

Compliance with accounting standards

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

Basis of preparation

These financial Statements for the year-ended 31 December 2016 comply with FRS 102 and 103.

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.

Going concern basis

These Financial statements are prepared on a going concern basis.

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

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

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

The directors have a reasonable expectation that the Syndicate has adequate resources including the Funds at Lloyd's of the members supporting the Syndicate (as detailed in note 20) to continue in operational existence for the foreseeable future.

Use of judgements and estimates

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

Notes to the Annual Report
At 31 December 2016

1. Statement of Accounting policies (continued)

Use of judgements and estimates (continued)

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

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

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

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

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

Basis of accounting

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

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

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

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

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

Notes to the Annual Report
At 31 December 2016

1. Statement of Accounting policies (continued)

Basis of accounting (continued)

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

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

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

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

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

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

Unexpired risks provision
A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition cost deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

Notes to the Annual Report
At 31 December 2016

1. Statement of Accounting policies (continued)

Basis of accounting (continued)

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 monetary balances at the year-end in foreign currencies into sterling are as follows:

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

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

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

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

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

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

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

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

Notes to the Annual Report
At 31 December 2016

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. The profit commission is calculated in line with the contract term of these policies and the profitability of the underlying contract

2. Risk management

Risk framework

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

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

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

Insurance risk - Underwriting

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

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

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

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

Notes to the Annual Report
At 31 December 2016

2. Risk management (continued)

Insurance risk - Underwriting (continued)

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

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

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

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

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

The following table gives an indication of the likely quantum and scale against the Economic Capital Assessment (ECA) of Realistic Disaster Scenarios estimated during 2016.

Realistic Disaster Scenarios	**Gross Event Loss £000**	**Gross Event Loss % of ECA**	**Net Event Loss £000**	**Net Event Loss % of ECA**
California Earthquake – Los Angeles	55,117	45%	18,507	15%
Gulf of Mexico Windstorm	50,287	41%	7,574	6%
Two Events – North East Windstorm	48,070	39%	7,051	6%

Insurance risk – Reserving

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

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

Notes to the Annual Report
At 31 December 2016

2. Risk management (continued)

Insurance risk – Reserving (continued)

Mitigation
The actuarial best estimate reserves are calculated by PMA. The actuarial function determines the reserves in conjunction with extensive discussions with underwriting, claims, finance and reinsurance functions. The directors consider, assess and approve the best estimate reserve.

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

Regulatory risk

Capital framework at Lloyd's
Lloyd's is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime. Although the capital regime has changed, this has not significantly impacted the Solvency Capital Requirement (SCR) of the Syndicate as Lloyd's was an early adopter of the new regime. Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level.

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 are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

Lloyd's applies a capital uplift to the member's Solvency Capital Requirement, known as the Economic Capital Loading to derive the Syndicate's final Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

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

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

Notes to the Annual Report
At 31 December 2016

2. Risk management (continued)

Credit Risk

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

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2016 by classifying assets according to Standard & Poor's credit ratings of the counterparties for assets not yet due. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated.

As at 31 December 2016	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Variable yield securities	-	41,093	6,032	-	-	47,125
Debt securities	24,933	38,545	1,209	-	-	64,687
Overseas deposits	-	-	8,686	-	-	8,686
Reinsurers share of outstanding claims	-	1,206	27,193	77	147	28,623
Reinsurance debtors	-	127	1,716	50	-	1,893
Cash at bank and in hand	-	2,776	-	-	-	2,776
Total	24,933	83,747	44,836	127	147	153,790

As at 31 December 2015	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Variable yield securities	-	7,098	40,033	-	-	47,131
Debt securities	-	-	-	-	-	-
Overseas deposits	-	1,087	-	-	-	1,087
Reinsurers share of outstanding claims	-	834	4,457	-	-	5,291
Reinsurance debtors	-	-	1,042	-	-	1,042
Cash at bank and in hand	-	2,771	-	-	-	2,771
Total	-	11,790	45,532	-	-	57,322

PMA predominantly purchases reinsurance from reinsurers rated strong or better by Standard & Poor's (or equivalent). Maximum exposures per reinsurer are set in response to a reinsurer's rating and net assets. There have been no material changes to the credit risk appetite or profile during the financial year.

