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R&Q Managing Agency Limited

Syndicate

DTW1991

Annual report

For the year ended 31 December 2014

Contents

Administration

Managing Agent

R&Q Managing Agency Limited
110 Fenchurch Street
London EC3M 5JT

Syndicate

Active Underwriter

D T Wright

Bankers

Barclays Bank plc
1 Churchill Place
London E14 5HP

Syndicate and Agency Auditors

PKF Littlejohn LLP
Chartered Accountants and Registered Auditors
1 Westferry Circus
Canary Wharf
London E14 4HD

Underwriter's report

Trading conditions in 2014 have remained challenging in our key markets, notably in the US and the UK. Even with the pressures of managing the soft cycle, the syndicate has remained true to its strategy of appointing expert coverholders and as at January 2015 has grown the number of trading relationships from 19 to 39 since last year end, all of which add something unique to our distribution, product profile and territorial footprint. This is a testament to the syndicate's ability to identify, correctly undertake due diligence and partner with specialist coverholders. We have achieved client appointments across our main planned territories, in order to develop a balanced and sustainable portfolio. We have deliberately planned our progress and the coverholders we partner with continue to be our main differentiator in current market conditions. Stability in our portfolio forms a fundamental part of the syndicate's business model and it should be noted that we continue to trade and grow organically with each of the coverholders appointed in 2013.

In all territories our competition seems to have limitless appetite for business. We will not seek to improve "short-term" premium flow by reducing our underwriting standards, either in our operational validation or by introducing shortcuts in the underwriting process to compete on an ease of use basis. Nor will we compromise our profit targets through drastically reduced new business premium rates and increased commissions, some of which are in direct conflict with the rights of the consumer.

In light of these market conditions we have reduced our premium forecasts for both 2013 and 2014. Penetration for profitable business is a slower and a harder fought process, however I remain confident that the coverholder profile developed by the syndicate in our first two years will result in tangible value creation for our investors.

The build out of the syndicate's operating platform has continued and I am especially pleased with the expertise that we have been able to attract to join the syndicate during the year. We have made senior appointments within our UK/International and North American underwriting teams which will enable us to drive forward the syndicate's strategy of product and geographical diversification. I think it is very important to report to our investors that on the ground we have a market influencing team that have the same shared vision of building a bespoke and high quality business.

We set ourselves a major challenge in seeking new business to the Lloyd's market, challenging company and domestic competition under the Lloyd's franchise. We are succeeding, slowly, albeit not at the expense of our underwriting standards and potential long-term profitability. The ratification from our capital providers and our managing agent in support of long-term decisions has been critical in our development.

I'd like to personally thank our investors for their engagement and support and the syndicate team for their continued resilience, ideas and ambition.

We set ourselves a major challenge in seeking new business to the Lloyd's market

D T Wright
Active Underwriter
16 March 2015

Managing agent's report

The directors of the managing agent present their report for the year ended 31 December 2014.

Directors

The directors of RQMA who served during the year ended 31 December 2014 and up to the date of this report were as follows:

		Appointed	Resigned
M Bell	Executive director	Appointed 23.09.2005	
A G Chopourian	Executive director	Appointed 28.09.2012	
H N A Colthurst	Executive director	Appointed 26.04.2012	
J P Fox	Non-executive director	Appointed 01.05.2011	
M G Gardiner	Non-executive director	Appointed 22.08.2011	
P A G Green	Executive director	Appointed 01.01.2006	Resigned 31.03.2014
	Non-executive director	Re-appointed 02.09.2014	
C A Hewitt	Executive Director	Appointed 02.09.2014	
R E McCoy	Executive director	Appointed 12.05.2004	
H R McKinlay Verzin	Group non-executive director	Appointed 12.12.2014	
K E Randall	Executive director	Appointed 28.03.2003	Resigned 29.01.2014
	Group non-executive director	Re-appointed 20.11.2014	
P M Sloan	Executive director	Appointed 11.01.2012	
J P Tilling	Non-executive director	Appointed 12.05.2004	

Annual general meeting

The directors do not propose to hold an annual general meeting for the syndicate.

Disclosure of information to auditors

So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the syndicate's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

PKF Littlejohn LLP have indicated their willingness to continue in office as the syndicate auditors.

Strategic report

Review of the business

Activities

Syndicate 1991 is a specialist in delegated authority underwriting, and was approved by Lloyd's for the 2013 year of account.

In its second year, the syndicate continues to seek to secure business normally retained by domestic carriers, through the granting of dedicated and exclusive arrangements with a select number of coverholders in each market, and by product line. This number will remain in the range originally intended of around 50 in the first three years of activity.

