Registered Number: 07066562

# R&Q Capital No. 7 Limited

(Formerly known as ProSight Specialty (TSMC) Limited)

Annual Report and Financial Statements for the year ended 31 December 2017

| | |
|---|---|
| Directors | M L Glover<br>A K Quilter<br>K E Randall |
| Company Secretary | R&Q Central Services Limited |
| Registered Office | 71 Fenchurch Street<br>London<br>EC3M 4BS |
| Auditors | PKF Littlejohn LLP<br>Statutory Auditor<br>1 Westferry Circus<br>Canary Wharf<br>London E14 4HD |

**REPORT OF THE DIRECTORS**

The Directors have pleasure in presenting their Report together with the Financial Statements for the year ended 31 December 2017.

**Results**

The results for the year are set out on pages 10 and 11 of the Financial Statements.

**Change of ownership and name**

On 27 October 2017, Randall & Quilter II Holdings Limited completed the acquisition of ProSight Speciality (TSMC) Limited. The Company name changed with effect from 27 October 2017 to R&Q Capital No. 7 Limited. The registered office address changed from 5th Floor, 70 Gracechurch Street, London EC3V 0XL to 71 Fenchurch Street, London EC3M 4BS.

**Directors and Secretary**

The current Directors of the Company and the Company Secretary are shown on page 2. Following the change of ownership, K.E. Randall, T.A. Booth and A.K. Quilter were appointed Directors and R&Q Central Services Limited appointed as Secretary, on the 27 October 2017.

The following Directors were appointed or resigned during the year:

B.W. Schnitzer appointed as Director 21 September 2017 and resigned 27 October 2017.
Argenta Secretariat resigned as Secretary 27 October 2017.
M.G. Furgueson resigned as Director 5 September 2017.
M.J. Bale resigned as Director 5 June 2017.
V. Syal resigned as Director 31 March 2017.

Following the year end T.A. Booth resigned on 5 January 2018 and M.L. Glover was appointed on the 19 January 2018.

**2017 underwriting developments**

On 7 June 2017 Lloyd's Syndicate 1110 was placed into run-off with no 2018 year of account being contemplated. The Company's sole underwriting activity is with Syndicate 1110 and subsequently the Company is operating in a run-off capacity as a Lloyd's Corporate Member. Significant changes in the reinsurance arrangements placed by the underwriting members of Syndicate 1110 has resulted in a 100% Quota Share Treaty with a ProSight Group subsidiary, New York Marine and General Insurance Company ("NYMG"). Syndicate 1110 underwriting members also have the benefit of an Aggregate Stop Loss reinsurance on the non-US business also placed with NYMG. These reinsurance arrangements cover the 2015, 2016 and 2017 years of account. These reinsurance contracts prevent any adverse net claims development from occurring in the syndicate.

**REPORT OF THE DIRECTORS (CONTINUED)**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Strategic Report and the Report of the Directors and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that

they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements the Directors are required to:

- Select suitable Accounting Policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of Information to the Auditors**

In the case of each of the persons who are Directors at the time this report is approved, the following applies:

(a) So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Auditors**

With effect from 27 October 2017, the Company appointed PKF Littlejohn LLP as the Independent Auditor, replacing Ernst & Young LLP. This decision follows the purchase of the Company by R&Q Insurance Investment Holdings Ltd and provides consistency of firms for the external audit function within the Group.

By Order of the Board

**B Murphy**
**For and on behalf of R&Q Central Services Limited**
Company Secretary
16 May 2018

## STRATEGIC REPORT

### Introduction

The Company acts as a corporate underwriting member at Lloyd's. During the year in question, the Company participated on one syndicate, Syndicate 1110, which is now managed by Coverys Managing Agency Limited (formerly known as R&Q Managing Agency Limited. Prior to the acquisition of the Company by the R&Q Group, Syndicate 1110 was managed by ProSight Specialty Managing Agency Limited.

The company's participations by year of account are as follows

| | | Year of account | | | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2015 | 2014 |
| Syndicate 1110 | Capacity provided | £25.4m | £19.1m | £19.1m | £16.3m |
| Syndicate 1110 | % of Syndicate capacity | 9.08% | 9.08% | 9.08% | 9.08% |

### Business Review

### Results

The Financial Statements incorporate the annual accounting result of the syndicate on which the Company participates for the 2015, 2016 and 2017 years of account.

### Future Developments

In 2017 Company continued to write insurance business in the Lloyd's insurance market as a corporate underwriting member of Lloyd's. Following Syndicate 1110 being placed into run-off, the Company will not have a 2018 year of account.

### Key Performance Indicators

Following the decision to place Syndicate 1110 into run-off, the Directors consider the key performance indicators should be relevant to the support orderly and efficient run-off of the insurance liabilities.
The Directors consider the following to be the key performance indicators of the Company:

| | **2017 £m** | **2016 £m** | **% Change in the year** |
|---|---|---|---|
| Shareholders' funds/(deficit). | £0.7m | £(5.7m) | +112% |
| Gross insurance technical reserves. | £11.0m | £36.6m | -70% |
| Monetary assets to cover liabilities. | £15.6m | £34.0m | -54% |
| The Company's FAL requirement. | £2.8m | £17.1m | -84% |

**STRATEGIC REPORT (CONTINUED)**

**Other Performance Indicators**

As a result of the nature of this Company as a Lloyd's Corporate Member the majority of its activities are carried out by the Syndicate in which it participates. The Company is not involved directly in the management of the Syndicate's activities, including employment of Syndicate staff, as these are the responsibility of the Managing Agent, Coverys Managing Agency Limited. The Managing Agent also has responsibility for the environmental activities of each Syndicate, although by their nature insurers do not produce significant environmental emissions. As a result, the Directors of the Company do not consider it appropriate to monitor and report any performance indicators in relation to staff or environmental matters.

**Risk Management**

As a corporate member of Lloyd's the majority of the risks to this Company's future cash flows arise from its participation in the results of Lloyd's syndicate. As detailed in Note 3 to the Financial Statements, these risks are mostly managed by the Managing Agent of the syndicate. This Company's role in managing this risk is limited to selection of syndicate participations and monitoring performance of the syndicate.

