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# R&Q Managing Agency Limited

Syndicate

# DTW1991

## Annual report

For the year ended 31 December 2015

## Contents



## Administration

### *Managing Agent*

R&Q Managing Agency Limited
2 Minster Court
London EC3R 7BB

### *Syndicate*

*Active Underwriter*

D T Wright

*Bankers*

Barclays Bank plc
1 Churchill Place
London E14 5HP

*Investment Managers*

Payden & Rygel Global Limited
1 Bartholomew Lane
London EC2N 2AX

*Independent Auditors*

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

# Underwriter's report



On the traditional Lloyd's year of account basis of reporting, 2013, the syndicate's first year of trading has closed with a loss of £8.8m or 11.5% on stamp capacity. This is disappointing for us and I recognise it is also disappointing for our capacity providers. I take the deployment of your capital personally, but I strongly believe that the long-term profitability of the business will benefit from the decisions made in our formative years.

The result is driven by reduced premium levels, which are reflective of current market conditions, platform build and reinsurance expenses. However, the underwriting loss ratios are in line with our targets and the portfolio performance is encouraging.

During 2015, the syndicate appointed its first coverholders in New Zealand, Australia and the Middle East, in line with our territorial expansion plans. We also commenced underwriting Accident and Health business in both the Personal Accident and Travel sectors. We will continue to diversify where the opportunity meets with our expertise, risk appetite and profitability requirements.

In previous years I have referred to our strategy of attracting new business to Lloyd's. Currently close to a third of our appointed coverholders are new to Lloyd's and two thirds of total business written to date is new premium to Lloyd's.

Our coverholder partners now number 57. As each of these "businesses within our business" matures, we believe that this network of coverholders will provide us with profitable and significant organic growth.

Through underwriting experience and through our detailed risk analysis, we know our pricing requirements and risk selection criteria. We decline not only individual risks, but also entire portfolios of business where we consider current rates and/or the near term rate environment to be inadequate. We are charting our course through increasingly soft market conditions, confident that we are able to develop a profitable account.

As we continue to build our business the key features of our planned operating model have been delivered. We remain firmly focused on underwriting SME business. Our distribution model and bespoke information technology systems are designed to validate the underwriting of individual risks, accelerate the receipt of premiums to us and speed the payment of claims to our customers. We believe that this approach allows us to remain focused on our key goal of delivering a stable, profitable and low expense business for our capital providers.

Prospects for 2016 are encouraging. Gross income for our 2016 Syndicate Business Forecast amounts to £154m, with growth coming from both new relationships and the expansion of existing coverholder arrangements. I can see our hard work and high standards developing into the day to day fabric of the business. Most of our pipeline prospects are through word-of-mouth. The coverholders that were appointed in 2013 are seeing more stable and viable premium volumes and improving loss ratios.

The syndicate will be in a position to implement the next stage in its operational development as the resource implications of appointing new coverholders reduces and it will focus on growing and optimising the business written. We evaluate and take action on any business that is not performing to plan and improve efficiencies, particularly in applying claims experience to underwriting to improve returns.

We know that we continue to set ourselves a challenge through our high standards and demanding approach. The market requires us to work smarter, work harder and with more ingenuity than ever. Every member of the syndicate team demonstrates this work ethic. Collectively we are a business with integrity, responsibility, discipline and with an emphasis on quality.

I would personally like to thank our investors for their continuing support and the syndicate team for their dedication, drive and commitment.

**D T Wright**
Active Underwriter
15 March 2016

# Managing agent's report



The managing agent presents its report for Syndicate 1991 for the year ended 31 December 2015.

*Strategic report*

The managing agent's report should be read in conjunction with the strategic report as it includes information required to be disclosed in the managing agent's report. This information is primarily relating to a review of the business and a description of principal risks and uncertainties, although there is more extensive disclosure of risk management on page 20.

*Directors*

The directors of the managing agent who served during the year ended 31 December 2015 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 | Resigned 31.03.2015 |
| J P Fox | Non-executive director | Appointed 01.05.2011 | |
| M G Gardiner | Non-executive director | Appointed 22.08.2011 | |
| P A G Green | Non-executive director | Appointed 01.01.2006<br>Re-appointed 02.09.2014 | Resigned 31.03.2014 |
| 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 | Resigned 10.09.2015 |
| K E Randall | Group non-executive director | Appointed 28.03.2003<br>Re-appointed 20.11.2014 | Resigned 29.01.2014 |
| 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.

*Auditors*

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

*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.

Approved by order of the Board of RQMA.

R E McCoy
Chief Executive Officer
15 March 2016

# Strategic report



The directors of R&Q Managing Agency Limited (RQMA) present their strategic report for Syndicate 1991 for the year ended 31 December 2015.

***Syndicate underwriting year accounts***

These financial statements also include underwriting year accounts drawn up on the three year funded basis which have been prepared to show the cumulative loss of the 2013 closed underwriting account as at 31 December 2015 which is being collected in 2016. The underwriting accounts are set out on pages 37 to 54.

***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. The 2015 year of account is its third year of underwriting. The focus of its activities remains the delegation of authority to select coverholders in the SME sector, in competition with domestic carriers. In line with the syndicate's original plans for the first three years, the number of active coverholders at year-end was just over the 50 mark signalled to Lloyd's at the outset for the third year.

As previously reported, the attachment of the majority of the coverholders is biased towards the last half of the year. This has resulted in a continuation of the slower premium flows in the opening years, and will be a feature of the 2015 year. At the same time, exposure to the open years of account will remain into the 2016 year.

The 2015 calendar year therefore once again ended with a high level of activity in order to achieve the re-signing of coverholder arrangements into the 2015 year of account.

The third year of account has been characterised by continuing deterioration in market conditions in many of the states or territories in which the syndicate writes business. Domestic insurers and other capacity have reacted, in the absence of major catastrophes, to seeking to maintain top-line income. This has been a barrier to the development of business to the syndicate's coverholders, the consequence of which has been a need to re-forecast income through the year for the open years of account. This re-forecasting reflects the maintenance of strong underwriting discipline in the face of this strong competition with underwriters continuing to concentrate on the platform structure and strength of relationship in readiness for a market correction.

The impact on the three years of account has been to necessitate a reduction in forecast of gross written premium income to £38m, £79m and £124m for 2013, 2014 and 2015 respectively.

Naturally this has affected cash flow significantly but 2015 has seen the fuller flow of premiums to the various coverholder contracts.

In terms of geography, there has been further expansion of business into the USA through new coverholders in new US states as well as expansion within the UK and the first coverholder in the Middle East. Note 1 to the accounts provides a further analysis of the business.

The main reinsurance structure remains conservative with protection to a 1 in 200 year catastrophic event for both North American and International exposures, with the syndicate retention remaining at \$10m. Reinsurance spend is significantly down on budget, reflecting both market conditions and a realignment of the purchase requirements to the development of the business. All reinsurance is placed with a panel of reinsurers with security that is "A-" rated (by Standard & Poor's) or better.

The panel of specialist third party administrators (TPAs) and loss adjusters appointed in the US, UK and Canada to manage all reported claims on behalf of the syndicate, remains in place. The addition of a fuller internal claims resource, working in tandem with the TPAs has benefitted the oversight of this aspect of the business.

*Key Performance Indicators*

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

| | **2015** | **2014** |
|---|---|---|
| Gross premiums written | £59.0m | £34.8m |
| Loss for the year | (£18.1m) | (£13.0m) |

*Results*

The 2013 year of account will close into 2014 with a loss of £8.8m against £38m in gross earned premium. This is largely a consequence of the slower development of the account and the associated costs of establishing the syndicate. The gross result includes a best estimate reserve in respect of IBNR. The gross incurred loss ratio to earned premiums is at 51% at the year-end.

The 2014 year is still in development with gross written premium having reached 71% of the revised forecast. As signalled above, the forecast result to capacity at the eighth quarter is a 7.5% deficit based on external actuarial review, and against a re-submitted plan which reflects a reduction in income to 68% (£79m) of the original forecast. The syndicate expectation is for this result to improve as the result continues to unwind with the claims experience developing within the conservative loss ratios included in the syndicate plan, and in the absence of natural perils losses of any significance. The year-end earned to incurred ratio is 31%.

*Development of year of account*

The 2015 year has £6m of written premium booked to date.

A revised syndicate business forecast of £127m gross ultimate premiums was submitted to and approved by Lloyd's. Twenty eight coverholders have been re-signed to this underwriting year date, with a further eighteen expected to do so through the year. Two have been closed due to a lack of activity in the face of market conditions, but this is counter-balanced by the writing of seven new contracts.