Product expertise remains a key component of the proposition, and the syndicate team's product expertise has been expanded accordingly in 2014. This is supplemented by the thoroughness of its due diligence process, direct access to the coverholders' operations, management and underwriting teams, and self-processing of premiums through the dedicated web platform, Diligense.com. This enables data to flow directly to the syndicate for policy by policy validation against contract rules and risk appetite and accelerates the receipt of premiums by the syndicate.

Owing to a later and slower start to the business written in 2013, and given the nature of the business in which Syndicate 1991 specialises, the 2013 year remains open for certain of the binders at year-end.

However, 2014 calendar year ended with a high level of activity within the syndicate in order to achieve the re-signing of coverholder arrangements into the 2014 year of account.

Market conditions and the maintenance of strong underwriting discipline in the face of the aggressive approach taken, in particular, by the US domestics, have had a significant impact on income flows. The syndicate underwriters have preferred instead to ensure that the coverholder relationships set up in the formative stages are sufficiently robust to withstand the current market turmoil, as a basis for future growth on the correct footing. As a consequence, both the 2013 and 2014 years have been re-forecast to £47m and £116m for each year respectively, on a gross premium basis.

This has impacted cashflow significantly in the short-term, but will benefit the syndicate in the medium and longer term through the prudence of its approach.

The geographical footprint of the syndicate has continued to expand further in North America through the addition of new coverholders in other US States and in Canada, and additionally in the UK, Europe and New Zealand.

The reinsurance structure continues to be aligned to the syndicate's start-up phase, and protection was again purchased to protect against the syndicate's exposure to a 1 in 200 year catastrophic event. For US catastrophe business the syndicate retention in the second year was increased to a $10m maximum retention. For non-US liability the syndicate's each and every loss exposure is limited to £1m. All reinsurance is placed with a panel of reinsurers with security that is "A-" rated (by Standard and Poor's) or better.

Key performance indicators

The managing agent considers the following to be the key performance indicators of the syndicate:

	2014	2013
Gross premiums written	£34.8m	£4.6m
Loss for the year	(£12.9m)	(£6.6m)

Results

2014 is the syndicate's second year of account. The costs of establishing the syndicate and the low volume of premium earnings in this initial period continue to affect the results for the business. Earned premium development on an accounting basis continues to remain behind forecasts due to the timing in signing up the underlying coverholders, and the market conditions.

The syndicate has remained focused on the approved plan and strategy, on underwriting discipline, and on the selection of business that will allow for profitable growth over the coming years. As a result, the syndicate has declined a significant amount of business which did not meet the syndicate's quality threshold, or that clashed with other appointed coverholders. This will always be a challenge of the syndicate's selective strategy.

Experienced specialist third party administrators and loss adjusters have been appointed in the US, UK and Canada to manage all reported claims on behalf of the syndicate. Internal claims resource has been enhanced with the recruitment of North America and UK/International claims managers.

Development of year of account

The 2014 year of account has currently written around 4% of its ultimate expected premiums and therefore it is considered too early to be making a firm forecast of the ultimate result. The approved plan for the year was £183m and the gross premiums expected to be ultimately written are now forecast at £116m or 63% of plan. The coverholders and contracts are in place to deliver these premium volumes, market conditions permitting. The syndicate closely monitors the performance of each contract and is able to respond quickly to opportunities and challenges presented by individual coverholders. Based on current estimates of premium volumes and using the loss ratios developed with our reporting actuaries, PricewaterhouseCoopers LLP, we are currently forecasting a small loss for the 2014 year. Absent major catastrophe losses, we remain confident of outperforming these loss ratios, and as the account develops we will update our forecasts accordingly.

The 2013 year of account is also still active having approximately 25% of premium yet to be written and while also forecasting a loss at this time, we remain confident that the result will improve.

Current trading conditions and future developments

North America

Results continue to be very good amongst our US domestic and Lloyd's competitors, both for catastrophe and non-catastrophe business. This drives an increase in appetite for business from both established and new entrants. At this stage we are preparing for a long period of rate pressure, particularly for new business. This means our risk validation and risk selection becomes paramount. This disciplined approach is evidenced in our reduced syndicate premium forecasts.

Despite decreases in the reinsurance premiums for catastrophe cover, we remain focused on underwriting on a "gross basis" and our underwriting appetite is focused on small accounts that demonstrate a pride of ownership.

In 2014 renewal rate changes were relatively stable and minimal despite the active rate reductions for new business, which intensified in the final quarter of the year. Both a surplus in capital and reduced reinsurance premiums have now completely filtered through to US domestic frontline underwriters and so we expect continued downward pressure on rates. Our focus on smaller premium business assists in maintaining rate integrity overall. This business is historically price protected and benefits from high renewal retentions.

It should be noted that our exclusive appointment of coverholders also assists us to mitigate the effect of soft market pricing. In particular it provides us opportunities to secure local domestic renewals or transfer accounts at renewal rates.