This report was approved by the board and signed on its behalf by

**B Murphy**
**For and on behalf of R&Q Central Services Limited**
Company Secretary

16 May 2018

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF R&Q CAPITAL NO. 7 LIMITED**

**Opinion**

We have audited the financial statements of R&Q Capital No. 7 Limited (the 'company') for the year ended 31 December 2017 which comprise the Statement of Income and Retained Earnings, the Statement of Financial Position and the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF R&Q CAPITAL NO. 7 LIMITED (continued)**

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the strategic report and the report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the report of the Directors have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the Directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF R&Q CAPITAL NO. 7 LIMITED (continued)**

**Responsibilities of directors**

As explained more fully in the statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ian Cowan

**Ian Cowan (Senior Statutory Auditor)**
**For and on behalf of PKF Littlejohn LLP**
**Statutory Auditor**

1 Westferry Circus
Canary Wharf
London E14 4HD

Date: 17 May 2018

**STATMENT OF INCOME AND RETAINED EARNINGS**
**Year ended 31 December 2017**
**TECHNICAL ACCOUNT**

| | Note | **2017 £000** | 2016 £000 |
|---|---|---|---|
| **Gross premiums written** | 4 | 2,050 | 22,248 |
| Outwards reinsurance premiums | | (5,281) | (1,618) |
| **Net premiums written** | | (3,231) | 20,630 |
| **Change in the Provision for unearned premiums** | | | |
| Gross provision | 5 | 10,256 | (550) |
| Reinsurers' share | 5 | (696) | (1,268) |
| **Earned premiums, net of reinsurance** | | 6,329 | 18,812 |
| **Allocated investment return transferred from the Non-technical Account** | | 337 | 205 |
| **Total Technical Income** | | **6,666** | 19,017 |
| **Expenses** | | | |
| Gross claims paid | | (22,117) | (8,906) |
| Reinsurers' share of gross claims paid | | 3,058 | 1,047 |
| Claims paid, net of reinsurance | | (19,059) | (7,859) |
| Movement in gross technical provisions | 5 | 13,935 | (6,373) |
| Movement in reinsurers' share of technical provisions | 5 | 2,617 | 1,202 |
| Net change in provisions for claims | | 16,552 | (5,171) |
| Claims Incurred, net of reinsurance | | (2,507) | (13,030) |
| Operating expenses | 6 | (4,505) | (7,557) |
| **Total Technical Charges** | | **(7,012)** | (20,587) |
| **Balance on Technical Account** | | **(346)** | (1,570) |

The Notes on pages 15 to 37 form part of these Financial Statements

**STATEMENT OF INCOME AND RETAINED EARNINGS**
**Year ended 31 December 2017**
**NON-TECHNICAL ACCOUNT**

| | Note | 2017 £000 | 2016 £000 |
|---|---|---|---|
| **Balance on the Technical Account** | | **(346)** | (1,570) |
| Investment income | 7 | 406 | 308 |
| Gains on the realisation of investments | 7 | 2 | 53 |
| Unrealised (losses) on investments | 7 | - | (119) |
| Investment expenses and charges | 7 | (71) | (37) |
| Allocated investment return transferred to technical account | | (337) | (205) |
| Other income (charges) | | (204) | (279) |
| Exchange (loss)/gain (syndicate participation) | | (155) | 268 |
| **Loss on Ordinary Activities before Taxation** | 8 | (705) | (1,581) |
| Taxation | 9 | - | - |
| **Loss on Ordinary Activities after Taxation** | | (705) | (1,581) |

| | | |
|---|---|---|
| Retained earnings at the beginning of the year | (5,744) | (4,163) |
| Loss for the year | (705) | (1,581) |
| **Retained earnings at the end of the year** | (6,449) | (5,744) |

The Notes on pages 15 to 37 form part of these Financial Statements

## STATEMENT OF FINANCIAL POSITION
**As at 31 December 2017**
**Registered Number 07066562**

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | Note | Syndicate Participation £000 | Corporate £000 | Total £000 | Syndicate Participation £000 | Corporate £000 | Total £000 |
| **Assets** | | | | | | | |
| **Investments** | | | | | | | |
| Financial Investments | 10 | 2,950 | - | 2,950 | 20,426 | - | 20,426 |
| | | 2,950 | - | 2,950 | 20,426 | - | 20,426 |
| **Reinsurers' share of technical provisions** | | | | | | | |
| Provision for unearned Premiums | | 359 | - | 359 | 1,100 | - | 1,100 |
| Claims outstanding | | 5,485 | - | 5,485 | 3,293 | - | 3,293 |
| | | 5,844 | - | 5,844 | 4,393 | - | 4,393 |
| **Debtors** | | | | | | | |
| Arising out of direct insurance Operations | 11 | 631 | - | 631 | 2,308 | - | 2,308 |
| Arising out of reinsurance Operations | 11 | - | - | - | 4,087 | - | 4,087 |
| Other debtors | 12 | 227 | 2,341 | 2,568 | 33 | - | 33 |
| | | 858 | 2,341 | 3,199 | 6,428 | - | 6,428 |
| **Other Assets** | | | | | | | |
| Cash at bank and in hand | 13 | 2,018 | 7 | 2,025 | 613 | 7 | 620 |
| Other | | 1,617 | - | 1,617 | 2,085 | - | 2,085 |
| | | 3,635 | 7 | 3,642 | 2,698 | 7 | 2,705 |
| **Prepayments and Accrued income** | | | | | | | |
| Deferred acquisition costs | | 265 | - | 265 | 3,206 | - | 3,206 |
| Other prepayments and accrued income | | 13 | - | 13 | 82 | 58 | 140 |
| | | 278 | - | 278 | 3,288 | 58 | 3,346 |
| **Total Assets** | | 13,565 | 2,348 | 15,913 | 37,233 | 65 | 37,298 |