Income is split 47% property/53% liability, the latter of which includes the business emanating from the new Accident and Health team.

***Current trading conditions and future developments***

As outlined below, trading conditions remain challenging in our key territories. The Board supports the underwriting team in its wish to write business in accordance with the original plan, rather than write for top-line growth. Whilst this has produced a first year loss for all capital providers, including R&Q Capital No 1 Limited, we believe that it is the correct decision, and is key in building a profitable and sustainable business.

Due to these challenging market conditions, premium income growth since the launch of the syndicate has been much slower than we anticipated at the outset. Nevertheless, the Active Underwriter and his team have put in place the foundations for a profitable business and the syndicate plan for 2016 indicates our confidence that his approach to delegated underwriting is beginning to generate the required volumes of good business whilst maintaining underwriting discipline.

*North America*

There are few signs of an improvement in the trading environment as results continue to be profitable for US domestic and Lloyd's competitors, in the absence of any catastrophe losses.

The syndicate's response has been to seek new opportunities and also to concentrate on risk selection and control within the binding authorities granted.

The availability of capital and of reinsurance at reduced prices has fuelled some of this pressure. In 2015, rating level changes were driven by commercial pressures, but the syndicate focus on smaller premium business continues to provide an element of protection in price and renewal ratios. The potential reward to its coverholders rests in the terms of profit commission agreed in each case.

A number of prospects exist to expand existing products into states where the syndicate is not yet represented for that business, and where the prospective coverholder is interested in adopting the syndicate underwriting and processing model.

*UK and International*

In the UK, market conditions remain competitive, while rating levels continue to hold. There is evidence of some pressure for larger accounts with top line income remaining the driving factor for some insurance carriers. The recovery of the UK economy and the impact on turnover figures from small businesses, are in themselves helping to generate premium increases. At the same time, risks at the more difficult end of the spectrum are seeing rate corrections to higher levels.

Ireland is still evidencing positive rating trends but there are signs of re-emerging competition, and close attention is being paid to the impact this could have on this part of the account.

Australia, New Zealand and MENA were new territories for the syndicate in 2015. Competition is on the rise again in the case of the first two territories, and so underwriting scrutiny and controls are key in this regard.

The Specialty account includes transactional business in France, while plans to expand into Germany have been put on hold for reasons specific to the individual coverholder in question. The underwriters expect to return to this prospect in the course of 2016.

The syndicate continues to consider its position and appetite for cyber liability coverage in 2016, and this will be in line with Lloyd's guidance. The target customer remains the smaller SME type opportunity, as an addition to existing coverholders' products.

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.

***Post Balance Sheet Events***

There have been no significant post balance sheet events.

***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
15 March 2016

# 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 2015 as set out on pages 10 to 35. 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 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, 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 2015 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
15 March 2016

# Statement of profit or loss
# Technical account – general business

For the year ended 31 December 2015

| | Notes | £000 | 2015 £000 | £000 | 2014 £000 |
|---|---|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | | | |
| Gross premiums written | 1 | 58,992 | | 34,752 | |
| Outward reinsurance premiums | | (6,336) | | (8,540) | |
| Net premiums written | | | 52,656 | | 26,212 |
| Change in provision for unearned premiums: | | | | | |
| Gross amount | 2 | (14,307) | | (16,551) | |
| Reinsurers' share | 2 | (1,025) | | 2,169 | |
| Change in the net provision for unearned premiums | | | (15,332) | | (14,382) |
| **Earned premiums, net of reinsurance** | | | 37,324 | | 11,830 |
| **Allocated investment return transferred from the non-technical account** | | | (4) | | – |
| **Claims incurred, net of reinsurance** | | | | | |
| Claims paid: | | | | | |
| Gross amount | | (6,817) | | (1,299) | |
| Reinsurers' share | | – | | – | |
| Net claims paid | | (6,817) | | (1,299) | |
| Change in the provision for claims: | | | | | |
| Gross amount | 2 | (25,324) | | (10,733) | |
| Reinsurers' share | 2 | 3,447 | | 636 | |
| Change in the net provision for claims | | (21,877) | | (10,097) | |
| ***Claims incurred, net of reinsurance*** | | | (28,694) | | (11,396) |
| **Net operating expenses** | 3,4,5 | | (26,461) | | (13,363) |
| **Balance on the technical account for general business** | | | (17,835) | | (12,929) |

The accounting policies and notes on pages 15 to 35 form part of these financial statements.

# Statement of profit or loss
# Non-technical account

For the year ended 31 December 2015

| | Notes | 2015 £000 | 2014 £000 |
|---|---|---|---|
| **Balance on the general business technical account** | | (17,835) | (12,929) |
| Investment income | 6 | 34 | – |
| Investment expenses and charges | 7 | (1) | – |
| Realised losses on investments | 7 | (2) | – |
| Unrealised losses on investments | 7 | (35) | – |
| **Allocated investment return transferred to technical account – general business** | | 4 | – |
| Non-technical account charges | | (300) | (101) |
| **Loss for the financial year** | | (18,135) | (13,030) |

## Statement of Other Comprehensive Income for the year ended 31 December 2015

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Loss for financial year | (18,135) | (13,030) |
| Other comprehensive income | – | – |
| **Total comprehensive income for the financial year** | (18,135) | (13,030) |
| **Retained earnings** | | |
| Balance due from members at 1 January | (20,262) | (6,868) |
| Total comprehensive income for the financial year | (18,135) | (13,030) |
| Advance of fees to Members' Agent on behalf of members | (381) | (364) |
| Balance due from members at 31 December | (38,778) | (20,262) |

There are no discontinued operations.

The accounting policies and notes on pages 15 to 35 form part of these financial statements.

# Balance sheet – Assets

As at 31 December 2015

| | Notes | £000 | 2015 £000 | £000 | 2014 £000 |
|---|---|---|---|---|---|
| **Investments** | | | | | |
| Shares and other variable yield securities | | 113 | | 1,797 | |
| Debt securities and other fixed income securities | | 3,965 | | – | |
| Participation in investment pools | | – | | 32 | |
| | 8 | | 4,078 | | 1,829 |
| **Reinsurers' share of technical provisions** | | | | | |
| Unearned premiums | 2 | 1,872 | | 2,879 | |
| Claims outstanding | 2 | 4,055 | | 612 | |
| | | | 5,927 | | 3,491 |
| **Debtors** | | | | | |
| Debtors arising out of direct insurance operations | 9 | 9,347 | | 3,573 | |
| Debtors arising out of reinsurance operations | 10 | 2,077 | | – | |
| Other debtors | 11 | 1,703 | | 362 | |
| | | | 13,127 | | 3,935 |
| **Other assets** | | | | | |
| Cash at bank and in hand | | 714 | | 131 | |
| Overseas deposits | | 118 | | 5 | |
| | | | 832 | | 136 |
| **Prepayments and accrued income** | | | | | |
| Deferred acquisition costs | | 15,707 | | 10,466 | |
| Other prepayments and accrued income | | 3,486 | | 5,085 | |
| | | | 19,193 | | 15,551 |
| **Total assets** | | | 43,157 | | 24,942 |

The accounting policies and notes on pages 15 to 35 form part of these financial statements.

# Balance sheet – Liabilities

As at 31 December 2015

| | Notes | £000 | 2015 £000 | £000 | 2014 £000 |
|---|---|---|---|---|---|
| **Capital and reserves** | | | | | |
| Members' balances | | | (38,778) | | (20,262) |
| **Technical provisions** | | | | | |
| Claims outstanding | 2 | 36,521 | | 11,073 | |
| Provision for unearned premiums | 2 | 34,125 | | 19,436 | |
| | | | 70,646 | | 30,509 |
| **Creditors** | | | | | |
| Creditors arising out of reinsurance operations | 12 | 149 | | 194 | |
| Other creditors | 13 | 7,598 | | 12,079 | |
| | | | 7,747 | | 12,273 |
| **Accruals and deferred income** | | | 3,542 | | 2,422 |
| **Total liabilities** | | | 43,157 | | 24,942 |

The accounting policies and notes on pages 15 to 35 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