Our operating platform provides for a high degree of underwriting validation. This is a valuable ingredient in making profit in a tough rate environment and supports our focus on risk selection.

Our coverholders regard profit commission arrangements as a key factor in writing business with us which is against the current trend of our competitors who are accepting all business that "fits" their continually reducing risk standards.

UK and International

During 2014 the UK rating environment remained stable in the Specialty liability sector with the outlook for 2015 showing no signs of change, in fact some of the generalist carriers in the Speciality space shows signs of reduced appetite as they retrench on the back of deteriorating overall results.

The UK SME sector evidenced continuing competitive pressures with larger carriers moving more to automated online offerings and market share targets being the principal driver.

This has actually assisted the syndicate's continued growth by differentiating our long-term strategy to partner with established and experienced coverholders seeking quality security and stability. This is especially the case with smaller premium business where the syndicate's underwriting experience and low cost operating model provides an attractive and real competitive advantage. Another key trend emerging which is giving impetus to the syndicate's growth and development is the general increase in carrier merger and acquisition activity and distribution channel realignments, which we believe will continue into 2015.

During 2014 the syndicate achieved geographical diversification of its book outside the UK & Ireland, utilising the flexibility of being able to commence trading internationally via the local overseas Lloyd's coverholder network. This international footprint will continue to expand in 2015 via our specialist selected coverholder approach.

In conjunction with the diversification internationally much of this expected growth for 2015 will be sourced from expansion of existing coverholder relationships. The syndicate has made a cautious decision to enter into the professional lines markets during the 2014 year, but only after extensive due diligence was undertaken. Cyber liability is still an area the syndicate is looking to develop in 2015, but again the target customer will be the smaller SME business opportunities and most likely via our existing coverholders distribution channels.

The reinsurance strategy remained unchanged for 2014 in that reinsurance is purchased in line with developing exposures which are closely monitored and reported. The state of the reinsurance market continues to allow the syndicate to achieve wider coverage at beneficial terms.

In addition to changes in market conditions there continue to be changes in regulatory requirements from the European Union, the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. As managing agent we monitor these developments closely and plan our future strategy to ensure we are prepared for these changes. We are currently spending significant time on improving our capital and risk modelling which will have a beneficial effect on our capital requirements for the future.

Post balance sheet events

There have been no significant post balance sheet events.

Principal risks and uncertainties

A robust risk framework has been established headed by the Chief Risk Officer who makes regular reports to the Board including a process to monitor emerging risks in conjunction with Randall & Quilter Investment Holdings Ltd ("RQIH"). The syndicate's activities expose it to a variety of financial and non-financial risks. The managing agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. The capital requirements for the syndicate are based on an agreed assessment with Lloyd's of the risks impacting the syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are reflected in this assessment.

Insurance Risk

The very nature of the syndicate's business exposes it to the possibility that claims will arise on business written. The risk attaching to insurance contracts is based on the fortuity that events will occur which will lead to a claim under the contract. The main underwriting risks which affect the syndicate are:

- Catastrophic events – the risk that catastrophic events occur which will lead to claims at a level not anticipated by the syndicate.
- Rating levels – the risk that the expected attritional losses and anticipated catastrophic events, together with the cost of reinsurance, will result in net claims which exceed the premium income of the syndicate.
- Business volume – the risk that the syndicate will not be able to write as much business as planned.
- Reserving – the risk that the reserves established by the syndicate at the previous year-end prove to be inadequate.

Catastrophic Events

The managing agent has developed underwriting guidelines which express limits to the authority of the underwriters and to exposure analysed geographically and by assured entities. The syndicate has also developed realistic disaster scenarios which provide an estimate of the effect on the syndicate results of an aggregation of claims arising from a number of disasters specified by Lloyd's. The syndicate uses modelling tools to monitor the aggregation of exposure and to simulate catastrophe losses, in order to measure the effectiveness of the underwriting guidelines in limiting exposure to these scenarios and the effectiveness of the syndicate's reinsurance programmes.

Rating Levels

The managing agent produces an annual business plan for the syndicate. The plan is produced by anticipating rating levels and terms and conditions attaching to risks expected to be underwritten by the syndicate. Should risks be assessed as uneconomical, they will be declined. Performance against the plan is monitored on a regular basis through an Underwriting and Claims Committee, as well as regular review by the Syndicate Management Committee and Board. If market conditions change materially after the plan is approved by Lloyd's a revised plan is prepared for authorisation by the Board. In this way, rating levels of both businesses written and reinsurance purchased are subject to constant review.