The Notes on pages 15 to 37 form part of these Financial Statements

**STATEMENT OF FINANCIAL POSITION**
**As at 31 December 2017**
**Registered Number 07066562**

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | **Note** | **Syndicate Participation £000** | **Corporate £000** | **Total £000** | **Syndicate Participation £000** | **Corporate £000** | **Total £000** |
| **Liabilities and Shareholders' Funds** | | | | | | | |
| **Capital and Reserves** | | | | | | | |
| Called up share capital | 14 | - | - | - | - | - | - |
| Capital contribution | 14 | - | 7,142 | 7142 | - | - | - |
| Profit and Loss Account | 15 | (1,648) | (4,801) | (6,449) | (1,922) | (3,822) | (5,744) |
| **Total Shareholders' Funds** | 16 | (1,648) | 2,341 | 693 | (1,922) | (3,822) | (5,744) |
| **Technical provisions** | | | | | | | |
| Provision for unearned premiums | | 961 | - | 961 | 11,556 | - | 11,556 |
| Claims outstanding | | 10,082 | - | 10,082 | 25,015 | - | 25,015 |
| | | 11,043 | - | 11,043 | 36,571 | - | 36,571 |
| **Provisions for Other Risks** | | | | | | | |
| Deferred taxation | 17 | - | - | - | - | - | - |
| **Creditors** | | | | | | | |
| Arising out of direct insurance operations | 18 | - | - | - | 1,234 | - | 1,234 |
| Arising out of reinsurance operations | 18 | 1,748 | - | 1,748 | 978 | - | 978 |
| Amounts owed to credit institutions | | - | - | - | - | - | - |
| Other creditors including taxation and social security | 19 | 2,341 | 7 | 2,348 | 144 | 3,887 | 4,031 |
| | | 4,089 | 7 | 4,096 | 2,356 | 3,887 | 6,243 |
| **Accruals and Deferred income** | | 81 | - | 81 | 228 | - | 228 |
| **Total Liabilities** | | 13,565 | 2,348 | 15,913 | 37,233 | 65 | 37,298 |

**Approved by the Board on 16 May 2018**

**A K Quilter, Director**

The Notes on pages 15 to 37 form part of these Financial Statements

**STATEMENT OF CHANGES IN EQUITY**
**As at 31 December 2017**

| | Share capital £000 | Profit and loss account £000 | Capital contribution £000 | Total £000 |
|---|---|---|---|---|
| At 1 January 2017 | - | (5,744) | - | (5,744) |
| Capital contribution in the year | - | - | 7,142 | 7,142 |
| Loss for the financial year | - | (705) | - | (705) |
| At 31 December 2017 | - | (6,449) | 7,142 | 693 |

| | Share capital £000 | Profit and loss account £000 | Capital contribution £000 | Total £000 |
|---|---|---|---|---|
| At 1 January 2016 | - | (4,163) | - | (4,163) |
| Loss for the financial year | - | (1,581) | - | (1,581) |
| At 31 December 2016 | - | (5,744) | - | (5,744) |

The Notes on pages 15 to 37 form part of these Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS

### General information

The Company is a private company limited by shares that is incorporated in England and whose registered office is 71 Fenchurch Street, London, EC3M 4BS. The Company participates in insurance business as an underwriting member of Syndicate 1110 at Lloyd's. Syndicate 1110 was put into run-off in June 2017. On 27 October 2017, R&Q Insurance Investment Holdings Ltd completed the acquisition of ProSight Speciality (TSMC) Limited. The Company name changed with effect from 27 October 2017 to R&Q Capital No. 7 Limited.

### 1. Accounting Policies

#### 1.1 Basis of Preparation

The Financial Statements are prepared under the historical cost basis of accounting modified by the recognition of certain financial assets and liabilities measured at fair value.

The 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", the Companies Act 2006 and Schedule 3 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations, relating to insurance. In accordance with FRS 103, the Company has applied existing accounting policies for insurance contracts.

No cash flow statement is presented since FRS 102 exempts the Company from the requirement to do so as the consolidated Financial Statements of Randall & Quilter Investment Holdings Ltd, the ultimate parent Company, include a cash flow statement.

Accounting information in respect of the Syndicate participation has been provided by the Syndicate's managing agent and has been reported upon by the Syndicate's auditors.

#### 1.2 Going Concern

The Company participates as an underwriting member at Lloyd's on the open 2016 and 2017 years of account with Syndicate 1110, which was put into run-off in June 2017. The Company has net assets of £0.7m (2016: £5.7m) and is supported by Funds at Lloyd's totalling £2.8m (2016: £19.7m). Syndicate 1110 has in place a 100% Quota Share Treaty with a ProSight Group subsidiary, New York Marine and General Insurance Company ("NYMG") which is A-rated by AM Best. Syndicate 1110 also has the benefit of an Aggregate Stop Loss reinsurance on the non-US business by NYMG. These reinsurance contracts prevent any adverse net claims development from occurring in the syndicate. The Directors have a reasonable expectation that the Company has adequate resources to meet its underwriting and other operational obligations for the foreseeable future. Accordingly they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

#### 1.3 Basis of Accounting

The Financial Statements are prepared using the annual basis of accounting. Under the annual basis of accounting a result is determined at the end of each accounting period reflecting the profit or loss from providing insurance coverage during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

Amounts reported in the general business technical account relate to movements in the period in respect of all relevant years of account of the Syndicate on which the Company participates.

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the Syndicate's managing agent. Accordingly, these assets and liabilities have been shown separately in the balance sheet as "Syndicate Participation". Other assets and liabilities are shown as "Corporate". The syndicate assets are held subject to trust deeds for the benefit of the Syndicate insurance creditors.

**NOTES TO THE FINANCIAL STATEMENTS**

**1. Accounting Policies (continued)**

**1.4 General Business**

The information included in these Financial Statements in respect of the Syndicate has been supplied by the Managing Agent based upon the various accounting policies they have adopted. The following describes the policies they have generally adopted.

a) **Premiums**
Premiums written comprise the total premiums receivable in respect of business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet received or notified to the syndicate on which the Company participates, less an allowance for cancellations. All premiums are shown gross of commission payable to intermediaries and exclude taxes and duties levied on them.

b) **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 a time apportionment basis having regard where appropriate, to the incidence of risk. The specific basis adopted by each syndicate is determined by the managing agent.

c) **Deferred Acquisition Costs**
Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

d) **Reinsurance Premiums**
Outwards reinsurance premiums consist of: (a) the Company's share of the Syndicate' reinsurance premiums on the outwards contracts bound during the year, and (b) the Company's reinsurance premiums on Corporate Member level reinsurance contracts.

