Registered Number: 07382921

R&Q Capital No. 1 Limited

Annual Report and Financial Statements for the year ended 31 December 2019

Directors	H N A Colthurst A K Quilter J B King
Company Secretary	R&Q Central Services Limited
Registered Office	71 Fenchurch Street London EC3M 4BS
Auditors	PKF Littlejohn LLP Statutory Auditor 15 Westferry Circus Canary Wharf 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 2019.

Results

The results for the year are set out on pages 11 and 12 of the Financial Statements.

Directors

The current Directors of the Company and the Company Secretary are shown on page 2.
The following Directors were appointed or resigned during the year:

Dr R. Sellek was appointed as a Director 12 December 2019 and resigned as a Director 14 January 2020.
J. B. King was appointed as a Director 28 August 2019.
M. L. Glover resigned as a Director 15 October 2019.
K. E. Randall resigned as a Director 10 July 2019.

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.

REPORT OF THE DIRECTORS (CONTINUED)

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

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

By Order of the Board

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

22 May 2020

STRATEGIC REPORT

Introduction

The Company acts as a corporate underwriting member at Lloyd's. During the year, the Company participated on three syndicates, Syndicates 1991 and 3330, which are managed by Coverys Managing Agency Limited ("CMA") and Syndicate 1110 for the 2019 year of account ("YOA"), which is managed by Capita Managing Agency Limited ("Capita").

In 2019 the Company provided 100% capacity for Syndicate 1110 2019 YOA, which comprises a loss portfolio transfer solution for Lloyds business underwritten by the Hamilton Insurance Group (Bermuda).

It is the intention in 2020, for the reinsurance to close ("RITC") from Syndicate 3330 2017 YOA, and RITC from Syndicate 1110 2017 YOA to be transferred into S1110 2019 YOA, in which the Company has a 100% participation.

Details of the Company's syndicate participations are given in Note 23 to the Financial Statements.

The Company has entered into the following quota share reinsurance arrangements in respect of the Company's participation on the above syndicates with R&Q Re (Bermuda) Limited, a fellow subsidiary.

	Year of account			
	2020	2019	2018	2017
Syndicate 1991	-	70%	70%	47.19%
Syndicate 3330	-	-	70%	47.19%
Syndicate 1110	-	70%	-	-

The company also entered into a quota share reinsurance agreement with an independent reinsurer for 32.587% of its participation on Syndicate 1991 for the 2017 year of account.

Results

The Financial Statements incorporate the annual accounting result of the syndicates on which the Company participates for the 2017, 2018 and 2019 years of account. The loss after tax was £1,715,064 (2018: 1,185,755 loss).

Key Performance Indicators

The Directors consider the following to be the key performance indicators of the Company:

	2019	2018
	£	£
Capacity (youngest underwriting year)	3,050,000	350,000
Share of Syndicates underwriting results (Loss)	(723,182)	(1,072,477)
Loss after tax	(1,715,064)	(1,185,755)

STRATEGIC REPORT (CONTINUED)

Other Performance Indicators

Due to the Company's significantly reduced levels of capacity for the 2018 and 2019 years of account, gross written premium as a percentage of Funds at Lloyds has ceased to be a relevant key performance indicator.

Due to the nature of the Company being a Lloyd's Corporate Member, the majority of its activities are carried out by the Syndicates in which it participates. The Company is not involved in the management of Syndicates 1991, 3330 and 1110, including employment of Syndicate staff, which is the responsibility of the Managing Agents, CMA and Capita. The Managing Agents have responsibility for the environmental activities of each Syndicate, although by their nature insurers do not produce significant environmental emissions. The Directors of the Company do not consider it appropriate to monitor and report any performance indicators in relation to staff or environmental matters.