Business Volume

In the context of the market in which the syndicate operates and its approach to business, it would normally be possible to underwrite the required volume of business even if rating levels and terms were to be compromised. If nevertheless the volume of business underwritten is less than that approved by the managing agent, the expenses ratio is likely to increase. This risk is mitigated by the operating structure of the syndicate, in which the material element of the acquisition costs which flows through brokers are accordingly variable.

The key driver to achievement of planned income forecasts is the due diligence performed on individual coverholders and on their respective plans. Where rating levels are under pressure, the syndicate will seek to underwrite business in less distressed territories or classes of business.

Reserving

Reserves are established for expired risks, i.e. that part of the syndicate's business that is attributable to earned premium income, and for unexpired risk, i.e. that part of the business that is attributable to unearned premium. The reserves in relation to the former are claims reserves; in relation to the latter, there is an unearned premium reserve, and there may also be an additional unexpired risk provision. In addition a reserve for Unallocated Loss Adjustment Expenses (ULAE) will also be established and an allowance made for bad and doubtful debts.

In order to mitigate reserving risk, the RQMA actuarial function uses a number of actuarial techniques to project gross and net premiums and gross and net insurance liabilities. The results of these techniques are then subject to formal peer review. In addition, the managing agent annually commissions an external actuary to perform an independent assessment of the syndicate's ultimate gross and net premiums and insurance liabilities. The results of the external actuary's projections are then compared to those proposed by the RQMA actuarial function. The level of booked reserves requires formal approval by the Board and is subject to audit.

Reinsurance Risk

When considering the panel of reinsurers for its reinsurance programme, the syndicate seeks to place all protections across a broad spread of counterparties.

The syndicate is committed to using only the highest rated reinsurers. The proposed pool of potential reinsurers is reviewed and agreed by the RQMA Reinsurance Committee ahead of placing. All reinsurers used to date have been at least "A-" rated by Standard & Poor's, and the termination clause of all policies stipulates this as a minimum financial rating going forwards. If a reinsurer rating falls below "A-", the RQMA Reinsurance Committee is consulted to rule upon invocation of the termination clause.

There are a number of ways in which the syndicate considers and monitors reinsurance counterparty financial strength. The RQMA Internal Model, which is used to assess the syndicate's capital requirements, takes into account the financial ratings of each participating reinsurer, and calculates the effect of reinsurer default on the syndicate's ability to make reinsurance recoveries.

Investment and Interest Rate Risks

The syndicate's investment policy is established by the Board following recommendations by the RQMA Investment Committee. In order to mitigate interest rate risk, the Board monitors the economic situation to seek to anticipate any future interest rate movements and to take appropriate action to mitigate its effect on the value of syndicate assets.

Liquidity Risk

To mitigate liquidity risk the Board reviews cash flow projections and maintains cash levels consistent with the needs of the syndicate. The syndicate maximises the inflow of funds from reinsurance recoveries and outstanding premiums and controls costs through the reporting of the expense budget.

Currency Risk

The main exposure to foreign currency risk arises from insurance business originating overseas. The syndicate attempts to fully match assets with liabilities on a regular basis.

Financial Instruments Risk

The syndicate has debtors, creditors, bank balances and investments in various currencies in the normal course of its business. The risks with regard to these transactions are detailed above and none of these financial instruments are considered to present any risks that are exceptional in their nature for their type of instrument. The syndicate does not actively enter into derivatives, hedging or other uses of financial instruments as part of its financial risk management.

Annual Venture Risk

Under the Lloyd's annual venture regime, the syndicate has to show annually that it has enough supporting capital to carry on underwriting. To mitigate the risk that the syndicate will not have sufficient backing to continue to trade, the managing agent has adopted a policy of diversifying the syndicate's capital base.

Solvency Risk

The Board sets the risk appetite in line with its strategy and ensures that sufficient capital resources are raised to cover those risks in line with regulatory and Lloyd's capital setting processes. The RQMA Risk and Capital Committee monitors risk appetite and tolerances on behalf of the Board. In the event of extreme adverse claims experience, it is possible that the syndicate may not be able to settle its claim liabilities out of its own funds. In that event, the capital structure underpinning the syndicate is such that any deficits can be called from the syndicate's capital providers (members) in accordance with Lloyd's rules. In the event of any member being unable to fulfil its share of such a call, Lloyd's Central Guarantee Fund may, at Lloyd's discretion, be applied to make good any deficits for the benefit of policyholders.

Regulatory Risk

The managing agent is required to comply, inter alia, with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Failure to comply with applicable regulations could result in a variety of sanctions, the most extreme being a withdrawal of the right to underwrite business. The managing agent has established a business ethos in which best practice is the required standard for all operations, both in the commercial interests of the business and to ensure regulatory compliance. Management has also put in place appropriate monitoring structures to mitigate the risk of failing to meet this standard. The RQMA Compliance Committee monitors regulatory developments to ensure the managing agent remains compliant. In addition the risk management function monitors the position. The internal audit function supports the monitoring process, and directly reports into the RQMA Audit Committee, itself comprised of non-executive directors of the managing agent.