Broker credit risk limits are also determined depending on the grading of the relevant broker and exposures monitored against limits on a monthly basis.

Notes to the Annual Report
At 31 December 2016

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

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

As at 31 December 2015	Not yet due	Past due by three months	Past due three to six months	Past due over six months	Greater than one year	Total
	£000	£000	£000	£000	£000	£000
Variable yield securities	47,131	-	-	-	-	47,131
Debt securities	-	-	-	-	-	-
Overseas deposits	1,087	-	-	-	-	1,087
Reinsurers share of outstanding claims	5,291	-	-	-	-	5,291
Reinsurance debtors	1,042	1	1	4	1	1,049
Cash at bank and in hand	2,771	-	-	-	-	2,771
Insurance debtors	26,760	235	364	262	21	27,642
Other debtors	51	-	-	-	-	51
Total	84,133	236	365	266	22	85,022

Liquidity risk

The Syndicate is subject to calls on cash resources, mainly in respect of claims on insurance business, on a daily basis. PMA operates and maintains procedures designed to ensure that cash is available to settle liabilities and other obligations when due without excessive cost to the business.

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

Notes to the Annual Report
At 31 December 2016

2. Risk management (continued)

Market risk – currency risk

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

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

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

As at 31 December 2015	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	Total £000
Financial investments	-	40,222	-	6,909	-	47,131
Reinsurers' share of technical provisions	1,413	8,033	480	483	390	10,799
Insurance assets	2,143	22,630	1,801	1,564	553	28,691
Cash and overseas deposits	1,751	224	649	766	468	3,858
Other assets	2,701	4,670	742	559	435	9,107
Total assets	8,008	75,779	3,672	10,281	1,846	99,586
Technical provisions	(7,184)	(67,447)	(3,597)	(5,703)	(1,675)	(85,606)
Insurance liabilities	(322)	(5,261)	(42)	(230)	-	(5,855)
Other creditors	(8,131)	(4,051)	2	4	-	(12,176)
Total liabilities	(15,637)	(76,759)	(3,637)	(5,929)	(1,675)	(103,637)
Currency surplus / (deficiency)	(7,629)	(980)	35	4,352	171	(4,051)

The table below gives an indication of the impact on the result of a percentage change in the relative strength of Pounds Sterling against the value of the US Dollar, Canadian Dollar, Australian Dollar and Euro simultaneously.

	2016 £000	2015 £000
Sterling weakens		
10% against other currencies	(740)	398
20% against other currencies	(1,666)	895
Sterling strengthens		
10% against other currencies	606	(325)
20% against other currencies	1,111	(596)

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2. Risk management (continued)

<u>Market risk – Interest rate risk</u>

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. Currently all investments are in cash or cash equivalents and insurance liabilities are not discounted. Therefore the Syndicate is not currently exposed to interest rate risk.

3. Business analysis

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

2016	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Accident & Health	342	324	(38)	(145)	(23)	118
Marine aviation and transport	7,480	6,311	(4,637)	(2,314)	(199)	(839)
Fire and other damage to property	11,610	8,643	(5,643)	(3,461)	(1,113)	(1,574)
Third party liability	35,521	25,104	(19,375)	(9,853)	(448)	(4,572)
Miscellaneous	9,091	5,044	(2,176)	(1,739)	(997)	132
	64,044	45,426	(31,869)	(17,512)	(2,780)	(6,735)
Reinsurance	80,762	77,675	(65,775)	(19,477)	(1,766)	(9,343)
Total	144,806	123,101	(97,644)	(36,989)	(4,546)	(16,078)

2015	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Accident & Health	258	338	(138)	(105)	18	113
Marine aviation and transport	5241	3,682	(2,477)	(1,186)	(378)	(359)
Fire and other damage to property	6,404	2,264	(990)	(754)	(1,008)	(488)
Third party liability	13,550	5,647	(4,822)	(1,889)	(211)	(1,275)
Miscellaneous	4,116	2,527	(1,560)	(820)	(285)	(138)
	29,569	14,458	(9,987)	(4,754)	(1,864)	(2,147)
Reinsurance	62,347	65,207	(31,281)	(21,183)	(10,015)	2,728
Total	91,916	79,665	(41,268)	(25,937)	(11,879)	581

Notes to the Annual Report
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3. Business analysis (continued)

Commissions on direct insurance gross premiums during 2016 were £17.5m (2015: £7.2m).