COVID-19

The Board has considered the potential impact of the recent COVID-19 outbreak on the Company's business. Its conclusion is that, whilst there is likely to be a small negative impact on the investments and investments returns of the Syndicates, the Company's participation in Lloyds syndicates is not expected to receive any significant impact to the underwriting results caused by COVID-19, as the vast majority of business relates to mature policies in run-off. The Company's cash calls of £4m with Syndicate 3330 should provide sufficient funds to cover the loss on closing of 2017 YOA.

Significant reinsurance is in place with a fellow Group subsidiary and following reassurance from the Group Board, the Directors do not anticipate any financial impact from COVID-19 on the Group reinsurer's ability to settle claims. Details on the insurance market exposure and impact of COVID-19 will become available as Lloyds receives further information from the Syndicates over the next few months. The Board is confident that the Company is well positioned and will continue to be once stability returns to the insurance and financial markets.

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 syndicates. As detailed in Note 3 to the Financial Statements, these risks are mostly managed by the Managing Agents of the syndicates. This Company's role in managing this risk is limited to selection of syndicate participations and monitoring performance of the syndicates.

Responsibilities

The Board, having considered section 172 Companies Act 2006, noted that the Company had no employees, has one parent member and does not manage the business by reference to any environmental performance indicators, as they considered that a Lloyd's corporate member does not have a large adverse impact upon the environment. The Board has established a business ethos in which best practice was the required standard for all operations, both in the commercial interests of the business and to ensure regulatory compliance.

STRATEGIC REPORT (CONTINUED)

Responsibilities (continued)

The Board are satisfied that any decisions taken are adequately challenged at the regular Board Meetings and throughout 2020 the Board will continue to review and challenge how they can foster business relationships with suppliers, customers and stakeholders.

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
22 May 2020

INDEPENDENT AUDITORS REPORT

Independent Auditor's report to the shareholders of R&Q Capital No. 1 Limited

Opinion

We have audited the financial statements of R&Q Capital No. 1 Limited (the 'company') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position and the 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).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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.

Emphasis of matter

We draw attention to Note 1.2 Going Concern which describes the Directors' assessment of the COVID-19 impact on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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 shareholders of R&Q Capital No. 1 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 shareholders of R&Q Capital No. 1 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.

Use of our report

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

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

15 Westferry Circus
Canary Wharf
London E14 4HD

Date: 5 June 2020

STATMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019
TECHNICAL ACCOUNT

	Note	**2019** £	2018 £
Gross premiums written	4	72,396,285	28,925,616
Outwards reinsurance premiums		(212,763)	(829,245)
Net premiums written		72,183,522	28,096,371
Change in the Provision for unearned premiums			
Gross provision	4	8,599,693	(5,181,344)
Reinsurers' share		(518,583)	155,678
Earned premiums, net of reinsurance		80,264,632	23,070,705
Allocated investment return transferred from the Non-technical Account		788,575	(23,899)
Total Technical Income		**81,053,207**	**23,046,806**
Expenses			
Gross claims paid		(20,233,537)	(11,629,421)
Reinsurers' share of gross claims paid		570,983	429,567
Claims paid, net of reinsurance		(19,662,554)	(11,199,854)
Movement in gross technical provisions	6	(54,499,987)	(5,942,353)
Movement in reinsurers' share of technical provisions	6	(592,133)	263,559
Net change in provisions for claims	6	(55,092,120)	(5,678,794)
Claims Incurred, net of reinsurance		(74,754,674)	(16,878,648)
Operating expenses	7	(6,912,139)	(7,625,592)
Total Technical Charges		**(81,666,813)**	**(24,504,240)**
Balance on Technical Account		**(613,606)**	**(1,457,434)**