15 March 2016

# Statement of cash flows

For the year ended 31 December 2015



| | 2015 £000 | 2014 £000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss for the financial year | (18,135) | (13,030) |
| Adjustments for: | | |
| Increase in gross technical provisions | 40,137 | 27,473 |
| (Increase) in reinsurers' share of technical provisions | (2,436) | (2,800) |
| (Increase) in debtors, prepayments & accrued income | (12,834) | (14,548) |
| Increase in creditors | 1,238 | 1,420 |
| **Net cash generated from operating activities** | 7,970 | (1,485) |
| **Cash flows from investing activities:** | | |
| Purchase of equity & debt instruments | (19,216) | (1,269) |
| Sale of equity & debt instruments | 17,038 | 1 |
| Changes to market value and currency | (187) | (104) |
| **Net cash generated from investing activities** | (2,365) | (1,372) |
| **Cash flows from financing activities:** | | |
| Members' agents fees | (381) | (365) |
| Amounts drawn down from financial institutions | – | 3,321 |
| Amounts owed to credit institutions – loans | (6,000) | – |
| **Net cash from financing activities** | (6,381) | 2,956 |
| **Net increase in cash & cash equivalents in year** | (776) | 99 |
| Cash & cash equivalents at beginning of the year | 131 | 28 |
| Foreign exchange movements in cash and cash equivalents | 3 | 4 |
| **Cash & cash equivalents at end of the year** | (642) | 131 |
| Cash & cash equivalents comprise: | | |
| Cash at bank and in hand | 714 | 131 |
| Amounts owed to credit institutions – overdraft | (1,356) | – |
| | (642) | 131 |

The accounting policies and notes on pages 15 to 35 form part of these financial statements.

# Statement of accounting policies



## General information

Syndicate 1991 is a Lloyd's syndicate domiciled in England and Wales. It is managed by RQMA, a private company limited by shares that is incorporated in England and whose registered office is 2 Minster Court London EC3R 7BB.

The syndicate is a specialist in delegated authority underwriting focussing mainly in North America, UK and Europe.

The syndicate is supported by capacity for the 2015 year of account from connected members as set out in note 19 of 30.15% and third party members of 69.85%.

## Compliance with accounting standards

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

## Basis of preparation

The financial statements have been prepared on the historical cost basis, except for financial assets at fair value through the profit or loss which are measured at fair value. These financial statements for the year ended 31 December 2015 are the first financial statements that comply with FRS 102 and FRS 103. The date of transition is 1 January 2014 and the comparative figures have been restated accordingly. The transition has resulted in a number of changes in the accounting policies to those used previously. The nature of these changes and their impact on the opening statement of financial position and result for the comparative period are explained below and in the notes, particularly note 16.

## 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 strategic report. In addition, the risk management section provides details of the financial risks the syndicate is exposed to and how those risks are managed.

The syndicate has established relationships with a number of coverholders that management anticipate are long-term in nature. As a consequence, the directors believe that the syndicate 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 15) 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 or in relation to the coverage period of the contract as appropriate. Any reinsurance premium adjustments are charged to a year of account according to the basis on which the adjustments concerned are calculated.

*Technical provisions – 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 a market blended average applied by RQMA's in-house reserving team and reviewed by external consulting actuaries. Where appropriate, the blended rates are adapted to reflect experience to date. The provision for claims also includes amounts in respect of internal and external claims handling costs.

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 with regards to 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 as experience develops. 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.

A reinsurance to close contract of insurance which, in return for a premium paid by the closing year of account, transfers, normally to the following year of account, all known and unknown liabilities arising out of transactions connected with insurance business underwritten by the closing year of account. However, it should be noted that a reinsurance contract does not extinguish the primary liability of the original underwriter.

*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.

Employee costs include the cost of all employee benefits to which employees have become entitled as a result of service rendered to the entity during the reporting period, which the managing agent considers to be attributable to this syndicate.

*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*

The presentational and functional currency of the syndicate is Sterling.

Transactions in US dollars, Euros, Canadian dollars, Australian dollars and New Zealand 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.

All monetary balance sheet assets and liabilities (which in accordance with FRS 103 are deemed to include unearned premiums and deferred acquisition costs) are translated into the Sterling functional currency at the rates of exchange at the balance sheet date. The profit or loss arising on the retranslation of balances to the closing rate of exchange is dealt with through the statement of comprehensive income – non-technical account.

**Financial assets and liabilities**

*Classification*

The full provisions of FRS 102 have been applied to the treatment of financial instruments. The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the profit or loss or other comprehensive income. These classifications are made at initial recognition and subsequent reclassification is only permitted in restricted circumstances.

Investments in shares and other variable yield securities and unit trusts and debt securities and other fixed income securities are classified as fair value through profit or loss as they are managed on a fair value basis. Cash at bank, deposits with credit institutions, debtors and accrued interest are classified as held at amortised cost.

*Recognition*

Financial assets and liabilities are recognised when the syndicate becomes party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the asset after deducting all of its liabilities.

*Initial measurement*

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

*Subsequent measurement*

Non-current debt instruments are subsequently measured at amortised cost using the effective interest method.

Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

Investments in shares and other debt instruments are measured at fair value through profit or loss. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in previous calendar years in respect of the investment disposed of in the current period.

*Derecognition of financial assets and liabilities*

Financial assets are derecognised when and only when a) the contractual rights to the cash flow from the financial asset expire or are settled, b) the syndicate transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the syndicate, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

*Fair value measurement*

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse in time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the syndicate estimates the fair value by using a valuation technique.

*Impairment of financial instruments measured at amortised cost or cost*

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. using the effective interest method.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

*Offsetting*

Debtors/creditors arising from insurance/reinsurance operations shown in the balance sheet include the totals of all outstanding debit and credit transactions as processed by the Lloyd's central facility. No account has been taken of any offsets which may be applicable in calculating the net amounts due between the syndicate and each of its counterparty insureds, reinsurers or intermediaries as appropriate.

**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 RQIH 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.

### Key accounting judgements and estimation uncertainties

Of the various accounting judgements, assumptions and estimates made in the preparation of these financial statements those relating to the determination of the technical provisions, premium income and investment valuations are considered to be those most critical to understanding the syndicate's results and financial position.

*Technical provisions*

The accounting policy for technical provisions is described on page 16 and the related risks are described on page 21. The net technical provisions after the reinsurers' share is £64,719k (2014: £27,018k). The most uncertain element within these technical provisions is the amount for claims outstanding which covers amounts where either the claim has been notified to the syndicate or where there has not yet been a notification or although notified there has been insufficient information to date to be certain regarding its ultimate costs. This amounted to £32,466k (2014: £10,461k). As described in the risk management section there is a thorough review process of claims notifications and reserving estimates. As the syndicate is in its infancy IBNR is calculated using a market blended average adapted to reflect experience to date. There is, however, a risk that past performance may not be a good indicator of the future developments. This is however mitigated by a mixed spread of different types of business from a number of geographical areas across several years that should reduce the risk of a common trend of adverse development occurring. The uncertainty within technical provisions may be mitigated by the element that reinsurers share, although there are also uncertainties in calculating that.

*Premium income*

The accounting policy for written and earned premium income is described on page 15 and the related risks are described on page 21. The estimation of written premium includes amounts for additional or return premiums and business that may have been underwritten but not yet notified. The earning of this premium has been calculated on a basis of time apportionment. The directors consider that this represents a reasonable approximation of the overall earning risk profile of the policies written. As described in the risk management section there is detailed evaluation of premium written estimates at the time of writing risks and these are monitored and checked as remaining valid until they are received.

*Investment valuations*

All investments are shown at their fair value as described in the accounting policy on page 18 and details of the risks relating to investments are disclosed on page 22. All investments are highly rated securities and regularly traded on major stock exchanges so that the risks in their valuations are reduced.

# Risk management



**Risk background**

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. As described in note 15, each year, the managing agent is required to prepare a Solvency Capital Requirement (SCR) for the syndicate, the purpose of this being to agree capital requirements with Lloyd's, based on an agreed assessment 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 all reflected in the SCR.

The managing agent reviews its risk appetite annually as part of the syndicate's business planning and capital setting process. A Risk and Capital Committee meets regularly to monitor performance against risk appetite using a series of key risk indicators.

The syndicate's core business is to accept significant insurance risk: the appetite for other risks is low.

**Insurance risk**

The very nature of the syndicate's business exposes it to the possibility that claims will arise from 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 insured 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.

The syndicate has not been affected adversely by any catastrophic events. The largest event at 31 December 2015 was as follows:

| Description of event | Gross loss to syndicate £m | Net loss to syndicate £m | Net loss as % of stamp |
|---|---|---|---|
| Winter weather, USA 30 December 2013 | 0.2 | 0.2 | 0.3% |

**Business volumes and 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 plan is monitored on a regular basis through an Underwriting and Claims Committee, as well as regular review and oversight 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.