e) **Claims Incurred and Reinsurers' Share**
Claims incurred comprise claims and settlement expenses (both internal and external) occurring in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and settlement expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by the syndicate's in house reserving team and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the syndicate's 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. Each syndicate uses a number of statistical techniques to assist in making these estimates.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting Policies (continued)

e) **Claims Incurred and Reinsurers' Share (continued)**

Accordingly the two most critical assumptions made by each syndicate's managing agent as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used including pricing models for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

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

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The provisions for gross claims and related reinsurance recoveries have been assessed on the basis of the information currently available to the directors of each syndicate's managing agent. 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.

f) **Unexpired Risks Provision**

Provisions for unexpired risks are made where the costs of outstanding claims, related expenses and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the balance sheet date. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account any relevant investment return. The provision is made on a syndicate by syndicate basis by the relevant managing agent.

g) **Closed Years of Account**

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated cost of claims incurred but not reported at that date, and an estimate of future claims handling costs. Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle any outstanding claims.

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The Company has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current period, and no further provision is made for any potential variation in the ultimate liability of that year of account.

**NOTES TO THE FINANCIAL STATEMENTS**

**1. Accounting Policies (continued)**

h) **Run-off Years of Account**

Where an underwriting year of account is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

i) **Net Operating Expenses (including Acquisition Costs)**

Net operating expenses include acquisition costs, profit and loss on exchange and other amounts incurred by the syndicate on which the Company participates.

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.

j) **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. A 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.

k) **Financial Instruments**

The syndicate's investments comprise debt and equity based investments, cash and cash equivalents and loans and receivables. The debt and equity based investments of the syndicate participation are measured at fair value through profit or loss.

Debtors/creditors arising from insurance/reinsurance operations shown in the Balance Sheet include the totals of all the syndicate's outstanding debit and credit transactions as processed by the syndicate or through 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 their counterparty insureds, reinsurers or intermediaries as appropriate.

*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 assets of the syndicate 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 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting Policies (continued)

k) **Financial Instruments (continued)**

*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.

Other debt instruments are measured at fair value through profit or loss.

*Derecognition of financial assets and liabilities*
Financial assets are derecognized 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, have 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 derecognized 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting Policies (continued)

l) **Investment Return**

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

Realised and unrealised gains and losses are measured by reference to the original cost of the investment if purchased in the year, or if held at the beginning of the year by reference to the current value at that date.

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 to reflect the investment return on funds supporting the underwriting business.

m) **Basis of currency translation**

The presentation and functional currency of the Company is Pound Sterling, which is the currency of the primary economic environment in which it operates.

Income and expenditure in US dollars, Euros, Canadian dollars, Australian dollars and New Zealand dollars is translated at the average rate of exchange for the year. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities are translated into Pound Sterling at the rates of exchange at the financial reporting date.

### 1.5 Taxation

The Company is taxed on its results including its share of underwriting results declared by the syndicate and these are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results included in these financial statements are only declared for tax purposes in the calendar year following the normal closure of the year of account. No provision is made for corporation tax in relation to open years of account. However, full provision is made for deferred tax on underwriting results not subject to current corporation tax.

The taxable results of the syndicate at a syndicate level are calculated by the managing agent and computations submitted to HM Revenue & Customs (HMRC). Any adjustments that may be necessary to the tax provisions established by the Company, as a result of any HMRC enquiry into these computations, will be reflected in the financial statements of subsequent periods.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

### 1.7 Cash and Cash Equivalents

Cash and cash equivalents include deposits held at call with banks, other short-term liquid investments with original maturities of three months or less and cash in hand.

**NOTES TO THE FINANCIAL STATEMENTS**

**1. Accounting Policies (continued)**

**1.8 Share Capital**

Ordinary share capital is classified as equity.

**1.9 Capital Contribution**

The transfer of funds and assets held by the shareholders to support the capital of the Company.

**1.10 Distributions**

Dividend distributions to the Company's shareholders are recognised in the Financial Statements in the period in which the dividends are approved by the shareholders.

**2. Key accounting judgements and estimation uncertainties**

In applying the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. These judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when the decisions are made, and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The measurement of the provision for claims outstanding is the most significant judgement involving estimation uncertainty regarding amounts recognised in these Financial Statements in relation to underwriting by the syndicate and this is disclosed further in Note 3.

The management and control of the Syndicate is carried out by the managing agent of that Syndicate, and the Company looks to the managing agent to implement appropriate policies, procedures and internal controls to manage the Syndicate.

**3. Risk management**

This section summarises the financial and insurance risks the Company is exposed to either directly at the corporate level or indirectly via its participation in the Lloyd's syndicate.

**Risk background**
The syndicate's activities exposes 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. Each year, the managing agent prepares a Lloyd's Capital Return ("LCR") 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 typically reflected in the LCR, and, typically, the majority of the total assessed value of the risks concerned is attributable to insurance risk.

**NOTES TO THE FINANCIAL STATEMENTS**

**3. Risk management (continued)**
**Risk background (continued)**

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risks arise from the risk that a reinsurer fails to meet their share of a claim. The management of the syndicate's funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The syndicate is also exposed to regulatory and operational risks including their ability to continue to trade. However, supervision by Lloyd's provides additional controls over the syndicate's management of risks.

The Company manages the risks faced by the syndicate on which it participates by monitoring the performance of the syndicate it supports. This commences in advance of committing to support the syndicate for the following year, with a review of the business plan prepared for the syndicate by its managing agent. In addition, quarterly reports and annual accounts together with any other information made available by the managing agent are monitored and if necessary enquired into. If the Company considers that the risks being run by the syndicate are excessive it will seek confirmation from the managing agent that adequate management of the risk is in place and, if considered appropriate will withdraw support from the next underwriting year.

The Syndicate 1110 has in place a 100% Quota Share Treaty reinsurance back to a ProSight Group subsidiary, New York Marine and General Insurance Company ("NYMG") which is A- rated by AM Best. Syndicate 1110 also has the benefit of an Aggregate Stop Loss reinsurance on the non-US business by NYMG. These reinsurance contracts prevent any adverse net claims development from occurring in the syndicate. The Directors believe that the risk of failure of these reinsurance arrangements is low.