The Notes on pages 15 to 42 form part of these Financial Statements

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019
NON-TECHNICAL ACCOUNT

	Note	2019 £	2018 £
Balance on the Technical Account		**(613,606)**	**(1,457,434)**
Investment income	8	386,821	213,314
Gains on the realisation of investments		109,607	4,688
Unrealised gains on investments		421,897	21,386
Investment expenses and charges		(276,297)	(384,129)
Allocated investment return transferred to technical account		(788,575)	23,899
Foreign exchange gains		41,599	342,844
Loss on Ordinary Activities before Taxation	9	(718,554)	(1,235,432)
Taxation	10	(996,510)	49,677
Loss on Ordinary Activities after Taxation		(1,715,064)	(1,185,755)
Other Comprehensive Income		-	-
Total Comprehensive Income for the Year		(1,715,064)	(1,185,755)

The Notes on pages 15 to 42 form part of these Financial Statements

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
Registered Number 07382921

		2019			2018		
	Note	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Assets							
Investments							
Financial Investments	11	24,717,374	-	24,717,374	16,297,542	-	16,297,542
Reinsurers' share of technical provisions							
Provision for unearned Premiums		233,773	-	233,733	653,633	-	653,633
Claims outstanding		3,015,379	-	3,015,379	3,113,515	-	3,113,515
		3,249,152	-	3,249,152	3,767,148	-	3,767,148
Debtors							
Arising out of direct insurance Operations	12	59,576,735	-	59,576,735	2,759,972	-	2,759,972
Arising out of reinsurance Operations	12	5,386,507	-	5,386,507	6,116,928	-	6,116,928
Other debtors	13	9,853,924	6,570,988	16,424,912	10,789,952	6,640,713	17,430,665
		74,817,166	6,570,988	81,388,154	19,666,852	6,640,713	26,307,565
Other Assets							
Cash at bank and in hand	14	4,676,067	10,087,554	14,763,621	6,393,572	11,127,192	17,520,764
Other		3,167,076	-	3,167,076	2,158,733	-	2,158,733
		7,843,143	10,087,554	17,930,697	8,552,305	11,127,192	19,679,497
Prepayments and Accrued income							
Deferred acquisition costs		2,141,808	-	2,141,808	4,784,899	-	4,784,899
Other prepayments and accrued income		1,125,518	-	1,125,518	2,258,533	-	2,258,533
		3,267,326	-	3,267,326	7,043,432	-	7,043,432
Total Assets		113,894,161	16,658,542	130,552,703	55,327,279	17,767,905	73,095,184

The Notes on pages 15 to 42 form part of these Financial Statements

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
Registered Number 07382921

	Note	2019 Syndicate Participation £	2019 Corporate £	2019 Total £	2018 Syndicate Participation £	2018 Corporate £	2018 Total £
Liabilities and Shareholders' Funds							
Capital and Reserves							
Called up share capital	15	-	111,099	111,099	-	111,099	111,099
Share Premium Account		-	88,901	88,901	-	88,901	88,901
Profit and Loss Account	16	(3,247,451)	(72,096)	(3,319,547)	(2,990,323)	1,385,840	(1,604,483)
Total Shareholders' Funds	17	(3,247,451)	127,904	(3,119,547)	(2,990,323)	1,585,840	(1,404,483)
Technical provisions							
Provision for unearned premiums		7,831,287	-	7,831,287	14,845,462	-	14,845,462
Claims outstanding		101,803,522	-	101,803,522	36,957,793	-	36,957,793
		109,634,809	-	109,634,809	51,803,255	-	51,803,255
Provisions for Other Risks							
Deferred taxation	18	-	-	-	-	-	-
Creditors							
Arising out of direct insurance operations	19	-	-	-	-	-	-
Arising out of reinsurance operations	19	360,845	482,352	843,197	766,676	497,788	1,264,464
Amounts owed to credit institutions		-	-	-	-	-	-
Other creditors including taxation and social security	20	6,762,617	16,048,286	22,810,903	5,220,376	15,684,277	20,904,653
		7,123,462	16,530,638	23,654,100	5,987,052	16,182,065	22,169,117
Accruals and Deferred income		383,341	-	383,341	527,295	-	527,295
Total Liabilities		113,894,161	16,658,542	130,552,703	55,327,279	17,767,905	73,095,184