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. Nevertheless, if 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 are accordingly variable.

The key driver to achievement of planned income forecasts is the due diligence performed on individual coverholders and new products 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. The syndicate's governance framework encompassing the Underwriting and Claims Committee, Product Oversight Group and Syndicate Management Committee provide the requisite oversight.

The effect of rating levels being lower than planned is, all other things being equal, to reduce income levels in respect of the risks underwritten, and hence increase both the claims ratio and the expenses ratio. If profitability were maintained but just volume reduced, the impact upon results might be fairly modest but if price ratings reductions affect the business there is likely to be a more significant impact upon the results.

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| Gross premiums earned | 44,685 | 18,201 |
| Technical account result (excluding investment return) | (18,131) | (13,030) |
| 1% reduction in volume pro-rata technical result (exc. investment return) | (181) | (130) |
| 1% rating price reduction in profit per £1 of earned premium | (447) | (182) |

**Reserving risk**

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 on a best estimate basis. 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 an external actuarial review and audit.

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| Gross outstanding claims provision | 36,521 | 11,073 |
| Net outstanding claims provision | 32,466 | 10,461 |
| Net unearned premium provision | 32,253 | 16,557 |
| 1% movement in net outstanding claims | (325) | (105) |

The above assumes that the reinsurers share pro-rata in any deterioration in outstanding claims which may not be the case. Although unearned premiums should not be affected by such movements in outstanding claims, however larger movements in loss ratios could trigger a need for an Unexpired Risk Provision if expected claims rose above the level of the unearned premiums.

**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 Syndicate Management Committee and the Board 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 Syndicate Management 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 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.

**Liquidity risk – maturity profiles**

The following table shows an analysis for the main liabilities to which there are agreed timings for future settlements, excluding liabilities in relation to future claims settlements.

| | No stated maturity £000 | Less than 1 year £000 | 1 to 3 years £000 | 3 to 5 years £000 | More than 5 years £000 | Total £000 |
|---|---|---|---|---|---|---|
| As at 31 December 2015 | | | | | | |
| Creditors | – | 7,747 | – | – | – | 7,747 |
| As at 31 December 2014 | | | | | | |
| Creditors | – | 12,273 | – | – | – | 12,273 |

The following is an analysis of the estimated timing of net cash flows for the net claims liabilities held at the end of the year and at the previous year-end. These forecasts are based upon current estimates and historic trends and the actual timings of these future settlements may differ materially from the estimates below.

| Expected cashflows | Less than 1 year £000 | 1 to 3 years £000 | 3 to 5 years £000 | More than 5 years £000 | Total £000 |
|---|---|---|---|---|---|
| 2015 net claims liabilities | 8,973 | 17,365 | 4,338 | 1,790 | 32,466 |
| 2014 net claims liabilities | 2,954 | 5,490 | 1,428 | 589 | 10,461 |

**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.

The syndicate is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The syndicate deals in six main currencies, Sterling, Canadian dollars, Euros, US dollars, Australian dollars and New Zealand dollars. Transactions also take place in other currencies, although these are immediately converted to Sterling.

A 10% fall in the in the value of all overseas net assets would lead to a £2.1m loss (2014: £0.9m) with Euro net assets being the largest element of that at £1.5m (2014: £0.5m). The syndicate monitors these currency balances and aims to ensure excessive balances beyond accumulated profits do not accrue beyond those necessary to meet overseas trust fund requirements. The syndicate has not taken out any transactions to hedge these balances.

The following table, all expressed in Sterling, shows that the total net assets held by the syndicate designated in Euros at the year-end represented 38% which is up from 26% at the previous year-end.

| | £<br>£000 | US$<br>£000 | Can$<br>£000 | Euro<br>£000 | Other<br>£000 | Total<br>£000 |
|---|---|---|---|---|---|---|
| As at 31 December 2015 | | | | | | |
| Financial investments | – | 3,968 | 110 | – | – | 4,078 |
| Reinsurers' share of technical provisions | 3,106 | 286 | – | 2,535 | – | 5,927 |
| Insurance & reinsurance debtors | 7,247 | 988 | 89 | 2,734 | 366 | 11,424 |
| Cash at bank & overseas deposits | – | 208 | 134 | 341 | 149 | 832 |
| Other assets including deferred acquisition costs | 13,065 | 4,819 | 207 | 2,190 | 615 | 20,896 |
| Total assets | 23,418 | 10,269 | 540 | 7,800 | 1,130 | 43,157 |
| Technical provisions | 30,894 | 13,869 | 598 | 23,508 | 1,777 | 70,646 |
| Insurance & reinsurance creditors | 80 | 69 | – | – | – | 149 |
| Other creditors | 10,545 | 1,384 | (2) | (789) | 2 | 11,140 |
| Total liabilities | 41,519 | 15,322 | 596 | 22,719 | 1,779 | 81,935 |
| Surplus/(deficiency) of assets | (18,101) | (5,053) | (56) | (14,919) | (649) | (38,778) |
| As at 31 December 2014 | | | | | | |
| Financial investments | – | 1,798 | 31 | – | – | 1,829 |
| Reinsurers' share of technical provisions | 2,534 | 345 | – | 612 | – | 3,491 |
| Insurance & reinsurance debtors | 2,184 | 539 | (15) | 865 | – | 3,573 |
| Cash at bank & overseas deposits | 15 | 67 | 45 | 9 | – | 136 |
| Other assets including deferred acquisition costs | 10,449 | 3,622 | 82 | 1,760 | – | 15,913 |
| Total assets | 15,182 | 6,371 | 143 | 3,246 | – | 24,942 |
| Technical provisions | 12,280 | 9,563 | 127 | 8,539 | – | 30,509 |
| Insurance & reinsurance creditors | 85 | 109 | – | – | – | 194 |
| Other creditors | 13,853 | 773 | (4) | (121) | – | 14,501 |
| Total liabilities | 26,218 | 10,445 | 123 | 8,418 | – | 45,204 |
| Surplus/(deficiency) of assets | (11,036) | (4,074) | 20 | (5,172) | – | (20,262) |

### Interest rate risk

The syndicate's main exposure to fluctuation in interest rates arises from its effect on the valuation of funds invested in bonds and equities. In order to mitigate this risk, the Board, advised by its external investment managers, monitors the economic situation to seek to anticipate any future interest rate movement and to take appropriate action to mitigate its effect on the value of investments held.

The largest element of the syndicate's investments comprise of fixed income securities. The fair value of the investment in fixed income securities is inversely correlated to the movement in market interest rates. If market rates fall, the fair value of the syndicate's fixed interest investments would tend to rise and vice versa. Fixed income assets are predominantly invested in high quality corporate, government, supranational and residential mortgage backed securities. The investments typically have relatively short durations and terms to maturity.

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| Impact of a 50 basis point increase in interest rates on result | – | – |
| Impact of a 50 basis point decrease in interest rates on result | – | – |
| Impact of a 50 basis point increase in interest rates on net assets | 19 | – |
| Impact of a 50 basis point decrease in interest rates on net assets | (19) | – |

### 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.

### Credit risk – ratings

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the syndicate are:

- Reinsurers: Whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate.
- Brokers and intermediaries: Whereby counterparties fail to pass on premiums collected or claims paid on behalf of the syndicate.
- Investments: Whereby issuer default results in the syndicate losing all or part of the value of a financial instrument.
- Claims funds held by third party administrators are held in segregated bank accounts and are not subject to credit risk.

| | AAA<br>£000 | AA<br>£000 | A<br>£000 | BBB<br>£000 | Unrated<br>£000 | Total<br>£000 |
|---|---|---|---|---|---|---|
| As at 31 December 2015 | | | | | | |
| Variable yield securities and unit trusts | – | 110 | – | 3 | – | 113 |
| Debt securities | – | 2,699 | 1,197 | 69 | – | 3,965 |
| Participation in investment pools | – | – | – | – | – | – |
| Overseas deposits as investments | 118 | – | – | – | – | 118 |
| Reinsurers' share of claims outstanding | – | 775 | 3,280 | – | – | 4,055 |
| Reinsurance debtors | – | 674 | 1,403 | – | – | 2,077 |
| Cash at bank and in hand | – | 119 | 467 | 128 | – | 714 |
| Total credit risk | 118 | 4,377 | 6,347 | 200 | – | 11,042 |

| | AAA £000 | AA £000 | A £000 | BBB £000 | Unrated £000 | Total £000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2014** | | | | | | |
| Variable yield securities and unit trusts | – | – | – | 1,797 | – | 1,797 |
| Debt securities | – | – | – | – | – | – |
| Participation in investment pools | – | 32 | – | – | – | 32 |
| Overseas deposits as investments | 5 | – | – | – | – | 5 |
| Reinsurers' share of claims outstanding | – | 133 | 479 | – | – | 612 |
| Reinsurance debtors | – | – | – | – | – | – |
| Cash at bank and in hand | – | 41 | 23 | 67 | – | 131 |
| **Total credit risk** | 5 | 206 | 502 | 1,864 | – | 2,577 |

Insurance receivables are not shown above but would be categorised as 'unrated' as a majority of the balance relates to insurance broker debt which falls outside credit rating requirements.