The analysis below provides details of the financial risks the Company is exposed to from syndicate insurance activities as required by FRS 103 and also provides further analysis of sensitivities to reserving and underwriting risks.

**Syndicate risks**

i. **Liquidity risk**
The syndicate is exposed to daily calls on the available cash resources, principally from claims arising from the insurance business. Liquidity risk arises where cash may not be available to pay obligations when due, or to ensure compliance with the syndicate's obligations under the various trust deeds to which it is party.

The syndicate aims to manage the liquidity position so that they can fund claims arising from significant catastrophic events, as modelled in its Lloyd's realistic disaster scenarios ("RDS").

ii. **Interest rate and equity price risk**
Interest rate risk and equity price risk are the risks that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates and market prices, respectively. The Company and the syndicate seek to minimise their exposure to these risks by maintaining an appropriate mix between equity and debt financial instruments, by investing in both fixed and floating rate investments, and by investing in a large portfolio of high quality equity investments across of range of unrelated sectors.

iii. **Currency risk**
The syndicate's main exposure to foreign currency risk arises from insurance business originating overseas, primarily denominated in Euros and US dollars. Transactions denominated in Euros and US dollars form a significant part of the syndicate's operations. This risk is, in part, mitigated by the syndicate maintaining financial assets denominated in Euros and US dollars against its major exposures in those currencies.

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Risk management (continued)

The table below provides details of syndicate's assets and liabilities by major currency:

| 2017 | GBP £'000 converted | USD £'000 converted | EUR £'000 converted | CAD £'000 converted | Other £'000 converted | Total £'000 converted |
|---|---|---|---|---|---|---|
| Net assets and (liabilities) | (3,556) | 2,089 | (464) | 273 | 10 | (1,648) |
| **2016** | | | | | | |
| Net assets and (liabilities) | (4,170) | 2,913 | (459) | (206) | - | (1,922) |

iii. **Currency risk (continued)**
The impact of a 5% change in exchange rates between GBP and other currencies would be an increase or decrease of £0.1m on the result for the year (2016: £0.1m).

iv. **Credit risk**
Credit ratings of syndicate assets relating directly to reinsurance are as follows:

| | AAA £'000 | AA £'000 | A £'000 | BBB or lower £'000 | Not rated £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Reinsurers share of claims outstanding | - | 9 | 5,475 | - | - | 5,484 |
| Reinsurance debtors | - | - | - | - | - | - |
| Total | - | 9 | 5,475 | - | - | 5,484 |

| | AAA £'000 | AA £'000 | A £'000 | BBB or lower £'000 | Not rated £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Reinsurers share of claims outstanding | - | 573 | 2,720 | - | - | 3,293 |
| Reinsurance debtors | - | - | 4,087 | - | - | 4,087 |
| Total | - | 573 | 6,807 | - | - | 7,380 |

**NOTES TO THE FINANCIAL STATEMENTS**

**3. Risk management (continued)**

iv. **Credit risk (continued)**

Syndicate assets relating to insurance activities, excluding cash and financial investments, past their due date or impaired are as follows:

| | Neither due nor impaired £'000 | Past Due £'000 | Financial assets that have been impaired £'000 | Total £'000 |
|---|---|---|---|---|
| **2017** | | | | |
| Reinsurers share of claims outstanding | 5,485 | - | - | 5,485 |
| Reinsurance debtors | - | - | - | - |
| Insurance debtors | 631 | - | - | 631 |
| Total | 6,116 | - | - | 6,116 |

| | Neither due nor impaired £'000 | Past Due £'000 | Financial assets that have been impaired £'000 | Total £'000 |
|---|---|---|---|---|
| **2016** | | | | |
| Reinsurers share of claims outstanding | 3,293 | - | - | 3,293 |
| Reinsurance debtors | 4,087 | - | - | 4,087 |
| Insurance debtors | 1,796 | 512 | - | 2,308 |
| Total | 9,176 | 512 | - | 9,688 |

**Company risks**

i. **Investment, credit, liquidity and currency risks**

The other significant risks faced by the Company are with regard to the investment of the available funds within its own custody. The elements of these risks are investment risk, credit risk, liquidity risk, currency risk and interest rate risk. The main liquidity risk would arise if a syndicate had inadequate liquid resources for a large claim and sought funds from the Company to meet the claim.

Funds at Lloyd's have been deposited by third-parties on behalf of the Company.

**NOTES TO THE FINANCIAL STATEMENTS**

**3. Risk management (continued)**

ii. **Regulatory risks**

The Company is subject to continuing approval by Lloyd's to be a member of Lloyd's and of Lloyd's syndicates. The risk of this approval being removed is mitigated by monitoring and complying with all requirements in relation to membership of Lloyd's. The capital requirements to support the proposed amount of syndicate capacity for future years are subject to the requirements of Lloyd's. A variety of factors are taken into account by Lloyd's in setting these requirements including market conditions and syndicate performance and although the process is intended to be fair and reasonable, the requirements can fluctuate from one year to the next, which may constrain the volume of underwriting the Company is able to support.

iii. **Operational risks**

As there are relatively few transactions actually undertaken by the Company there are only limited systems and operational requirements of the Company and therefore operational risks are not considered to be significant. Close involvement of all Directors in the Company's key decision making and the fact that the majority of the Company's operations are conducted by the syndicate, provides control over any remaining operational risks.