Approved by the Board on 22 May 2020

J B King
Director

The Notes on pages 15 to 42 form part of these Financial Statements

STATEMENT OF CHANGES IN EQUITY
As at 31 December 2019

	Share capital	Share premium account	Profit and loss account	Total
	£	£	£	£
At 1 January 2019	111,099	88,901	(1,604,483)	(1,404,483)
(Loss) for the financial year	-	-	(1,715,064)	(1,715,064)
At 31 December 2019	111,099	88,901	(3,319,547)	(3,119,547)

	Share capital	Share premium account	Profit and loss account	Total
	£	£	£	£
At 1 January 2018	111,099	88,901	(418,728)	(218,728)
(Loss) for the financial year	-	-	(1,185,755)	(1,185,755)
At 31 December 2018	111,099	88,901	(1,604,483)	(1,404,483)

The Notes on pages 15 to 42 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 various syndicates at Lloyd's.

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 Syndicates' participations has been provided by the Syndicates' managing agent and has been reported upon by the Syndicates' auditors.

1.2 Going Concern

The Company participates as an underwriting member at Lloyd's on the open 2017, 2018 and 2019 years of account. The Company's underwriting is supported by Funds at Lloyd's totalling £30,660,340 (2018: £30,045,995).

The Board has considered the potential impact of the recent COVID-19 outbreak on the Company's business. Its conclusion is that, whilst there is likely to be a small negative impact on the investments and investment returns of the Syndicates, the Company's participation in Lloyds syndicates is not expected to receive any significant impact to the underwriting results caused by COVID-19, as the vast majority of business relates to mature policies in run-off. The Company has cash calls of £4m with Syndicate 3330 which should provide enough funds to cover the loss on closing of the 2017 YOA. The Funds at Lloyd's which support the Company's underwriting are held predominately in treasury bonds and letters of credit. Subsequently following the turbulence in the financial markets, the Company's FAL has only experienced a 3% devaluation of the assets held at the balance sheet date.

Significant reinsurance is in place with a fellow Group subsidiary and following reassurance from the Group Board, the Directors do not anticipate any financial impact from COVID-19 on the Group reinsurer's ability to settle claims. Details on the insurance market exposure and impact of COVID-19 will become available as Lloyds receives further information from the Syndicates over the next few months.

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.

NOTES TO THE 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 Syndicates on which the Company participates.

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the Syndicates' managing agent. Accordingly, these assets and liabilities have been shown separately in the balance sheet as "Syndicate Participation". In addition the quota share premium amounts due from or to the quota share reinsurer, as shown in notes 12 or 19, are also included in the "Syndicate Participation" column. Other assets and liabilities are shown as "Corporate". The syndicate assets are held subject to trust deeds for the benefit of the Syndicates' insurance creditors.

1.4 General Business

The information included in these Financial Statements in respect of the Syndicates 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 syndicates 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 Syndicates' reinsurance premiums on the outwards contracts bound during the year, and (b) the Company's net reinsurance premiums on the quota share reinsurance contract.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

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

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 each syndicates' 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 each syndicates' 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

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.

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 syndicates 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

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 syndicates' investments comprise debt and equity investments, derivatives, cash and cash equivalents and loans and receivables. The debt, equity investments and derivatives 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 syndicates' 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 syndicates 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.

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

k) Financial Instruments (continued)

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 syndicates transfer to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the syndicates, 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 syndicates estimate 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. Supported syndicates may have different functional currencies.

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 syndicates 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 syndicates 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

1.6 Deferred Taxation

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. Deferred 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.

1.8 Share Capital

Ordinary share capital is classified as equity.

1.9 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 syndicates and this is disclosed further in Note 3.

The management and control of each 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 each Syndicate.

NOTES TO THE FINANCIAL STATEMENTS

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 syndicates.

Risk background

The syndicates' activities expose them to a variety of financial and non-financial risks. The managing agent is responsible for managing the syndicates' 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 syndicates, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicates' 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.