### Credit risk – ageing and impairment

All assets as listed above are classed as not yet due.

### Annual venture risk

Under the Lloyd's annual venture regime, the syndicate demonstrates annually that it has enough supporting capital to continue 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 commensurate with the managing agent's risk appetite.

### 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 benefits from the group's 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 to mitigate the risk of loss of key staff, 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.

# Notes to the annual accounts

At 31 December 2015



## 1 Analysis of underwriting results

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 |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| Direct insurance: | | | | | | |
| Fire and other damage to property | 24,456 | 20,768 | (12,340) | (12,492) | (4,293) | (8,357) |
| Third party liability | 34,536 | 23,917 | (19,801) | (13,969) | 379 | (9,474) |
| | 58,992 | 44,685 | (32,141) | (26,461) | (3,914) | (17,831) |
| **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) |

Total commissions for direct insurance written in the year amounted to £13,137k (2014: £3,612k).

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

| | 2015 £000 | 2014 £000 |
|---|---|---|
| United Kingdom | 28,574 | 23,450 |
| Other EU countries | 12,101 | – |
| USA | 16,339 | 11,132 |
| Other | 1,978 | 170 |
| | 58,992 | 34,752 |

## 2 Claims incurred net of reinsurers' share

### *Gross technical provisions*

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Provision for unearned premiums | 34,125 | 19,436 |
| Claims outstanding | 36,521 | 11,073 |
| | 70,646 | 30,509 |
| **Reinsurers' share of technical provisions** | | |
| Provision for unearned premiums | 1,872 | 2,879 |
| Claims outstanding | 4,055 | 612 |
| | 5,927 | 3,491 |
| **Net technical provisions** | | |
| Provision for unearned premiums | 32,253 | 16,557 |
| Claims outstanding | 32,466 | 10,461 |
| | 64,719 | 27,018 |

### *Reconciliation of movements in year*

| 2015 | At 31 Dec 14 £000 | Movement in technical account £000 | Exchange movement £000 | At 31 Dec 15 £000 |
|---|---|---|---|---|
| Gross provision for claims | 11,073 | 25,324 | 124 | 36,521 |
| Reinsurers' share of provision | 612 | 3,447 | (4) | 4,055 |
| Unearned premium | 19,436 | 14,307 | 382 | 34,125 |
| Reinsurers' share of unearned premiums | 2,879 | (1,025) | 18 | 1,872 |
| Deferred acquisition costs | 10,466 | 5,138 | 103 | 15,707 |

| 2014 | At 31 Dec 13 £000 | Movement in technical account £000 | Exchange movement £000 | At 31 Dec 14 £000 |
|---|---|---|---|---|
| Gross provision for claims | 396 | 10,733 | (56) | 11,073 |
| Reinsurers' share of provision | – | 636 | (24) | 612 |
| Unearned premium | 2,640 | 16,551 | 245 | 19,436 |
| Reinsurers' share of unearned premiums | 691 | 2,169 | 19 | 2,879 |
| Deferred acquisition costs | 3,095 | 7,302 | 69 | 10,466 |

***Claims development triangulations***

*Gross claims development as at 31 December 2015*

| Pure underwriting year<br>Estimate of gross claims incurred | 2013<br>£000 | 2014<br>£000 | 2015<br>£000 | Total<br>£000 |
|---|---|---|---|---|
| After one year | 789 | 12,083 | 336 | |
| After two years | 12,083 | 20,882 | | |
| After three years | 23,323 | | | |
| Less gross claims paid | 6,601 | 1,418 | 1 | |
| Gross reserves | 16,722 | 19,464 | 335 | 36,521 |

*Net claims development as at 31 December 2015*

| Pure underwriting year<br>Estimate of net claims incurred | 2013<br>£000 | 2014<br>£000 | 2015<br>£000 | Total<br>£000 |
|---|---|---|---|---|
| After one year | 789 | 380 | 336 | |
| After two years | 11,503 | 18,411 | | |
| After three years | 21,739 | | | |
| Less net claims paid | 6,601 | 1,418 | 1 | |
| Net reserves | 15,138 | 16,993 | 335 | 32,466 |

The above analysis is shown in Sterling. Paid claims have been accounted for at historical exchange rates for each calendar year with the reserves at each year-end retranslated using the latest reporting date exchange rate so as to prevent foreign exchange fluctuations obscuring the view of the claims development.

The significant movements in net claims incurred in respect of claims provisions created at the end of the previous period are analysed as follows:

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| Fire and other damage to property | 3,266 | (1,668) |
| Third party liability | 12,502 | 8,488 |
| | 15,768 | 6,820 |

## 3 Net operating expenses

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Brokerage and commissions | 9,376 | 6,442 |
| Other acquisition costs including certain syndicate expenses deemed to relate to procuring business | 12,338 | 7,782 |
| Acquisition costs | 21,714 | 14,224 |
| Change in deferred acquisition costs | (5,138) | (7,302) |
| Administration expenses | 8,037 | 5,317 |
| Members' standard personal expenses | 1,848 | 1,124 |
| | 26,461 | 13,363 |

| | | |
|---|---|---|
| Administrative expenses include: | | |
| Auditor's remuneration | | |
| Audit of the syndicate annual accounts | 73 | 72 |
| Other services pursuant to regulations and Lloyd's byelaws | 22 | 22 |

## 4 Employees

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

| | | |
|---|---|---|
| Wages and salaries | 6,485 | 4,283 |
| Social security costs | 863 | 568 |
| Other pension costs | 566 | 411 |
| | 7,914 | 5,262 |

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:

| | 2015 | 2014 |
|---|---|---|
| Administration and finance | 26 | 20 |
| Underwriting | 21 | 14 |
| Claims | 2 | 1 |
| | 49 | 35 |

## 5 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:

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Emoluments | 799 | 645 |

*Active Underwriter's emoluments*

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

| | | |
|---|---|---|
| Emoluments | 408 | 374 |

## 6 Investment Return

| | | |
|---|---|---|
| Income from investments | 34 | – |
| Losses on the realisation of investments | (2) | – |
| Investment income | 32 | – |
| Investment expenses and charges | (1) | – |
| Unrealised losses on investments | (35) | – |
| Allocated investment return transferred to the technical account | (4) | – |
| This can also be presented as follows: | | |
| Interest and similar income | | |
| Interest from financial instruments designated at fair value | 8 | – |
| Dividend income from financial instruments designated at fair value | 26 | – |
| | 34 | – |

## 7 Investment Expenses and Charges

| | | |
|---|---|---|
| Investment management expenses, including interest | 1 | – |
| Realised losses on investments | 2 | – |
| Unrealised losses on investments | 35 | |
| | 38 | – |

## 8 Other financial investments

| | Market value | | Cost | |
|---|---|---|---|---|
| | 2015 £000 | 2014 £000 | 2015 £000 | 2014 £000 |
| Listed securities | | | | |
| Shares and other variable yield securities | 113 | 1,797 | 113 | 1,797 |
| Debt securities and other fixed income securities | 3,965 | – | 4,002 | – |
| Participation in investment pools | – | 32 | – | 32 |
| | 4,078 | 1,829 | 4,115 | 1,829 |

*Fair value hierarchy*

In accordance with FRS 102 paragraph 11.27 the above financial instruments have been classified into three levels to estimate their fair values, with Level 1 being the most reliable. The definitions of these hierarchy levels are as follows:

Level 1: Quoted prices in an active market for identical assets at the relevant date.

Level 2: Where there is no quoted price, the price of a recent transaction of an identical asset provided that the price is considered to remain appropriate.

Level 3: If neither of the above are applicable, by the use of a valuation technique to estimate the transaction price of an arm's length exchange under normal business considerations at the relevant date.

All of the syndicate's financial instruments are classified as Level 1.

## 9 Debtors arising out of direct insurance operations

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Intermediaries | 9,347 | 3,573 |

## 10 Debtors arising out of reinsurance operations

| | | |
|---|---|---|
| Due from ceding insurers | 2,077 | – |

All debtors are due within one year.