Operational Risk

Much of the effect of the syndicate's exposure to operational risks is reflected in the various other risk headings above, and is mitigated and managed through the exercise of the management controls and actions described above. The main additional exposures are in relation to business continuity, i.e. the risk that the ability of the syndicate to continue in business will be affected by events not reflected under other headings, for example the impact of terrorist activity, and in the management of relationships and arrangements with key individuals. In relation to the former, the managing agent maintains a Business Continuity Plan (BCP) which sets out the main anticipated risks, including those relating to the robustness and sustainability of IT infrastructure and business applications, and the arrangements to mitigate those risks. The BCP is monitored and updated regularly. In relation to the latter, the managing agent has established arrangements designed to achieve an appropriate commonality of interest between the syndicate and the individuals concerned, and these arrangements are reviewed periodically. In addition, the managing agent seeks to maintain a sufficient personnel resource with appropriate experience and expertise to reduce the dependence on any one individual so far as is practicably possible.

Other performance indicators

Staff Matters

The managing agent considers its staff to be a key resource and seeks to provide a good working environment for its staff that is rewarding and 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.

Environmental Matters

The managing agent does not consider that a business such as a syndicate at Lloyd's has a large adverse impact upon the environment. As a result the agent does not manage its business by reference to any environmental key performance indicators.

Approved by the Board of Directors of RQMA.

By order of the Board

R E McCoy
Chief Executive Officer
16 March 2015

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the Annual Report and the Syndicate Annual Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") requires the managing agent to prepare Syndicate Annual Financial Statements at 31 December each year which give a true and fair view of the state of affairs of the syndicate and of its profit or loss for that year.

In preparing those Syndicate Annual Financial Statements, the managing agent is required to:

– select suitable accounting policies, and apply them consistently except where relevant accounting requirements change;

– make judgments 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 Syndicate Annual Financial Statements; and

– prepare the Syndicate Annual Financial Statements on a going concern basis, unless it is inappropriate to do so.

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

Independent auditor's report

To the members of Syndicate 1991

We have audited the Syndicate Annual Financial Statements for the year ended 31 December 2014 which comprise the Profit & Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Statement of Accounting Policies and the related notes. 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 of the syndicate as a body, in accordance with Regulations 10 to 14 of 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 auditor's report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members as a body for our audit work, for this report, or for the 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 set out on page 10, the managing agent is responsible for the preparation of the 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the Syndicate Annual Accounts

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 Annual 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 2014 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 matters prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion 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.

Matters on which we are required to report by exception

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.

John Perry
Senior Statutory Auditor
For and on behalf of
PKF Littlejohn LLP (Statutory Auditor)
1 Westferry Circus
Canary Wharf
London E14 4HD
16 March 2015

Profit and loss account

For the year ended 31 December 2014

Technical account – general business

	Notes	£000	2014 £000	£000	2013 £000
Earned premiums, net of reinsurance					
Gross premiums written	1	34,752		4,593	
Outward reinsurance premiums		(8,540)		(3,059)	
Net premiums written			26,212		1,534
Change in provision for unearned premiums:					
Gross amount		(16,551)		(2,758)	
Reinsurers' share		2,169		695	
Change in the net provision for unearned premiums			(14,382)		(2,063)
Earned premiums, net of reinsurance			11,830		(529)
Allocated investment return transferred from the non-technical account			–		8
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(1,299)		(451)	
Reinsurers' share		–		–	
Net claims paid		(1,299)		(451)	
Change in the provision for claims:					
Gross amount		(10,733)		(409)	
Reinsurers' share		636		–	
Change in the net provision for claims		(10,097)		(409)	
Claims incurred, net of reinsurance			(11,396)		(860)
Net operating expenses	2		(13,363)		(5,293)
Balance on the technical account for general business			(12,929)		(6,674)

Non-technical account

	2014 £000	2013 £000
Balance on the general business technical account	(12,929)	(6,674)
Investment Income	–	8
Allocated investment return transferred from the non-technical account	–	(8)
(Loss) for the financial year	(12,929)	(6,674)

Statement of total recognised gains and losses

For the year ended 31 December 2014

	2014 £000	2013 £000
(Loss) for financial year	(12,929)	(6,674)
Currency translation differences on foreign currency net investment	(101)	27
Total recognised gains and losses relating to the financial year	(13,030)	(6,647)

The accounting policies and notes on pages 17 to 25 form part of these financial statements.

All the amounts are in respect of continuing operations.