All premiums were concluded in the UK.

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

The geographical analysis of gross premiums written by destination:

	2016 £000	2015 £000
UK	25,289	11,888
Other EU countries	8,753	4,233
US	84,256	62,119
Other	26,508	13,676
Total	144,806	91,916

4. Claims incurred, net of reinsurance

Prior year reserve development

The movement in the net provision for claims includes adverse prior year development of £1.1m (2015: £4.8m favourable). Prior year claims development is analysed by line of business in the table below.

	2016 £000	2015 £000
Accident & Health	51	83
Marine aviation and transport	(514)	(7)
Fire and other damage to property	(850)	39
Third party liability	(1,010)	-
Miscellaneous	426	40
Reinsurance	796	4,642
(Adverse)/favourable development	(1,101)	4,797

Notes to the Annual Report
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4. Claims incurred, net of reinsurance (continued)

Gross claims development

Pure underwriting year	**2014 £000**	**2015 £000**	**2016 £000**	**Total £000**
Estimate of gross claims				
At the end of the underwriting year	31,250	41,292	68,011	
One year later	40,903	76,777		
Two years later	43,127			
Less gross claims paid	(21,701)	(19,159)	(5,240)	
Gross claims reserves	21,426	57,618	62,771	141,815

Net claims development

Pure underwriting year	**2014 £000**	**2015 £000**	**2016 £000**	**Total £000**
Estimate of net claims				
At the end of the underwriting year	28,660	36,942	54,509	
One year later	37,255	60,783		
Two years later	38,924			
Less net claims paid	(18,887)	(17,421)	(4,716)	
Net claims reserves	20,037	43,362	49,793	113,192

5. Net operating expenses

	2016 £000	**2015 £000**
Acquisition costs	(33,457)	(22,959)
Change in deferred acquisition costs	6,428	3,389
Administrative expenses	(9,960)	(6,367)
	(36,989)	(25,937)

6. Auditors’ Remuneration

	2016 £000	**2015 £000**
Fees payable to the Syndicate’s Auditors for:		
Audit of the Syndicate annual accounts	22	19
Other services pursuant to regulations and Lloyd’s byelaws	42	33
	64	52

Notes to the Annual Report
At 31 December 2016

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:

	2016 £000	2015 £000
Wages and salaries	6,546	5,442
Social security costs	726	766
Other pension costs	344	380
Other	99	759
	7,715	7,347

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

	2016 Number	2015 Number
Administration and finance	22	19
Underwriting	38	23
Claims	12	12
Compliance	16	14
Other	4	3
	92	71

8. Emoluments of the directors of Pembroke Managing Agency Limited

The directors of Pembroke Managing Agency Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2016 £000	2015 £000
Emoluments	792	437
Pension contributions	44	54
	836	491

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

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

	2016 £000	2015 £000
Emoluments	384	358
	384	358

Notes to the Annual Report
At 31 December 2016

9. Investment return

	2016 £000	2015 £000
Interest from financial instruments designated as at fair value through profit or loss	574	22
Other interest and similar income	188	-
Investment income	762	22
Other income from investments designated as at fair value through profit or loss:		
Realised gains	2	-
Unrealised gains	(509)	-
	(507)	
Investment management charges	(42)	-
Total investment return transferred to the technical account	213	22

10. Financial Investments

	2016 Market Value £000	2016 Cost £000	2015 Market Value £000	2015 Cost £000
Shares and other variable yield securities	47,125	47,125	47,131	47,131
Debt securities and other fixed income securities	64,687	65,270	-	-
	111,812	112,395	47,131	47,131

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

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

2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities	47,131	-	-	47,131
Debt securities and other fixed income securities	-	-	-	-
Overseas deposits	1,087	-	-	1,087
Total	48,218	-	-	48,218