**4. Class of Business**

| **2017** | **Gross premiums written £000** | **Gross premiums earned £000** | **Gross claims incurred £000** | **Net operating expenses £000** | **Reinsurance balance £000** | **Total £000** |
|---|---|---|---|---|---|---|
| Marine and aviation | (294) | 766 | (1,103) | (280) | 251 | (366) |
| Fire and other damage to property | 2,159 | 4,159 | (1,403) | (1,629) | (1,037) | 90 |
| Third party liability | 1,790 | 4,578 | (1,621) | (1,570) | (963) | 424 |
| Pecuniary Loss | (26) | 390 | (156) | (143) | (82) | 9 |
| Other | 207 | 448 | (113) | (164) | (140) | 31 |
| **Total Direct** | 3,836 | 10,341 | (4,396) | (3,786) | (1.971) | 188 |
| **Reinsurance Balance** | (1,786) | 1,965 | (3,786) | (719) | 1,669 | (871) |
| **Total** | 2,050 | 12,306 | (8,182) | (4,505) | (302) | (683) |

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Class of Business (continued)

| 2016 | Gross premiums written | Gross premiums earned | Gross claims incurred | Net operating expenses | Reinsurance balance | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Marine and aviation | 874 | 966 | (1,514) | (306) | (186) | (1,040) |
| Fire and other damage to property | 4,742 | 4,401 | (4,454) | (1,826) | (367) | (2,246) |
| Third party liability | 5,469 | 4,607 | (1,975) | (1,594) | (132) | 906 |
| Pecuniary Loss | 1,059 | 905 | (546) | (259) | (73) | 27 |
| Other | 459 | 728 | (586) | (212) | (30) | (100) |
| **Total Direct** | 12,603 | 11,607 | (9,075) | (4,197) | (788) | (2,453) |
| **Reinsurance** | 9,645 | 10,091 | (6,204) | (3,360) | 151 | 678 |
| **Total** | 22,248 | 21,698 | (15,279) | (7,557) | (637) | (1,775) |

All insurance business is underwritten in the United Kingdom in the Lloyd's insurance market. Consequently, all insurance contracts are deemed to be concluded in the United Kingdom.

### 5. Technical provisions

| | Gross | Reinsurance | 2017 Net | Gross | Reinsurance | 2016 Net |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Movement in claims outstanding** | | | | | | |
| At 1 January | 25,015 | (3,293) | 21,722 | 15,681 | (1,694) | 13,987 |
| Movement in technical account | (13,935) | (2,617) | (16,552) | 6,373 | (1,202) | 5,171 |
| Other movements | (998) | 425 | (573) | 2,961 | (397) | 2,564 |
| At 31 December | 10,082 | (5,485) | 4,597 | 25,015 | (3,293) | 21,722 |
| **Movement in unearned premiums** | | | | | | |
| At 1 January | 11,556 | (1,100) | 10,456 | 9,652 | (2,142) | 7,510 |
| Movement in technical account | (10,256) | 696 | (9,560) | 550 | 1,268 | 1,818 |
| Other movements | (339) | 45 | (294) | 1,354 | (226) | 1,128 |
| At 31 December | 961 | (359) | 602 | 11,556 | (1,100) | 10,456 |

**NOTES TO THE FINANCIAL STATEMENTS**

**5. Technical provisions (continued)**

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| **Movement in deferred acquisition costs** | | |
| At 1 January | 3,206 | 2,632 |
| Movement in deferred acquisition costs | (2,856) | 231 |
| Other movements | (85) | 343 |
| At 31 December | 265 | 3,206 |

Included within other movements are foreign exchange movements in restating the opening balances.

**Assumptions, changes in assumptions and sensitivity**

As described in Note 3 the majority of the risks to the Company's future cash flows arise from its participation in the results of a Lloyd's syndicate and are mostly managed by the managing agent of the syndicate. The Company's role in managing these risks is limited to a selection of syndicate participations and monitoring the performance of the syndicate and the managing agent.

The amounts carried by the Company arising from insurance contracts are calculated by the managing agent of the syndicate and derived from accounting information provided by the managing agent and reported upon by the syndicate auditors.

The key assumptions underlying the amounts carried by the Company arising from insurance contracts are:

- the net premiums written calculated by the managing agent are an accurate assessment of the premiums payable as a result of the risks contractually committed up to the Balance Sheet date;
- the net unearned premiums calculated by the managing agent are an accurate assessment of the net premiums written that reflect the exposure to risks arising after the Balance Sheet date, including appropriate allowance for anticipated losses in excess of the unearned premium;
- the claims reserves calculated by the managing agent are an accurate assessment of the ultimate liabilities in respect of claims relating to events up to the Balance Sheet date.

There have been no changes to these assumptions in 2017.

The amounts carried by the Company arising from insurance contracts are sensitive to various factors. The nature of the reinsurance arrangements in place mean that a 5% increase/decrease in net earned premium or a 5% increase/decrease in the managing agent's calculation of net claims reserves will have little effect on the Company's profit or loss, with exception of exchange where reinsurance contracts are calculated on a fixed currency rate basis.

## NOTES TO THE FINANCIAL STATEMENTS

### 5. Technical provisions (continued)

The historical gross and net claims development is as follows:

**Gross basis – in £'000**

| Underwriting Year | After 1 year | After 2 years | After 3 years | After 4 years | After 5 years | After 6 years | After 7 years | Cumulative payments | Total reserves |
|---|---|---|---|---|---|---|---|---|---|
| 2012 | 2,444 | 5,278 | 4,819 | 4,559 | 5,319 | 5,237 | | (4,924) | 313 |
| 2013 | 3,039 | 7,037 | 7,678 | 7,758 | 7,387 | | | (6,824) | 563 |
| 2014 | 3,605 | 11,112 | 12,520 | 11,497 | | | | (10,085) | 1,412 |
| 2015 | 4,565 | 12,918 | 13,774 | | | | | (11,024) | 2,750 |
| 2016 | 5,131 | 10,789 | | | | | | (6,909) | 3,880 |
| 2017 | 1,489 | | | | | | | (325) | 1,164 |
| | | | | | | | | | 10,082 |

**Net basis – in £'000**

| Underwriting Year | After 1 year | After 2 years | After 3 years | After 4 years | After 5 years | After 6 years | After 7 years | Cumulative payments | Total reserves |
|---|---|---|---|---|---|---|---|---|---|
| 2012 | 2,101 | 4,084 | 3,785 | 3,635 | 4,014 | 3,979 | | (3,672) | 307 |
| 2013 | 2,630 | 6,479 | 6,725 | 6,403 | 6,178 | | | (5,590) | 588 |
| 2014 | 3,321 | 10,400 | 11,283 | 10,489 | | | | (9,478) | 1,011 |
| 2015 | 4,147 | 11,816 | 11,488 | | | | | (10,017) | 1,471 |
| 2016 | 4,609 | 6,798 | | | | | | (5,958) | 840 |
| 2017 | 608 | | | | | | | (228) | 380 |
| | | | | | | | | | 4,597 |