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 syndicates' funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The syndicates are also exposed to regulatory and operational risks including their ability to continue to trade. However, supervision by Lloyd's provides additional controls over the syndicates' management of risks.

The Company manages the risks faced by the syndicates on which it participates by monitoring the performance of the syndicates it supports. This commences in advance of committing to support a syndicate for the following year, with a review of the business plan prepared for each 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 syndicates 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 Company has entered into a quota share reinsurance arrangement with another Group company to support its underwriting capacity. The Directors believe that the risk of failure of this reinsurance arrangement 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.

NOTES TO THE FINANCIAL STATEMENTS

3. Risk management (continued)

Syndicate risks

i. **Liquidity risk**

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

The syndicates aim to manage their 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 syndicates 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 syndicates' 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 syndicates' operations. This risk is, in part, mitigated by the syndicates maintaining financial assets denominated in Euros and US dollars against its major exposures in those currencies.

The table below provides details of syndicates' assets and liabilities by currency:

	GBP £'000 converted	USD £'000 converted	EUR £'000 converted	CAD £'000 converted	Other £'000 converted	Total £'000 converted
2019						
Total assets	80,317	19,858	10,154	852	2,713	113,894
Total liabilities	(90,779)	(14,750)	(9,227)	(273)	(2,112)	(117,141)
Surplus/(deficiency)of assets	(10,462)	5,108	927	579	601	(3,247)
2018						
Total assets	20,707	21,544	9,506	1,106	2,464	55,327
Total liabilities	(27,681)	(18,156)	(9,503)	(564)	(2,413)	(58,317)
Surplus/(deficiency)of assets	(6,974)	3,388	3	542	51	(2,990)

NOTES TO THE FINANCIAL STATEMENTS

3. Risk management (continued)

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 £0.20m on the result for the year (2018: £0.20m).

iv. **Credit risk**

Credit ratings of syndicate assets relating directly to insurance activities, excluding cash at bank and financial investments, which are neither due nor impaired are as follows:

	AAA £'000	AA £'000	A £'000	BBB or lower £'000	Not rated £'000	Total £'000
2019						
Reinsurers share of claims outstanding	20	642	2,359	10	(16)	3,015
Reinsurance debtors	21	(102)	5,369	65	34	5,387
Total	41	540	7,728	75	18	8,402

	AAA £'000	AA £'000	A £'000	BBB or lower £'000	Not rated £'000	Total £'000
2018						
Reinsurers share of claims outstanding	22	350	2,733	9	-	3,114
Reinsurance debtors	23	-	5,811	43	240	6,117
Total	45	350	8,544	52	240	9,231

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 past due nor impaired £'000	Up to three months £'000	Three months to one year £'000	Greater than one year £'000	Financial assets that have been impaired £'000	Total £'000
2019						
Reinsurers share of claims outstanding	3,015	-	-	-	-	3,015
Reinsurance debtors	5,387	-	-	-	-	5,387
Insurance debtors	59,577	-	-	-	-	59,577
Total	67,979	-	-	-	-	67,979

	Neither past due nor impaired £'000	Up to three months £'000	Three months to one year £'000	Greater than one year £'000	Financial assets that have been impaired £'000	Total £'000
2018						
Reinsurers share of claims outstanding	3,114	-	-	-	-	3,114
Reinsurance debtors	6,117	-	-	-	-	6,117
Insurance debtors	2,760	-	-	-	-	2,760
Total	11,991	-	-	-	-	11,991

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 the Company, other Group companies and third-parties on behalf of the Company which provides additional liquid resources.

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 fully 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 syndicates, provides control over any remaining operational risks.

4. Class of Business

The following tables reflects the Company's Syndicate participation, split by class of business and excludes Corporate Member level expenses.