Notes to the Annual Report
At 31 December 2016

11. Technical provisions

	2016			2015		
	Gross £000	RI £000	Net £000	Gross £000	RI £000	Net £000
Incurred claims outstanding:						
Claims notified	7,696	(412)	7,284	4,511	(398)	4,113
Claims incurred but not reported	45,558	(4,879)	40,679	14,204	(1,050)	13,154
Balance at 1 January	53,254	(5,291)	47,963	18,715	(1,448)	17,267
Change in prior year provisions	(256)	(847)	(1,103)	(6,898)	2,101	(4,797)
Expected cost of current year claims	97,900	(22,950)	74,950	48,166	(6,454)	41,712
Claims paid during the year	(25,283)	3,036	(22,247)	(8,020)	648	(7,372)
Effect of exchange rates	16,200	(2,571)	13,629	1,291	(138)	1,153
Balance at 31 December	141,815	(28,623)	113,192	53,254	(5,291)	47,963
Claims notified	40,841	(16,304)	24,537	7,696	(412)	7,284
Claims incurred but not reported	100,974	(12,319)	88,655	45,558	(4,879)	40,679
Balance at 31 December	141,815	(28,623)	113,192	53,254	(5,291)	47,963
Unearned premiums:						
Balance at 1 January	32,352	(5,508)	26,844	19,336	(2,649)	16,687
Premiums written during the year	144,806	(29,887)	114,919	91,916	(18,929)	72,987
Premiums earned during the year	(123,101)	28,343	(94,758)	(79,665)	16,232	(63,433)
Effect of exchange rates	7,791	(1,139)	6,652	765	(162)	603
Balance at 31 December	61,848	(8,191)	53,657	32,352	(5,508)	26,844

12. Debtors arising out of reinsurance operations

	2016 £000	2015 £000
Due from ceding insurers and intermediaries under reinsurance business	25,501	18,752
Due from reinsurers and intermediaries under reinsurance contracts ceded	2,565	1,050
	28,066	19,802

13. Other debtors

	2016 £000	2015 £000
Consortium fees receivable	-	51
	-	51

14. Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and in hand	2,776	2,771

Notes to the Annual Report
At 31 December 2016

15. Other assets

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

16. Deferred acquisition costs

	2016 £000	2015 £000
Balance at 1 January	8,964	5,423
Change in deferred acquisition costs	6,561	3,390
Effect of exchange rates	1,680	151
	17,205	8,964

17. Creditors arising out of direct insurance operations

	2016 £000	2015 £000
Amounts due to intermediaries:		
Due within one year	-	1,883
	-	1,883

18. Creditors arising out of reinsurance insurance operations

	2016 £000	2015 £000
Due within one year	29,259	3,972
	29,259	3,972

19. Related parties

Capital

Underwriting capacity is provided through a combination of Names and Trade Capital. Underwriting capacity is not provided by any entity within the Ironshore Inc. group of companies. Ironshore Inc. is a company domiciled in the Cayman Islands and it is the ultimate parent of the managing agency, PMA.

Managing agent

The Syndicate is managed by PMA, a company that is a subsidiary within the Ironshore Inc. Group. During the financial year the Syndicate incurred managing agency fees of £1.0m (2015: £0.8m). In addition to the fee for managing the Syndicate, PMA periodically recharges costs incurred on behalf of managed Syndicates. During the financial year, total expenses recharged to the Syndicate amounted to £9.5m (2015: £9.4m). At the end of the year £2.5m remains outstanding (2015: £2.8m).

Inter-syndicate loans

The directors of PMA have made a working capital facility available to the Syndicate during its start-up phase in the form of an inter-syndicate loan from Syndicate 4000. The balance of the loan as at 31 December 2016 was £10.6m (2015: £8.7m) and is included in other creditors. Interest on amounts outstanding charged to the Syndicate in the financial year totalled £0.4m (2015: £0.2m).