### 6. Net Operating Expenses

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Acquisition costs | 729 | 6,250 |
| Change in deferred acquisition costs | 2,856 | (231) |
| Administrative and Personal expenses | 920 | 1,538 |
| | 4,505 | 7,557 |

## NOTES TO THE FINANCIAL STATEMENTS

### 7. Investment Income

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Income from investments | 406 | 309 |
| Realised gains on investments | 2 | 52 |
| Interest received from Group companies | - | - |
| Investment income | 408 | 361 |
| Investment management expenses | (15) | (37) |
| Losses on the realisation of investments | (26) | - |
| Investment expenses and charges | (41) | (37) |
| Unrealised gains and losses - net | (30) | (119) |
| Total investment return | 337 | 205 |

Analysed as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Investments at fair value through profit or loss £000 | Investments available for sale £000 | Total £000 | Investments at fair value through profit or loss £000 | Investments available for sale £000 | Total £000 |
| Realised gains | 2 | - | 2 | 52 | - | 52 |
| Realised losses | (26) | - | (26) | - | - | - |
| Unrealised losses | (30) | - | (30) | (119) | - | (119) |
| | (54) | - | (54) | (67) | - | (67) |
| Interest and similar income, net of expenses | | | 391 | | | 272 |
| Total investment return | | | 337 | | | 205 |

**NOTES TO THE FINANCIAL STATEMENTS**

**8. Profit/(Loss) on Ordinary Activities before Taxation**

This is stated after charging:

| | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Directors' remuneration | - | - |
| Auditors' remuneration - audit of the Financial Statements | - | 15 |
| Exchange (gain) or loss – Syndicate participation | 155 | (268) |
| Exchange (gain) or loss – Corporate level | (45) | (120) |
| Letter of Credit costs | 175 | 853 |
| Funds at Lloyd's Guarantee fees | 62 | 262 |

The Company has no employees. Director's costs and other expenses, including audit fees of £7,000 due to PKF Littlejohn LLP (2016: £15,000 due to Ernst & Young LLP), are borne by a fellow group undertaking and no re-charges are made to the Company following its acquisition by the R&Q Group.

**9. Taxation**

| **Analysis of (credit)/charge in the year** | 2017<br>£000 | 2016<br>£000 |
|---|---|---|
| Current tax: | | |
| Adjustments in respect of prior years | - | - |
| Foreign tax | - | - |
| Total current tax | - | - |
| Deferred tax: | | |
| Origination and reversal of timing differences | - | - |
| Effects of change in tax rate on opening liability | - | - |
| Tax on profit/(loss) on ordinary activities | - | - |

**NOTES TO THE FINANCIAL STATEMENTS**

**9. Taxation (continued)**

| **Factors affecting tax charge for the year** | **2017**<br>**£000** | **2016**<br>**£000** |
|---|---|---|
| The tax assessed for the year is different to the standard rate of corporation tax in the UK. The differences are explained below: | | |
| Loss on ordinary activities before tax | (706) | (1,581) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%) | (136) | (316) |
| Effects of: | | |
| Expenses not deductible for tax purposes. | - | (187) |
| Deferred tax balance adjustment to average rate 19.25% | 16 | - |
| Deferred tax not recognised. | 120 | 503 |
| Current tax charge/(credit) for the year | - | - |

**Factors that may affect future tax charges**

The Company has trading losses of £4,315,509 (2016: £3,326,499) available for carry forward against future profits, which if utilised, should reduce tax payments in subsequent years.

The results of the Company's participation on the 2015, 2016 and 2017 years of account will not be assessed to tax until the year ended 31 December 2018, 2019 and 2020 respectively being the year after the normal date of closure of each year of account.

The above charge for foreign taxes has been estimated after making provision for double taxation relief with the UK. However, due to the differences of timings and tax rates some foreign taxes may ultimately not be fully recoverable.

**NOTES TO THE FINANCIAL STATEMENTS**

**10. Investments**

**Other Financial Investments – Syndicate**

| | 2017 Market value £000 | 2017 Cost £000 | 2016 Market value £000 | 2016 Cost £000 |
|---|---|---|---|---|
| Shares and other variable yield securities and units in unit trusts | 634 | 634 | 764 | 764 |
| Debt securities and other fixed income securities | 2,316 | 2,287 | 17,094 | 16,969 |
| Loans with credit institutions | - | - | 24 | 24 |
| Deposits with credit institutions | - | - | 2,544 | 2,544 |
| | 2,950 | 2,921 | 20,426 | 20,301 |

The Company uses the following hierarchy for determining and disclosing the fair value of financial investments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets.
Level 2: prices based on recent transactions in identical assets.
Level 3: prices determined using a valuation technique.

| | 2017 Level 1 £000 | 2017 Level 2 £000 | 2016 Level 1 £000 | 2016 Level 2 £000 |
|---|---|---|---|---|
| Shares and other variable yield securities and units in unit trusts | 634 | - | - | 764 |
| Debt securities and other fixed income securities | 2,283 | 33 | - | 17,094 |
| Loans with credit institutions | - | - | - | 24 |
| Deposits with credit institutions | - | - | - | 2,544 |
| | 2,917 | 33 | - | 20,426 |

## NOTES TO THE FINANCIAL STATEMENTS

### 11. Debtors arising out of Direct Insurance and Reinsurance Operations

| | Syndicate Participation £000 | Corporate £000 | 2017 Total £000 | Syndicate Participation £000 | Corporate £000 | 2016 Total £000 |
|---|---|---|---|---|---|---|
| Direct insurance operations: | | | | | | |
| Intermediaries | 631 | - | 631 | 2,308 | - | 2,,308 |
| | 631 | - | 631 | 2,308 | - | 2,308 |
| Reinsurance operations | - | - | - | 4,087 | - | 4,087 |
| | - | - | - | 4,087 | - | 4,087 |

### 12. Other Debtors

| | Syndicate Participation £000 | Corporate £000 | 2017 Total £000 | Syndicate Participation £000 | Corporate £000 | 2016 Total £000 |
|---|---|---|---|---|---|---|
| Other | 227 | 2,341 | 2,568 | 33 | - | 33 |
| | 227 | 2,341 | 2,568 | 33 | - | 33 |

Included in Other Debtors in the Corporate column is £2,341k which represents funds transferred to Syndicate 1110 in respect of cash calls made on the open years of accounts.