2019	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Fire and other damage to property	1,603	5,593	(3,748)	(1,762)	(9,131)	(9,048)
Marine and aviation	-	-	459	(8)	(412)	39
Third party liability	10,149	16,082	(9,892)	(4,941)	8,234	9,483
Pecuniary Loss	-	-	-	-	-	-
Other	929	922	(2,288)	(448)	60	(1,754)
Total Direct	12,681	22,597	(15,469)	(7,159)	(1,249)	(1,280)
Reinsurance Balance	59,715	58,399	(59,265)	(1)	649	(218)
Total	72,396	80,996	(74,734)	(7,160)	(600)	(1,498)

NOTES TO THE FINANCIAL STATEMENTS

4. Class of Business (continued)

2018	Gross premiums written	Gross premiums earned	Gross claims incurred	Net operating expenses	Reinsurance balance	Total
	£000	£000	£000	£000	£000	£000
Fire and other damage to property	9,411	9,099	(5,207)	(2,687)	(1,155)	50
Marine and aviation	-	-	(1,213)	(6)	694	(525)
Third party liability	18,961	14,071	(9,778)	(4,802)	157	(352)
Pecuniary Loss	-	-	(1,259)	(8)	515	(752)
Other	551	572	(192)	(122)	(156)	102
Total Direct	28,923	23,742	(17,649)	(7,625)	55	(1,477)
Reinsurance Balance	3	3	77	-	(36)	44
Total	28,926	23,745	(17,572)	(7,625)	19	(1,433)

The reinsurance balance includes the amounts recoverable from the quota share reinsurers.

5. Geographical Analysis

Direct Gross Premium Written in:	2019 £000	2018 £000
United Kingdom	67,765	12,419
Other EU Member States	(168)	4,230
Rest of the World	4,799	12,274
	72,396	28,923

NOTES TO THE FINANCIAL STATEMENTS

6. Technical provisions

	Gross	Reinsurance	2019 Net	Gross	Reinsurance	2018 Net
	£'000	£'000	£'000	£'000	£'000	£'000
Movement in claims outstanding						
At 1 January	36,958	(3,114)	33,844	26,428	(2,027)	24,401
Movement in technical account	54,500	592	55,092	5,942	(264)	5,678
Other movements	10,346	(493)	9,853	4,588	(823)	3,765
At 31 December	101,804	(3,015)	98,789	36,958	(3,114)	33,844
Movement in unearned premiums						
At 1 January	14,845	(654)	14,191	9,388	(489)	8,899
Movement in technical account	(8,600)	519	(8,081)	5,181	(156)	5,025
Other movements	1,586	(99)	1,487	276	(9)	267
At 31 December	7,831	(234)	7,597	14,845	(654)	14,191

	2019	2018
	£'000	£'000
Movement in deferred acquisition costs		
At 1 January	4,785	4,268
Movement in deferred acquisition costs	(2,995)	632
Other movements	352	(115)
At 31 December	2,142	4,785

The 2019 other movement includes the close of Syndicate 1991 2016 YOA and the subsequent RITC into 2017 YOA where the Company participation on these years was 13.61% and 24.21% respectively.

The 2018 year other movement includes the completion of a 2018 year of account deal with Hamilton Underwriting Limited for the reinsurance to close of Sportscover business from Syndicate 3334, with an inception date of 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

6. Technical provisions (continued)

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 Lloyd's syndicates and are mostly managed by the managing agents of the syndicates. The Company's role in managing these risks is limited to a selection of syndicate participations and monitoring the performance of the syndicates and their managing agent.

The amounts carried by the Company arising from insurance contracts are calculated by the managing agent of the syndicates 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 to 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 agents 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 2019.

The amounts carried by the Company arising from insurance contracts are sensitive to various factors as follows:

- a 5% increase/decrease in net earned premium (with all other underwriting elements assumed to change pro-rata with premium) will increase/decrease the Company's pre-tax profit/loss by £0.3m (2018: £0.3m) following application of the quota share reinsurance agreement;
- a 5% increase/decrease in the managing agents calculations of net claims reserves will decrease/increase the Company's pre-tax profit/loss by £4.9m (2018: £1.7m) following application of the quota share reinsurance agreement.