Balance sheet – assets

As at 31 December 2014

	Notes	£000	2014 £000	£000	2013 £000
Investments					
Shares and other variable yield securities		1,797		464	
Participation in investment pools		32		1	
	5		1,829		465
Reinsurers' share of technical provisions					
Claims outstanding		612		–	
Unearned premiums		2,879		691	
			3,491		691
Debtors					
Debtors arising out of direct insurance operations	6	3,573		835	
Other debtors	7	362		139	
			3,935		974
Other assets					
Cash at bank and in hand		131		28	
Overseas deposits		5		–	
			136		28
Prepayments and accrued income					
Deferred acquisition costs		10,466		3,095	
Other prepayments and accrued income		5,085		869	
			15,551		3,964
Total assets			24,942		6,122

Balance sheet – liabilities

As at 31 December 2014

	Notes	£000	2014 £000	£000	2013 £000
Capital and reserves					
Members' balances	8		(20,262)		(6,868)
Technical provisions					
Provision for unearned premiums		19,436		2,640	
Claims outstanding		11,073		396	
			30,509		3,036
Creditors					
Creditors arising out of reinsurance operations	9	194		158	
Amounts owed to credit institutions		6,000		2,679	
Other creditors	10	6,079		6,008	
			12,273		8,845
Accruals and deferred income			2,422		1,109
Total liabilities			24,942		6,122

The accounting policies and notes on pages 17 to 25 form part of these financial statements.

The syndicate annual accounts were approved by the Board of Directors of RQMA and were signed on its behalf by

R E McCoy
Chief Executive Officer

M Bell
Finance Director

16 March 2015

Cash flow statement

For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Reconciliation of operating loss to net cash (Outflow) from operating activities			
Operating loss on ordinary activities		(12,929)	(6,674)
Realised (gains)/losses on cash and investments including FX		(105)	30
(Increase) in debtors		(14,549)	(4,938)
Increase in net technical provisions		24,674	2,345
Increase in creditors		1,420	7,275
Other movements		(101)	27
Net cash (outflow) from operating activities		(1,590)	(1,935)

Cash flow statement

	Notes	2014 £000	2013 £000
Net cash (outflow) from operating activities		(1,590)	(1,935)
Members' agents' fees		(364)	(221)
Net cash (outflow) from operating activities		(1,954)	(2,156)
Cash flows were (funded) as follows:			
Increase in cash holdings	11/12	99	28
Increase in overseas deposits	11/12	5	–
Increase in portfolio investments	11/12	1,263	495
Increase in overdraft	11/12	(3,321)	(2,679)
Net (funding) of cash flows	12	(1,954)	(2,156)

The accounting policies and notes on pages 17 to 25 form part of these financial statements.

Statement of accounting policies

Basis of preparation

These annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom and comply with the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2006, except that exchange differences are dealt with in the technical account as all differences arise from technical account transactions.

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 managing agent's report. In addition the Principal Risks and Uncertainties section of the managing agent's report provides details of the financial risks the syndicate is exposed to and how those risks are managed.

The syndicate has considerable financial resources together with long-term relationships with a number of brokers and coverholders across different classes of business and geographical areas. As a consequence, the directors believe that the company is well placed to manage its business risks successfully.

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 14) to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Annual Financial Statements.

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 as follows:

Premiums written

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums on contracts incepted in prior accounting periods. Premiums are shown gross of commission payable and exclude taxes and duties levied on them.

Unearned premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year 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 premium ceded

The reinsurance premiums are allocated to a year of account in accordance with the underlying risks being protected. Any reinsurance premium adjustments are charged to a year of account according to the basis on which the adjustments concerned are calculated.

Claims incurred and reinsurers' share

Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year and the movement in provision for outstanding claims and settlement expenses brought forward. Allowance is made for the cost of claims incurred by the balance sheet date but not reported until after the year-end. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by RQMA's in-house reserving team and reviewed by external consulting actuaries. These techniques 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. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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 provisions for claims is based on calculated 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. The syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly 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 including pricing models for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

The level of uncertainty with regard to the estimations within these provisions generally decreases with time since the underlying contracts were exposed to new risks. In addition the nature of short tail claims, such as property, where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long tail risks, such as some liability business, where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim, this may increase the uncertainty in the estimation of the outcomes.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. 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, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to 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 provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

Unexpired risks provision

A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise 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 costs deferred.

Net operating expenses (including acquisition costs)

Net operating costs include acquisition costs, profit and loss on exchange and amounts charged to members through the syndicate.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Distribution of profits and collection of losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

Foreign currencies

Transactions in US dollars, Euros and Canadian dollars 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 denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

Exchange differences arising on the retranslation of opening balance sheet items at the closing balance sheet rate and the retranslation of the profit and loss account for the year from the average rate to the closing balance sheet rate are taken to reserves and included in the Statement of Recognised Gains and Losses.