## 11 Other debtors

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Amounts held by Third Party Administrators – claims funds | 1,591 | 331 |
| VAT receivable | 85 | 31 |
| Other debtors | 27 | – |
| | 1,703 | 362 |

## 12 Creditors arising out of reinsurance operations

| | | |
|---|---|---|
| Due within one year | 149 | 194 |
| | 149 | 194 |

## 13 Other creditors

| | | |
|---|---|---|
| Inter-syndicate loan | – | 6,000 |
| Amounts owed to credit institutions | 7,356 | 6,000 |
| IPT payable | 242 | 79 |
| | 7,598 | 12,079 |

## 14 Year of account development

The following table shows how the results of the recent years of account were earned by calendar year.

| | Calendar years | | | |
|---|---|---|---|---|
| Year of account | 2013 £000 | 2014 £000 | 2015 £000 | Total £000 |
| 2013 | (6,647) | (1,749) | (664) | (9,060) |
| 2014 | – | (11,281) | (4,301) | (15,582) |
| 2015 | – | – | (13,170) | (13,170) |
| Calendar year result | (6,647) | (13,030) | (18,135) | (37,812) |

## 15 Regulatory capital requirements

*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.

*Capital framework at Lloyd's*

The Society of 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 and in accordance with Solvency II requirements.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, 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. Accordingly the capital requirement in respect of Syndicate 1991 is not disclosed in these financial statements.

*Lloyd's capital setting process*

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (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 SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the 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 (FAL), 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.

There are no funds in syndicate held for this syndicate, accordingly all of the assets less liabilities of the syndicate, as represented by the members' balances reported on the balance sheet represent resources available to meet members' and Lloyd's capital requirements.

16 **Transition to FRS 102**

During the year, the syndicate has made an amendment to its foreign exchange accounting policy to ensure compliance with FRS 102 Section 30 'Foreign Currency Translation' and amendment to the treatment of insurance assets and liabilities included in FRS 103, section 2.26 with respect to:

- the allocation of foreign exchange gains/losses between the profit & loss account and the former Statement of Realisable Gains and Losses (STRGL) now the Statement of Other Comprehensive Income (OCI);
- the use of monthly average rates as a proxy for transaction rates when determining the prevailing foreign exchange rate for non-monetary assets and liabilities where these items are held at transactional rates of exchange; and
- treating all insurance assets and liabilities (including DAC and UPR) as monetary items.

In accordance with FRS 102 section 3.12, the applicable comparative figures in the primary statements and notes have been restated to reflect the uniform application of the new policy outlined above.

The financial effect of restating the prior year amounts for the changes in accounting policy was nil.

17 **Derivatives**

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

18 **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.

19 **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 Randall & Quilter Investment Holdings Ltd (RQIH), a company incorporated in Bermuda. K E Randall has an individual shareholding of 22.60% (2014: 22.65%) in RQIH.

(ii) R&Q Capital No. 1 Limited (RQC1), a member of Syndicate 1991, is a wholly owned subsidiary of Randall & Quilter II Holdings Limited which is a wholly owned subsidiary of RQIH. RQC1's 2015 syndicate participation is 13.61%. (2014: 20.01%).

(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. RQC2's 2015 syndicate participation is 16.54% (2014: 16.12%).

(iv) K E Randall is a Director of RQC1 and RQC2.

(v) 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.

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

(vii) During the year, the syndicate paid £8,537k (2014: £5,666k) in relation to management fees and a further £1,096k (2014: £1,509k) in managing agency fees to RQMA. These amounts have been charged at cost.

(viii) 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.

(ix) R E McCoy, M Bell, P M Sloan and A G Chopourian are directors of DTW 1991 Underwriting Limited (DTW 1991), 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 £28,172k of premium income to the syndicate (2014: £13,569k). DTW 1991's costs are recharged to the syndicate and treated as acquisition costs. This amounted to £235k in 2015 (2014: £447k).

(x) UMH is a shareholder of Trilogy Managing General Agents Limited (Trilogy), an undertaking that is appointed as a coverholder to the syndicate. R E McCoy is a director of Trilogy. During the year, Trilogy provided £6,630k of premium income. (2014: £4,658k).

R&Q Managing Agency Limited
Syndicate

# DTW1991

## Underwriting year accounts
For the year ended 31 December 2015

# Managing agent's report



The managing agent presents its report together with the syndicate underwriting year accounts for the 2013 Year of Account of Syndicate 1991 for the three years ended 31 December 2015.

**Review of the 2013 year of account**

*Activities*

Syndicate 1991 is a specialist in delegated authority underwriting, and was approved by Lloyd's for the 2013 year of account. The capacity for 2013 was £76.8m. Premiums written excluding commissions were £37.9m, 49% of capacity.

*Results*

The loss for the 2013 year of account was £8.9m equivalent to 11.5% of capacity. An explanation of the result is included in the underwriter's report on page 3.

Approved by order of the Board of RQMA.

R E McCoy
Chief Executive Officer
15 March 2016

# Statement of managing agent's responsibilities



The managing agent is responsible for preparing syndicate underwriting year accounts and an accompanying managing agent's report in accordance with applicable law, Lloyd's Byelaws and United Kingdom Generally Accepted Accounting Practice.

Regulation 6 of the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") requires the managing agent to prepare syndicate underwriting year accounts for a syndicate in respect of any underwriting year which is being closed by reinsurance to close during or at the end of a financial year.

The syndicate underwriting year accounts must be prepared on an underwriting year basis 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 by the Syndicate Accounting Byelaw (No. 8 of 2005) 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these financial statements.

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 and the Syndicate Accounting Byelaw (No.8 of 2005). It also has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the syndicate and to prevent and detect fraud and other irregularities.

# Independent auditor's report

to the Members of Syndicate 1991 2013 closed year of account

We have audited the syndicate underwriting year accounts for the 2013 year of account of Syndicate 1991 for the three years ended 31 December 2015 as set out on pages 41 to 54. The financial reporting framework that has been applied in their preparation is applicable to law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the members on the 2013 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 loss for the 2013 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.

John Perry
(Senior Statutory Auditor)
For and on behalf of
PKF Littlejohn LLP
Statutory Auditor
1 Westferry Circus
Canary Wharf
London E14 4HD
15 March 2016

# Profit and loss account – 2013 year of account
# Technical account – general business

Closed at 31 December 2015

| | Note | £000 | £000 |
|---|---|---|---|
| **Syndicate allocated capacity** | | | 76,844 |
| Earned premiums net of reinsurance: | | | |
| Gross premiums written | | | 37,908 |
| Outward reinsurance premiums | | | (5,281) |
| | | | 32,627 |
| **Allocated investment return transferred from the non-technical account** | | | 5 |
| Claims incurred, net of reinsurance: | | | |
| Claims paid | | | |
| Gross amount | | (6,914) | |
| Reinsurers' share | | – | |
| | | (6,914) | |
| Reinsurance to close premiums payable net of reinsurance | 4 | (16,100) | |
| | | | (23,014) |
| Net operating expenses | 5 | | (18,609) |
| Balance on the technical account – general business | 6 | | (8,991) |

The accounting policies and notes on pages 45 to 54 form part of these financial statements.

# Profit and loss account – 2013 year of account
# Non-technical account

Closed at 31 December 2015

| | Note | £000 |
|---|---|---|
| **Balance on the technical account – general business** | | (8,991) |
| Investment income | 7 | 43 |
| Investment expenses and charges | 7 | (1) |
| Realised losses on investments | | (2) |
| Unrealised losses on investments | | (35) |
| Allocated investment return transferred to general business technical account | 7 | (5) |
| Other charges | | 146 |
| **Loss for the 2013 closed year of account** | | (8,845) |

The above loss was after a £146k exchange gain, included within the non-technical account other charges.

There was no other comprehensive income.

| | Note | £000 |
|---|---|---|
| **Amounts due to members** | | |
| Loss for the 2013 closed year of account | | (8,845) |
| Members' agents' fees advances | | (220) |
| Amounts due (from) members at 31 December 2015 | | (9,065) |

As the 2013 year of account following a reinsurance to close is no longer trading, all operations relate to ceased activities for this year of account.

The accounting policies and notes on pages 45 to 54 form part of these financial statements.