Notes to the Annual Report
At 31 December 2016

19. Related parties (continued)

Experience Account

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

Inwards reinsurance contracts

Inwards reinsurance premiums from Syndicate 4000 totalled £0.2m for the financial year (2015: £2.4m). As at 31 December 2016 net technical provisions in respect of this business totalled £1.8m (2015: £3.5m). All contracts were concluded on commercial terms.

20. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL) and these funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these accounts by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

Managing Agent's Report
2014 Closed Year of Account

The directors of the PMA present the Managing Agent's Report for the 2014 closed year of account as at 31 December 2016.

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.

This report and the accompanying 2014 underwriting year accounts are the first such report and accounts prepared on behalf of the Syndicate on account of it being formed for that underwriting year.

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

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

Syndicate capacity and capital providers

The Syndicate was formed for the 2014 year of account with allocated capacity of £75.0m.

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

Business of the 2014 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 the United States and Canada. The Syndicate also accepts risks on a proportional basis, underwriting a book of single island contracts mainly in the Caribbean.

Casualty treaty

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

Marine

The Syndicate underwrites a diverse range of marine lines of business which include quota share cessions from Pembroke Syndicate 4000. Marine lines of business include; marine reinsurance, war & terrorism, select specialist lines, marine liabilities, cargo and fine art & specie.

Political risks

The political risk 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.

Managing Agent's Report
2014 Closed Year of Account (continued)

Business of the 2014 underwriting year of account (continued)

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.

2014 closed year of account result

The directors of PMA are pleased to announce the Syndicate has closed its first year of account with a total profit of £3.1m.

This result represents a return on allocated capacity for capital providers of 4.1%.

Reinsurance to close

The 2014 underwriting year of account was closed by way of reinsurance to close ('RITC') into the 2015 underwriting year of account. The RITC payable to close the underwriting year of account was £20.1m.

The RITC of the 2014 underwriting year of account was approved by the directors of PMA on 23 February 2017.

Directors

The directors of PMA that served during the financial year ended 31 December are disclosed on shown on page 11 in the Annual Report.

Disclosure of information to the auditors

The directors each confirm that:

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

By order of the Board
J.A.S. Wash
Managing Director
20 March 2017

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.

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 2014 Closed Underwriting Year of Account

We have audited the Syndicate Underwriting Year Accounts for the 2014 Year of Account of Syndicate 2014 for the three years ended 31 December 2016 as set out on pages 41 to 51. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice.

This report is made solely to the members on the 2014 Year of Account of the Syndicate, as a body, in accordance with the Regulation 6(4) of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Syndicate Accounting Byelaw (No.8 of 2005). Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Managing Agent and Auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 39, the Managing Agent is responsible for the preparation of the Syndicate Underwriting Year Accounts, under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005), which give a true and fair view. Our responsibility is to audit and express an opinion on the Syndicate Underwriting Year Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Syndicate Underwriting Year Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Syndicate Underwriting Year Accounts sufficient to give reasonable assurance that the Syndicate Underwriting Year Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Managing Agent; and the overall presentation of the Syndicate Underwriting Year Accounts. In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Syndicate Underwriting Year Accounts

In our opinion the Syndicate Underwriting Year Accounts:

- give a true and fair view of the profit for the 2014 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).

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 proper accounting records; or
- the Syndicate Underwriting Year Accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Neil Coulson (Senior Statutory Auditor)
for and on behalf of PKF Littlejohn LLP, Statutory Auditor
London
21 March 2017

Statement of Comprehensive Income
2014 Closed Year of Account
For the 36 months ended 31 December 2016

Technical account – General business

	Note	£000
Syndicate allotted capacity		74,876
Earned premiums, net of reinsurance		
Gross premiums written	3	56,527
Outward reinsurance premiums		(8,144)
Earned premiums, net of reinsurance		48,383
Allocated investment return transferred from the non-technical account		203
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		(17,851)
Reinsurers' share		2,364
Net claims paid		(15,487)
Reinsurance to close premium payable, net of reinsurance	4	(20,117)
Claims incurred, net of reinsurance		(35,604)
Net operating expenses	5	(17,166)
Balance on the technical account for general business		(4,184)

Statement of Comprehensive Income
2014 Closed Year of Account
For the 36 months ended 31 December 2016

Non-technical account	Note	£000
Balance on the technical account for general business		(4,184)
Income from investments		332
Unrealised losses on investments		(119)
Investment management charges		(10)
Allocated investment return transferred to the general business technical account		(203)
Profit on exchange	6	7,275
Profit for the financial year		3,091

As the 2014 Year of Account following a Reinsurance to Close is no longer trading, all operations relate to ceased activities for this Year of Account.