All other exchange differences are dealt with in the technical account and included within operating expenses.

Investments

Investments are stated at current value at the balance sheet date provided to the syndicate by the syndicate's investment advisors. For this purpose listed investments are stated at bid value and deposits with credit institutions and overseas deposits are stated at market value.

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 are calculated as the difference between sale proceeds and purchase price. 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.

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.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

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

Profit commission

Profit commission is charged by the managing agent at 15% of the profit on the year of account basis subject to the operation of a deficit clause. This is charged to the syndicate as incurred but does not crystallise until after the appropriate year of account closes, normally at 36 months.

Pension costs

The group operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses and other acquisition costs.

Notes to the annual accounts

At 31 December 2014

1 **Segmental analysis**

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

	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
2014						
Direct insurance:						
Fire and other damage to property	18,103	9,386	(5,023)	(7,368)	(5,505)	(8,510)
Third party liability	16,649	8,815	(7,009)	(5,995)	(230)	(4,419)
	34,752	18,201	(12,032)	(13,363)	(5,735)	(12,929)
2013						
Direct insurance:						
Fire and other damage to property	3,678	1,575	(692)	(4,257)	(2,211)	(5,585)
Third party liability	915	260	(168)	(1,036)	(153)	(1,097)
	4,593	1,835	(860)	(5,293)	(2,364)	(6,682)

Total commissions for direct insurance written in the year amounted to £3,612k (2013: £648k).

The geographical analysis of where premiums were concluded is as follows:

	2014 £000	2013 £000
United Kingdom	23,450	1,091
USA	11,132	3,502
Other	170	–
	34,752	4,593

2 Net operating expenses

	2014 £000	2013 £000
Brokerage and commissions	6,442	1,246
Other acquisition costs including certain syndicate expenses deemed to relate to procuring business	7,782	2,529
	14,224	3,775
Acquisition costs		
Change in deferred acquisition costs	(7,302)	(3,127)
Administration expenses	5,317	3,913
Members' standard personal expenses	1,124	732
	13,363	5,293

Administrative expenses include:		
Auditor's remuneration		
Audit of the syndicate annual accounts	72	62
Other services pursuant to regulations and Lloyd's byelaws	22	17

3 Employees

The following amounts were recharged to the syndicate in respect of employment costs.

	2014 £000	2013 £000
Wages and salaries	4,283	3,492
Social security costs	568	453
Other pension costs	411	302
	5,262	4,247

Salary and related expenses, where they relate to the cost of procuring business, are treated as acquisition costs and are deferred in line with premiums. The analysis above shows the total before deferral.

The average number of employees working for the syndicate during the year was as follows:

	2014	2013
Administration and finance	20	12
Underwriting	14	10
Claims	1	1
	35	23

4 Directors' and Active Underwriter's emoluments

The directors of RQMA received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2014 £000	2013 £000
Emoluments	645	331

Active Underwriter's emoluments

The Active Underwriter received the following aggregate remuneration charged as other acquisition costs:

Emoluments	374	354

5 Financial investments

	Market value		Cost	
	2014 £000	2013 £000	2014 £000	2013 £000
Listed securities				
Shares and other variable yield securities	1,797	464	1,797	464
Participation in investment pools	32	1	32	1
	1,829	465	1,829	465

6 Debtors arising out of direct insurance operations

	2014 £000	2013 £000
Intermediaries	3,573	835
	3,573	835

All debtors are due within one year.

7 Other debtors

	2014 £000	2013 £000
Amounts held by Third Party Administrators – claims funds	331	71
VAT receivable	31	68
	362	139

8 Reconciliation of members' balances

	2014 £000	2013 £000
Members' balances at 1 January	(6,868)	–
Loss for the financial year	(13,394)	(6,868)
Members' balances carried forward at 31 December	(20,262)	(6,868)

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

9 Creditors arising out of reinsurance operations

	2014 £000	2013 £000
Due within one year	194	158
	194	158

10 Other creditors

	2014 £000	2013 £000
Inter-syndicate loan – see Note 17(xi)	6,000	6,000
IPT payable	49	8
Other creditors	30	-
	6,079	6,008

11 Movement in opening and closing portfolio investments net of financing

	2014 £000	2013 £000
Net cash inflow from the year	99	28
Cash flow		
Portfolio investments	1,263	495
Overseas deposits	5	–
Amounts owed to credit institutions	(3,321)	(2,679)
Movement arising from cash flows	(1,954)	(2,156)
Changes to market value and currencies	105	(30)
Total movement in portfolio investments net of financing	(1,849)	(2,186)
Balance bought forward at 1 January	(2,186)	–
Balance carried forward at 31 December	(4,035)	(2,186)