# Balance sheet
# 2013 year of account

Closed at 31 December 2015

| | Note | £000 | £000 |
|---|---|---|---|
| **Assets** | | | |
| Investments | 8 | | 4,001 |
| Debtors | 9 | | 843 |
| Reinsurance recoveries anticipated on gross reinsurance to close premiums reinsurers' share | 4 | | 1,732 |
| Other assets | | | |
| Cash at bank and in hand | | 4,176 | |
| Other | | 69 | |
| | | | 4,245 |
| Prepayments and accrued income | | | |
| Deferred acquisition costs | | 672 | |
| Prepayments and other accrued income | | 1,862 | |
| | | | 2,534 |
| **Total assets** | | | 13,355 |
| **Liabilities** | | | |
| Amount due (from) Members | | | (9,065) |
| Reinsurance to close premium payable | | | |
| – Gross amount | 4 | | 18,486 |
| Creditors | 10 | | 1,277 |
| Accruals and deferred income | | | 2,657 |
| **Total liabilities** | | | 13,355 |

The accounting policies and notes on pages 45 to 54 form part of these financial statements.

The Syndicate Underwriting Year Accounts were approved by the Board of RQMA on 15 March 2016 and were signed on its behalf by:

R E McCoy
(Director)

M Bell
(Director)

15 March 2016

# Statement of cash flows 2013 year of account

Closed at 31 December 2015



| | £000 |
|---|---|
| **Cashflow from operating activities:** | |
| (Loss) for the closed year account | (8,845) |
| **Adjustments for:** | |
| Increase in reinsurance to close payable | 16,082 |
| (Increase) in debtors, prepayments and accrued interest | (2,925) |
| Increase in creditors, accruals and deferred income | 3,262 |
| Exclude investment return | (5) |
| **Net cash inflow from operating activities** | 7,569 |
| **Cash flows from investing activities:** | |
| Purchase of equity and debt instruments | (13,966) |
| Sale of equity and debt instruments | 10,153 |
| Investment income received | 5 |
| Changes to market value and currency | (63) |
| **Net cash outflow from investing activities** | (3,871) |
| **Cash flows from financing activities:** | |
| Amounts owed to credit institutions – loans | 160 |
| **Net cash outflow from financing activity** | 160 |
| **Net increase in cash and cash equivalents in the three years** | 3,858 |
| Cash and cash equivalents at 1 January 2013 | – |
| Effect of exchange rates on cash and cash equivalents | (194) |
| **Cash and cash equivalents at 31 December 2015** | 3,664 |
| **Cash and cash equivalents comprise:** | |
| Cash at bank and in hand | 4,176 |
| Amounts owed to credit institutions – overdraft | (512) |
| | 3,664 |

The accounting policies and notes on pages 45 to 54 form part of these financial statements.

# Notes to the syndicate underwriting accounts 2013 year of account

Closed at 31 December 2015



## 1 Statement of accounting policies

***General information and principal activities***

Syndicate 1991 is a Lloyd's syndicate domiciled in England and Wales. It is managed by R&Q Managing Agency Limited a private company limited by shares that is incorporated in England and whose registered office is 2 Minster Court London EC3R 7BB.

The syndicate is supported by capacity from connected and third party members.

***Basis of preparation and compliance with accounting standards***

These Syndicate Underwriting Year Accounts 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", The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Syndicate Accounting Byelaw (No.8 of 2005), as far as is necessary to present a true and fair view.

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

The Syndicate Underwriting Year Accounts are presented in Sterling which is also the syndicate's functional currency.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These Syndicate Underwriting Year Accounts relate to the 2013 year of account which has been closed by reinsurance to close into the 2014 year of account of Syndicate 1991 at 31 December 2015. Consequently the balance sheet represents the assets and liabilities of the 2013 year of account and the profit and loss account and cash flow statement reflect the transactions for that year of account during the 36 months period until closure.

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

***Change to accounting policies***

These Syndicate Underwriting Year Accounts for the year-ended 31 December 2015 are the first financial statements that comply with FRS 102 and FRS 103. Details of changes upon transition are shown at note 13.

***Significant accounting policies***

*Underwriting transactions*

Each account is normally kept open for three years and the underwriting result is ascertained at the end of the third year when the account is closed, normally by reinsurance into the following year of account. The accounts include transactions on the following bases:

(a) Gross premiums are allocated to years of account into which the arrangement with the coverholder incepts. Commissions or brokerage charged to the syndicate are allocated to the same year of account as the relevant policy. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

(b) The reinsurance premiums are allocated to a year of account in accordance with the underlying risks being protected or in relation to the coverage period of the contract as appropriate. Any reinsurance premium adjustments are charged to a year of account according to the basis on which the adjustments concerned are calculated.

(c) Gross claims paid include internal and external adjustment and settlement expenses. Salvages and reinsurance recoveries are allocated to the year of account to which the related claim was charged.

(d) All underwriting transactions are recognised on the basis of transactions processed up to and including the balance sheet date plus accruals in respect of anticipated additional or return premiums, reinsurance premiums and reinsurance recoveries in respect of paid claims.

(e) A reinsurance to close is a contract of insurance which, in return for a premium paid by the closing year of account, transfers, normally to the following year of account, all known and unknown liabilities arising out of transactions connected with insurance business underwritten by the closing year of account. However, it should be noted that a reinsurance contract does not extinguish the primary liability of the original underwriter.

The estimate of future liabilities (including internal and external settlement costs) and the premium for the reinsurance to close are calculated by the internal actuaries based on the latest loss information available at the time of making such calculation. This is in line with the external actuarial opinion. The calculation allows for the estimated net cost of claims which may have been incurred but not yet reported; such allowance is established by using market blended rates adapted to reflect experience to date. The calculation includes estimates for known outstanding claims, claims which may have been incurred but not reported, and potential reinsurance recoveries. The uncertainties which are inherent in the process of estimating are such that in the normal course of events, unforeseen or unexpected future developments may cause the ultimate cost of settling the outstanding liabilities to differ from that presently estimated. Credit is taken for any reinsurance recoveries that are presently estimated to be recoverable. No credit is taken for investment earnings which may be expected to arise in the future on the funds representing either the reinsurance to close or the estimate of future liabilities as applicable. Any unearned premiums are taken into account within the calculation of the reinsurance to close premium.

***Financial assets and financial liabilities***

*(a) Classification*

The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the profit or loss or other comprehensive income. These classifications are made at initial recognition and subsequent reclassification is only permitted in restricted circumstances.

Investments in shares and other variable yield securities and unit trusts and debt securities and other fixed income securities are classified as fair value through profit and loss as they are managed on a fair value basis. Cash at bank, deposits with credit institutions, debtors and accrued interest are classified as loans and receivables.

*(b) Recognition*

Financial assets and liabilities are recognised when the syndicate becomes party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the asset after deducting all of its liabilities.

*(c) Initial measurement*

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

*(d) Subsequent measurement*

Investments in shares and other debt instruments are measured at fair value through profit or loss. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date.

*(d) Derecognition of financial assets and liabilities*

Financial assets are derecognised when and only when a) the contractual rights to the cash flow from the financial asset expire or are settled, b) the syndicate transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the syndicate, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

*(e) Fair value measurement*

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse in time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the syndicate estimates the fair value by using a valuation technique.

*(f) Impairment of financial instruments measured at amortised cost or cost*

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. using the effective interest method.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

*(g) Offsetting*

Debtors/creditors arising from insurance/reinsurance operations shown in the balance sheet include the totals of all outstanding debit and credit transactions as processed by the Lloyd's central facility. No account has been taken of any offsets which may be applicable in calculating the net amounts due between the syndicate and each of its counterparty insureds, reinsurers or intermediaries as appropriate.

***Investment return***

The gross investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year is allocated to years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Investment return is wholly allocated to the general business technical account.

***Syndicate operating expenses***

Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate. Where expenses do not relate to any specific year of account they are apportioned between years of account on bases which reflect the benefit obtained by each year of account from each type of expense. Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned on bases that are considered to fairly reflect the nature and usage of the expense concerned.

***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 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 with the Inland Revenue.

No provision has been made for any Unites States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings. Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

***Basis of currency translation***

The syndicate has Sterling as its functional and presentation currency.

Income and expenditure in US dollars, Canadian dollars, Euros, Australian and New Zealand 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 receivable and payable have been translated at the transaction rates of exchange ruling at the effective dates of the contracts. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Although transactions are translated as described above, the monetary assets and liabilities, including any unearned premiums or deferred acquisition costs, within the balance sheet in the currencies stated above are translated at the rates of exchange ruling on 31 December 2015. Any differences are included within the profit or loss on exchange account in the non-technical account. Any non-monetary assets or liabilities are retained at their original exchange rate.