### 13. Cash at Bank and in Hand

| | Syndicate Participation £000 | Corporate £000 | 2017 Total £000 | Syndicate Participation £000 | Corporate £000 | 2016 Total £000 |
|---|---|---|---|---|---|---|
| Cash at bank and in hand | 2,018 | 7 | 2,025 | 613 | 7 | 620 |
| | 2,018 | 7 | 2,025 | 613 | 7 | 620 |

**NOTES TO THE FINANCIAL STATEMENTS**

**14. Called-up Share Capital**

| | 2017 | 2016 |
|---|---|---|
| | Allotted, called-up and fully paid | |
| | £ | £ |
| 100 Ordinary share of £1 each | 100 | 100 |
| | 100 | 100 |

There are no rights or restrictions regarding dividends and repayment of capital.

**Capital contribution**

*During the year ProSight Specialty European Holdings Limited, the former immediate parent undertaking of the company, applied part of the intercompany loan to make a capital contribution of £7,142,000.*

**15. Profit and Loss Account**

| | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Syndicate Participation | Corporate | Total | Syndicate Participation | Corporate | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Retained profit/(loss) brought forward | (1,922) | (3,822) | (5,744) | (1,770) | (2,393) | (4,163) |
| Reallocate distribution | 785 | (785) | - | 980 | (980) | - |
| Members' agents fees | 3 | (3) | - | (6) | 6 | - |
| Profit/(Loss) for the financial year | (514) | (191) | (705) | (1,126) | (455) | (1,581) |
| Retained profit/(loss) carried forward | (1,648) | (4,801) | (6,449) | (1,922) | (3,822) | (5,744) |

**16. Shareholders' Funds**

| | 2017 | 2016 |
|---|---|---|
| | £000 | £000 |
| Opening Shareholders' funds | (5,744) | (4,163) |
| Capital contribution | 7,142 | - |
| Profit/(Loss) for the financial year | (705) | (1,581) |
| Closing Shareholders' funds | 693 | (5,744) |

**NOTES TO THE FINANCIAL STATEMENTS**

## 17. Provision for Deferred Tax

The Company has an unrecognised deferred tax asset of £1,069,955 (2016: £950,063) in respect of unused Company tax losses carried forward of £4,315,509 (2016: £3,326,534), and underwriting losses on years not yet brought into tax £1,639,290 (2016: £1,923,053). The Company also has an unrecognised deferred tax asset in respect of member level reinsurance premiums of £339,052 (2016: £339,052). In addition, there is an unrecognised deferred tax asset of £101,678 (2016: £101,678) in respect of double taxation relief available for offset against future UK tax payable.

These losses are available to the company and an unrecognised deferred tax asset in respect of these may be recognised in the future if it is more likely than not that the Company will generate sufficient taxable profits.

## 18. Creditors arising out of Direct Insurance and Reinsurance Operations

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Syndicate Participation £'000 | Corporate £'000 | Total £'000 | Syndicate Participation £'000 | Corporate £'000 | Total £'000 |
| Direct insurance operations: | | | | | | |
| Falling due within one year | - | - | - | 1,234 | - | 1,234 |
| Due after one year | - | - | - | - | - | - |
| | - | - | - | 1,234 | - | 1,234 |
| Reinsurance operations: | | | | | | |
| Falling due within one Year | 1,748 | - | 1,748 | 978 | - | 978 |
| | - | - | - | - | - | - |
| Due after one year | - | - | - | - | - | - |
| | 1,748 | - | 1,748 | 978 | - | 978 |

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Other Creditors

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Syndicate Participation £'000 | Corporate £'000 | Total £'000 | Syndicate Participation £'000 | Corporate £'000 | Total £'000 |
| Other creditors | 2,341 | 7 | 2,348 | 144 | 22 | 166 |
| Amount due to group Undertakings | - | - | - | - | 3,865 | 3,865 |
| | 2,341 | 7 | 2,348 | 144 | 3,887 | 4,031 |

Included in Other Creditors in the Syndicate Participation column is £2,341k which represents funds transferred to Syndicate 1110 in respect of cash calls made on the open years of accounts.

### 20. Related Party Transactions

The Company has taken advantage of the exemption conferred by paragraph 33.1A of FRS 102 and does not disclose details of transactions with other companies which are wholly owned by the group.

There are no other related party transactions to disclose.

### 21. Funds at Lloyd's

The Company's Lloyd's underwriting is supported by funds at Lloyd's of £2,845,058 (2016: £17,056,327) of which £441,105 is provided by subsidiaries of ProSight Global Holdings Limited.

The Company has entered into a Lloyd's Deposit Trust Deed which gives the Corporation of Lloyd's the right to apply these monies in settlement of any claims arising from the participation on the syndicate. These monies can only be released from the provision of this Deed with Lloyd's express permission and only in circumstances where the amounts are either replaced by an equivalent asset, or after the expiration of the Company's liabilities in respect of its underwriting.

### 22. Syndicate Participation

| | Allocated capacity per underwriting year | | | | | |
|---|---|---|---|---|---|---|
| Syndicate No. | Managing Agent | 2018 £'000 | 2017 £'000 | 2016 £'000 | 2015 £'000 | 2014 £'000 |
| 1110 | Coverys Managing Agency Ltd | - | 24,424 | 19,068 | 19,068 | 16,344 |

Prior to the acquisition of the Company, Syndicate 1110 was managed by ProSight Speciality Managing Agency Limited ("PSMAL The run-off of Syndicate 1110 is now being undertaken by Coverys Managing Agency Limited, formerly known as R&Q Managing Agency Limited.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. Ultimate Group Undertaking and Ultimate Controlling Party

The immediate parent undertaking is Randall & Quilter II Holdings Limited, a company registered in England and Wales. Prior to the change of ownership on 27 October 2017, the Company's ultimate parent undertaking was ProSight Global Holdings Limited, a company incorporated in Bermuda.

Group financial statements are prepared by the ultimate parent undertaking, Randall & Quilter Investment Holdings Ltd, a company registered in Bermuda, and can be obtained from 71 Fenchurch Street, London, EC3M 4BS.

The Directors are of the opinion that there is no ultimate controlling party.