The 5% movement has been selected to give an indication of the possible variations in the assumptions used.

NOTES TO THE FINANCIAL STATEMENTS

6. Technical provisions (continued)

The historical gross and net claims development, before the application of the member level quota share reinsurance agreements, 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	After 8 years	Current GAAP	Cumulative payments	Total reserves
2012 and prior (incl. RITC)	79,824	66,209	68,696	73,090	68,522	69,750	68,899	66,132	65,007	(56,577)	8,430
2013	208	3,183	6,156	6,280	6,032	6,663	6,873		6,873	(5,546)	1,327
2014	102	5,424	10,870	10,028	10,476	10,672			10,672	(6,711)	3,961
2015	89	6,608	14,340	14,154	14,828				14,828	(8,876)	5,952
2016	1,147	9,210	18,359	21,634					21,634	(12,137)	9,497
2017	264	9,128	18,917						18,917	(7,151)	11,766
2018	24,417	23,808							23,808	(21,728)	2,080
2019	58,791								58,791	-	58,791
											101,804

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	After 8 years	Current GAAP	Cumulative payments	Total reserves
2012 and prior (incl. RITC)	59,012	48,571	51,205	56,440	50,499	54,649	53,767	50,473	49,505	(42,622)	6,883
2013	208	3,021	5,713	5,913	5,781	6,130	6,366		6,366	(5,042)	1,324
2014	102	4,791	9,658	9,665	10,031	10,198			10,198	(6,541)	3,657
2015	81	6,456	13,941	14,015	14,689				14,689	(8,837)	5,852
2016	1,140	8,937	17,737	21,222					21,222	(12,128)	9,094
2017	257	8,900	18,371						18,371	(6,964)	11,407
2018	22,440	22,054							22,054	(20,273)	1,781
2019	58,791								58,791	-	58,791
											98,789

The 2019 underwriting year comprises Syndicate 1110 2019 YOA, a loss portfolio transfer solution for Lloyds business underwritten by the Hamilton Insurance Group (Bermuda).
The 2018 year of account reflects the completion of a deal with Hamilton Underwriting Limited (Bermuda) for the reinsurance to close of Sportscover business from Syndicate 3334.

7. Net Operating Expenses

	2019 £	2018 £
Acquisition costs	4,123,089	8,275,304
Change in deferred acquisition costs	2,994,619	(632,221)
Administrative expenses	(205,569)	(17,491)
	6,912,139	7,625,592

NOTES TO THE FINANCIAL STATEMENTS

8. Investment Income	**2019**	**2018**
	£	**£**
Income from investments	375,568	213,314
Realised gains on investments	109,607	4,688
Investment income	485,175	218,002
Investment management expenses	(133,767)	(140,286)
Losses on the realisation of investments	(61,615)	(51,451)
Investment expenses and charges	(195,382)	(191,737)
Unrealised gains and (losses) - net	417,202	(131,744)
Total investment return	706,995	(105,479)

Analysed as follows:

	2019			2018		
	Investments at fair value through profit or loss £	Investments available for sale £	Total £	Investments at fair value through profit or loss £	Investments available for sale £	Total £
Realised gains or (losses)	47,992	-	47,992	(46,763)	-	(46,763)
Unrealised gains or (losses)	417,202	-	417,202	(131,744)	-	(131,744)
	465,194	-	465,194	(178,507)	-	(178,507)
Interest and similar income, net of expenses			241,801			73,028
Total investment return			706,995			(105,479)

NOTES TO THE FINANCIAL STATEMENTS

9. Profit/(Loss) on Ordinary Activities before Taxation

	2019	2018
	£	£
This is stated after charging:		
Directors' remuneration	-	-
Auditors' remuneration - audit of the Financial Statements	-	-
Exchange (gain) or loss – Syndicate	13,320	(264,317)
Exchange (gain) or loss – Corporate Member	(54,919)	(78,528)

The Company has no employees. Director's costs and other expenses, including audit fees of £11,000, (2018: £11,000) are borne by a fellow group undertaking and no re-charges are made to the Company.