There was no other comprehensive Income.

Amounts due to Members	£000
Profit for the 2014 closed year of account	3,091
Members' agents' fees advances	(613)
Amounts due to members at 31 December 2016	2,478

Statement of Financial Position
2014 Closed Year of Account
As at 31 December 2016

	Note	**£000**
ASSETS		
Investments	8	17,562
Debtors	9	6,327
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	4	(491)
Other assets		
Cash at bank and in hand		436
Overseas deposits		433
Prepayments and accrued income		
Other prepayments and accrued income		40
TOTAL ASSETS		24,307
LIABILITIES		
Amounts due to members		2,478
Reinsurance to close premium payable – gross amount	4	19,626
Creditors	10	1,662
Accruals and deferred income		541
TOTAL LIABILITIES		24,307

The underwriting Year Accounts on pages 41 to 51 were approved by the Board of Pembroke Managing Agency Limited on 20 March 2017 and were signed on its behalf by:

I.R. Garven
Finance Director

Statement of Cash Flows
2014 Closed Year of Account
As at 31 December 2016

	2014 £000
Cash flow from operating activities	
Profit for the closed year of account	3,091
Adjustments for:	
Increase in reinsurance to close payable	20,117
(Increase) in debtors, prepayments and accrued income	(6,367)
Increase in creditors, accruals and deferred income	2,203
(Increase) in other assets	(433)
Exclude investment return	(203)
Net cash inflow from operating activities	18,408
Cash flows from investing activities	
Purchase of equity and debt instruments	(17,654)
Investment income received	295
Net cash outflow from investing activities	(17,359)
Cash flows from financing activities	
Members' agents' fees advances	(613)
Net cash outflow from financing activities	(613)
Net increase in cash and cash equivalents	436
Cash and cash equivalents at 1 January 2014	-
Cash and cash equivalents at 31 December 2016	436

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

Notes to the Syndicate Underwriting Year Accounts
2014 Closed Year of Account
As at 31 December 2016

1. Accounting policies

General information

Underwriting capacity is provided by Names and Corporate Members, that 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

These Syndicate Underwriting Year Accounts for the year ended 31 December 2016 comply with FRS 102 and 103.

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 2014 year of account which has been closed by reinsurance to close as at 31 December 2016. Consequently the statement of financial position represents the assets and the liabilities of the 2014 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.

These accounts cover the three years from the date of inception of the 2014 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

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 2014 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.

Notes to the Syndicate Underwriting Year Accounts
2014 Closed Year of Account
As at 31 December 2016

1. Accounting policies *(continued)*

Basis of accounting (continued)

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.

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.

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.

Notes to the Syndicate Underwriting Year Accounts
2014 Closed Year of Account
As at 31 December 2016

1. Accounting policies *(continued)*

Basis of accounting (continued)

Investment return
As part of the Quota Share arrangement Syndicate 4000 cedes a percentage of its investment return to Syndicate 6110. Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

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

Investment return is initially recorded in the Non-technical Account. A transfer is made from the Non-technical Account to the general business Technical Account. Investment return has been wholly allocated to the Technical Account as all investments relate to the Technical Account.

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 members' 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.

Notes to the Syndicate Underwriting Year Accounts
2014 Closed Year of Account
As at 31 December 2016

2. Risk and capital management

Since 31 December 2016 a Reinsurance to Close has been completed which transferred all assets and liabilities from the 2014 year of account to the 2015 year of account. Any change in value of the assets or liabilities or further transactions after 31 December 2016 will be borne by the 2015 year of account. The 2014 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 within the Syndicate Annual Accounts within note 2 on page 23.