***Key accounting judgements and estimation uncertainties***

The key accounting judgements, 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 assets and liabilities from the 2013 year of account to the 2014 year of account. However as this amount has been contractually committed to since the year-end there can be no further change to the amount in respect of the 2013 year of account.

The accounting policy for the reinsurance to close is described on page 45 and the related risks relating to the underlying net technical provisions that it transfers are described on page 21 within the Syndicate Annual Accounts. The reinsurance to close for net technical provisions after the reinsurers' share is £16.8m. The most uncertain element within these technical provisions is the amount for claims outstanding which covers amounts where either a claim event has occurred but the syndicate has not yet been notified or where there has, although notified, been insufficient information to date to be certain regarding its ultimate cost. This provision for Incurred But Not Reported ("IBNR") after potential related reinsurance recoveries amounts to £4.1m.

## 2 Risk and capital management

Since 31 December 2015 a reinsurance to close has been completed which transferred all assets and liabilities from the 2013 year of account to the 2014 year of account of Syndicate 1991. Any change in value of the assets or liabilities or further transactions after 31 December 2015 will be borne by the 2014 year of account. The 2013 therefore bears no further risk and accordingly no disclosures relating to risks are disclosed in these Underwriting Year Accounts. The risks remain within the syndicate and are borne by the 2014 and subsequent years of account and are disclosed in the Syndicate Annual Accounts on pages 10 to 35 and in particular within page 21 on Risk Management.

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 also described within the Syndicate Annual Accounts within note 15 on regulatory capital requirements.

## 3 Analysis of underwriting result

An analysis of the underwriting result before investment return for the three years ended 31 December 2015 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 |
|---|---|---|---|---|---|---|
| Direct insurance: | | | | | | |
| Fire and other damage to property | 18,840 | 18,840 | (7,925) | (11,322) | (3,476) | (3,883) |
| Third party liability | 19,068 | 19,068 | (16,829) | (7,287) | (65) | (5,113) |
| | 37,908 | 37,908 | (24,754) | (18,609) | (3,541) | (8,996) |

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

| | £000 |
|---|---|
| United Kingdom | 18,688 |
| Other EU countries | 6,320 |
| USA | 12,550 |
| Other | 350 |
| | 37,908 |

## 4 Reinsurance to close premiums payable

| | Unearned premium £000 | Reported £000 | IBNR £000 | ULAE £000 | Total £000 |
|---|---|---|---|---|---|
| Gross reinsurance to close premiums received | 1,764 | 12,123 | 4,253 | 346 | 18,486 |
| Reinsurance recoveries anticipated | (148) | (1,440) | (144) | – | (1,732) |
| | 1,616 | 10,683 | 4,109 | 346 | 16,754 |
| Deferred acquisition costs | | | | | (672) |
| Foreign exchange | | | | | 18 |
| | | | | | 16,100 |

This amount represents a provision for the reinsurance to close the 2013 year of account into the 2014 year of account of Syndicate 1991 as at 31 December 2015 which was subsequently approved by the Board of RQMA on 4 February 2016.

The table of the development of ultimate claims over the last three years is shown within note 2 to the Syndicate Annual Accounts.

## 5 Net operating expenses

| | £000 |
|---|---|
| Brokerage and commissions | 7,151 |
| Other acquisition costs | 6,405 |
| Acquisition costs | 13,556 |
| Administrative expenses | 5,053 |
| | 18,609 |

| | |
|---|---|
| Included within administrative costs above are the following: | |
| Auditors' remuneration – audit | 79 |
| Standard personal expenses (excluding members' agents' fees) | 1,011 |

## 6 Balance on the technical account before net operating expenses and allocated investment return

| | £000 |
|---|---|
| Technical account balance before allocated investment return and net operating expenses | 9,613 |
| Brokerage and commission on gross premium | (13,556) |
| Balance after brokerage and commissions | (3,943) |

## 7 Investment return

| | £000 |
|---|---|
| Income from investments | 43 |
| Investment management expenses, including interest | (1) |
| Losses on realisation of investments | (2) |
| Investment expenses and charges | (3) |
| Unrealised losses on investments | (35) |
| Net unrealised losses on investments | (35) |
| Allocated investment return transferred to the technical account | 5 |

This can also be presented as follows:

| | |
|---|---|
| **Interest and similar income** | |
| Interest from financial instruments designated at fair value | 17 |
| Dividend income from financial instruments designated at fair value | 26 |
| | 43 |
| **Other income from investments designated at fair value** | |
| Realised gains and losses | (2) |
| Unrealised gains and losses | (35) |
| Investment expenses | (1) |
| | (38) |

## 8 Investments

| | Market Value £000 | Cost £000 |
|---|---|---|
| Financial assets at fair value through profit or loss: | | |
| Holdings in collective investment schemes | 36 | 36 |
| Debt securities and other fixed income securities | 3,965 | 4,002 |
| | 4,001 | 4,038 |

*Fair value hierarchy*

In accordance with FRS 102 paragraph 11.27 the above financial instruments carried at fair value have been classified by valuation method into three levels to estimate their fair values, with Level 1 being the most reliable. The definitions of these hierarchy levels are as follows:

- Level 1: Quoted prices in an active market for identical assets at the relevant date.
- Level 2: Where there is no quoted price, the price of a recent transaction of an identical asset provided that the price is considered to remain appropriate.
- Level 3: If neither of the above are applicable, by the use of a valuation technique to estimate the transaction price of an arm's length exchange under normal business considerations at the relevant date.

All of the syndicate's financial instruments are classified as level 1.

## 9 Debtors

| | £000 |
|---|---|
| Amounts held by Third Party | |
| Administrators – claims funds | 842 |
| Other debtors | 1 |
| | 843 |

All amounts are due within one year.

## 10 Creditors

| | £000 |
|---|---|
| Arising out of direct insurance operations intermediaries | 473 |
| Creditors arising out of reinsurance operations | 82 |
| Amounts owed to credit institutions | 672 |
| Other creditors | 50 |
| | 1,277 |

All amounts are payable within one year.

## 11 Borrowings and mortgages or charges

The syndicate borrowed the following amounts during 2015:

£6.0m loan from Syndicate 3330. The loan arrangement expired at 31 December 2015 and was fully repaid during the year.

£6.0m loan from Barclays Bank plc. The loan arrangement expires on 31 March 2016. At 31 December 2015, the full amount of the loan was being utilised. Of this £0.2m relates to the 2013 year of account.

£4.0m overdraft from Barclays Bank plc. The overdraft facility is to be fully repaid by 30 June 2016. At 31 December 2015, £1.4m was being utilised. Of this £0.5m relates to the 2013 year of account.

No balance sheet assets have a mortgage or charge over them.

## 12 Related parties

Members' expenses, being agent's fees and profit commission payable to the managing agent, and subscriptions and central guarantee fund contributions paid to Lloyd's, are charged on an underwriting year of account, rather than calendar year basis. For the 2013 year of account RQMA has charged an agent's fee of 0.75% of capacity. Within the 2013 underwriting year accounts, fees of £0.6m have been reflected within net operating expenses. At 31 December 2015 there were no unpaid fees.

The managing agent incurs a large proportion of the expenses incurred in operating the syndicate and recharges them to the syndicate on a basis that reflects the syndicate's usage of resources. The recharges are included within amounts disclosed as net operating expenses, acquisition costs and claims incurred. Included within the recharges are amounts relating to the remuneration of directors of RQMA. The total amount recharged by the managing agent to the syndicate to the 2013 underwriting account was £4.3m excluding agent fees. At 31 December 2015 there were no unpaid fees.

Key management personnel are considered to only be the directors of RQMA and the Active Underwriter. The total compensation paid to them and charged within these underwriting year accounts was £0.7m.

## 13 Transition to FRS I02

These financial statements for the year-ended 31 December 2015 are the first financial statements that comply with FRS 102 and FRS 103. The date of transition is 1 January 2014 and the figures from 1 January 2014 to 31 December 2015 have been restated accordingly. In addition, for consistency the 2013 transactions have also been presented on a consistent basis. The transition has resulted in a number of changes in accounting policies to those used previously. The nature of these changes has not had any impact on the closing financial position and result for the three year period. The only effect has been to disclose the exchange gain of £146k within other charges within the non-technical account, and would previously have been disclosed as net operating expenses within the technical account.

## 14 Seven year summary of results

As the 2013 underwriting year closing at 31 December 2015 is the first underwriting account, a seven year summary of results has not been prepared.

The loss for a member with an illustrative share of £10,000 is £1,130.

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