12 Movement in cash, portfolio investments and financing

	At 1 Jan 2014 £000	Cash flow £000	Changes to market value and currencies £000	At 31 Dec 2014 £000
Cash at bank and in hand	28	99	4	131
Overseas deposits	–	5	–	5
Portfolio investments:				
Shares and other variable yield securities	464	1,232	101	1,797
Participation in investment pools	1	31	–	32
Amounts owed to credit institutions	(2,679)	(3,321)	–	(6,000)
Total cash, portfolio investments and financing	(2,186)	(1,954)	105	(4,035)

13 Net cash (outflow) on portfolio investments

	2014 £000	2013 £000
Purchase of shares and other variable yield securities	(1,232)	(494)
Purchase of shares in investment pools	(32)	(1)
Sales of shares in investment pools	1	–
Net cash (outflow) on portfolio investments	(1,263)	(495)

14 Funds at Lloyd's

Every member of Lloyd's is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL"). These funds are required primarily in case syndicate assets prove insufficient to meet members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of that business. FAL is not hypothecated to any specific syndicate participation by a member, therefore there are no specific funds available to a syndicate which can be precisely identified as its capital.

In addition to the FAL and any additional funds a member may introduce to meet losses, there is a Central Guarantee Fund controlled by Lloyd's which they may utilise to meet any syndicate liabilities that are not met by a member.

15 Derivatives

During the year, the syndicate has not held or purchased any derivative contracts.

16 Off-balance sheet items

The syndicate has not been party to an arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the syndicate.

17 Related parties

(i) RQMA is a wholly owned subsidiary of Randall & Quilter Underwriting Management Holdings Limited ("UMH") which in turn is a wholly owned subsidiary of RQIH Limited which is wholly owned by Randall & Quilter Investment Holdings Ltd, a company incorporated in Bermuda, ("RQIH"). K E Randall has an individual shareholding of 22.65% (2013: 24.47%) in RQIH.

(ii) R&Q Capital No. 1 Limited ("RQC1"), a member of Syndicate 1991, is controlled, by virtue of a majority shareholding (95.0%) by Randall & Quilter II Holdings Limited which is a wholly owned subsidiary of RQIH Limited which is wholly owned by RQIH. RQC1's 2014 syndicate participation is 20.01%. (2013: 22.77%).

(iii) R&Q Capital No. 2 Limited ("RQC2"), a member of Syndicate 1991, is a wholly owned subsidiary of Randall & Quilter II Holdings Limited which is a wholly owned subsidiary of RQIH Limited which is wholly owned by RQIH. RQC2's 2014 syndicate participation is 16.12% (2013: 16.14%).

(iv) On 14 October 2014 Qatar Re Capital Limited ("QRe") (formerly R&Q Capital No. 3 Limited, "RQC3"), a member of Syndicate 1991, was acquired by QIC Capital LLC from RQIH. QRe's 2014 syndicate participation is 7.02% (2013: nil). K E Randall and H N A Colthurst were Directors of QRe until 15 October 2014.

(v) H N A Colthurst has a shareholding of 5.0% of RQC1.

(vi) K E Randall, H N A Colthurst and H R McKinlay Verzin are Directors of RQC1 and RQC2.

(vii) J P Tilling is a Director of Cathedral Underwriting Limited, a Lloyd's managing agent which manages Syndicate 2010, which participates on the reinsurance programme of the syndicate at normal commercial terms.

(viii) A number of Executive Directors of RQMA are also directors of other group companies.

(ix) During the year, the syndicate paid £3,252k (20l3: £2,074k) in relation to management fees and a further £1,509k (2013: £576k) in managing agency fees to RQMA. These amounts have been charged at cost.

(x) A proportion of RQMA costs are recharged to other group companies at arms-length based on time spent by individuals. Similarly, other group companies have recharged costs to RQMA on a similar basis.

(xi) The £6m inter-syndicate loan has been provided by Syndicate 3330, also managed by RQMA. This has been arranged on normal commercial terms. Interest is payable at 2% above LIBOR and is repayable within one year.

(xii) R E McCoy, M Bell, P M Sloan and A G Chopourian are directors of DTW 1991 Underwriting Limited (formerly R&Q S1991 Management Services Limited), a Lloyd's approved service company coverholder which conducts business with the syndicate. During the year DTW 1991 Underwriting Limited provided £13,569k of premium income to the syndicate (2013: 123k).

(xiii) UMH is a shareholder of Trilogy Managing General Agents Limited ("Trilogy"), an undertaking that is appointed as an coverholder to the syndicate. R E McCoy is a director of Trilogy. During the year, Trilogy provided £4,658k of premium income. (2013: £551k).

R&Q Managing Agency Limited
Syndicate DTW1991

130 Fenchurch Street
London EC3M 5DJ

T +44 20 7780 5850

www.rqih.com