3. Segmental analysis

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

	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:					
Accident & Health	382	(104)	(196)	-	82
Marine aviation and transport	606	(922)	(272)	11	(577)
Fire and other damage to property	171	(99)	(57)	(17)	(2)
Third party liability	60	(47)	(18)	(1)	(6)
Miscellaneous	1,982	(823)	(690)	(343)	126
	3,201	(1,995)	(1,233)	(350)	(377)
Reinsurance	53,326	(35,482)	(15,932)	(5,922)	(4,010)
Total	56,527	(37,477)	(17,165)	(6,272)	(4,387)

Notes to the Syndicate Underwriting Year Accounts
2014 Closed Year of Account
As at 31 December 2016

4. Reinsurance to close premium payable

	Reported £'000	IBNR £'000	Total £'000
Gross reinsurance to close premium payable	6,521	12,877	19,398
Reinsurance recoveries anticipated	(896)	1,387	491
	5,625	14,264	19,889
Provision for internal claims administration expenses			228
			20,117

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 30.

5. Net operating expenses

	£000
Acquisition costs – brokerage and commissions	8,129
Acquisition costs – other	4,112
Administrative expenses	4,925
	17,166

Administrative expenses include:	**£000**
Auditors remuneration	
Fees payable to the syndicate auditor for the audit of the 2014 accounts	14
Other services pursuant to legislation	21
	35

6. Profit on foreign exchange

The Syndicate's accounting policy is to translate transactions at average rates of exchange for each calendar year. The exception to this is the reinsurance to close payable, which has been translated at the rate of exchange effective on the date of the contract.

Following the significant change in exchange rates over the 36 month period this has led to a significant foreign exchange gain on the reinsurance to close payable. The impact of this on the Statement of comprehensive income is shown below:

	Historic rate £'000	Adjusted £'000	Closing rate £'000
Reinsurance to close premium payable, net of reinsurance	(15,185)	(4,932)	(20,117)
Profit on exchange	2,343	4,932	7,275
	12,842	-	12,842

Notes to the Syndicate Underwriting Year Accounts
2014 Closed Year of Account
As at 31 December 2016

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	13,185
Brokerage and commissions	(8,129)
Balance after brokerage and commissions	5,056

The Special Purpose Syndicate 6110, from which the Syndicate has its origins, signed a reinsurance to close its 2013 year of account into Syndicate 4000's 2014 year of account. An experience account reinsurance agreement was signed on this business between the Syndicate and Syndicate 4000 so that any development accrues to the 2014 year of account of the Syndicate. The technical account balance includes an amount of £1.9m loss in respect of this agreement.

8. Investments

	Market Value £000	Cost £000
Shares and other variable yield securities	7,402	7,402
Debt securities and other fixed income securities	10,160	10,252
	17,562	17,654

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	7,402	-	-	7,402
Debt securities and other fixed income securities	10,160	-	-	10,160
Overseas deposits	433	-	-	433
Total	17,995	-	-	17,995

9. Debtors

	£000
Inter-year loans	4,699
Due from reinsurers and intermediaries under reinsurance contracts ceded	1,274
Other debtors	354
	6,327

Notes to the Syndicate Underwriting Year Accounts
2014 Closed Year of Account
As at 31 December 2016

10. Creditors

	£000
Inter-syndicate loans from Syndicate 4000	1,662
	1,662

11. Related parties

Information on related parties is disclosed in note 19 to the Syndicate Annual Accounts on page 35

One Year Summary of Results

	2014
Syndicate capacity	£74.9m
Net premiums	£40.3m
No. of members	982

Result for an illustrative share of £10,000:

	£
Gross premiums (net of brokerage and commissions)	6,425
Net premiums	5,376
Net claims	(2,068)
Premium paid for reinsurance to close	(2,687)
Underwriting profit	621
Operating expenses	(990)
Balance on technical account	(369)
Investment return	27
Profit on exchange	972
Profit for the closed year	630
Profit commission	(72)
Other personal expenses	(145)
Profit after all personal expenses	413
Share of commissions and brokerage excluded from above	1,086

Percentage of illustrative share:

Gross premium %	64.3%
Net premium %	53.8%
Balance on technical account %	(3.7)%