10. Taxation

Analysis of (credit) in the year	**2019** £	**2018** £
Current tax:		
Foreign tax	27,890	15,149
Total current tax	27,890	15,149
Deferred tax:		
Origination and reversal of timing differences	1,169,572	-
Adjustment in respect of prior periods	(200,952)	(64,826)
Effects of change in tax rate on opening liability	-	-
Tax charge/(credit) for the year on ordinary activities	996,510	(49,677)

NOTES TO THE FINANCIAL STATEMENTS

10. Taxation (continued)

Factors affecting tax charge for the year	2019 £	2018 £
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	(718,554)	(1,235,432)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	(136,525)	(234,732)
Effects of:		
Timing difference arising on the taxation of the underwriting profits	596,124	124,558
Expenses not deductible for tax purposes	-	-
Trading losses carried forward	614,076	110,174
Foreign tax credit	95,897	-
Foreign tax	27,890	15,149
Adjustment in respect of prior periods	(200,952)	(64,826)
Tax charge/(credit) for the year	996,510	(49,677)

Factors that may affect future tax charges

The Company has trading losses of £3,557,928 (2018: £3,287,432) 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 2017, 2018 and 2019 years of account will not be assessed to tax until the year ended 31 December 2020, 2021 and 2022 respectively, being the year after the normal date of closure of each year of account.

In the Finance Bill 2015, it was announced that the main rate of UK corporation tax would reduce to 19% from 1 April 2017 and to 18% from 1 April 2020. The Bill was substantively enacted on 26 October 2015. In March 2016, it was announced that there would be a further reduction to 17% from 1 April 2020. The Finance Bill 2016 was substantively enacted on 6 September 2016.

NOTES TO THE FINANCIAL STATEMENTS

11. Investments

Other Financial Investments – Syndicate

	Market value 2019 £	Cost 2019 £	Market value 2018 £	Cost 2018 £
Shares and other variable yield securities and units in unit trusts	287,903	287,903	1,007,004	1,007,004
Debt securities and other fixed income securities	11,358,821	11,184,755	6,199,099	6,200,765
Participation in investment pools	13,070,650	12,915,049	9,091,439	9,174,987
	24,717,374	24,387,707	16,297,542	16,382,756

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.

2019	**Level 1** £	**Level 2** £	**Level 3** £	**Total** £
Shares and other variable yield securities and units in unit trusts	287,903	-	-	287,903
Debt securities and other fixed income securities	11,358,598	-	223	11,358,821
Participation in investment pools	13,070,650	-	-	13,070,650
	24,717,151	-	223	24,717,374

2018	**Level 1** £	**Level 2** £	**Level 3** £	**Total** £
Shares and other variable yield securities and units in unit trusts	687,489	319,515	-	1,007,004
Debt securities and other fixed income securities	4,359,471	1,839,628	-	6,199,099
Participation in investment pools	9,091,439	-	-	9,091,439
	14,138,399	2,159,143	-	16,297,542

NOTES TO THE FINANCIAL STATEMENTS

12. Debtors arising out of Direct Insurance and Reinsurance Operations

			2019			2018
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
	£	£	£	£	£	£
Direct insurance Operations:						
Intermediaries	59,576,735	-	59,576,735	2,759,972	-	2,759,972
	59,576,735	-	59,576,735	2,759,972	-	2,759,972
Reinsurance operations	5,386,507	-	5,386,507	6,116,928	-	6,116,928
	5,386,507	-	5,386,507	6,116,928	-	6,116,928

Included within debtors due from reinsurance operations is £5,192,458 (2018: £5,781,628) due from the quota share reinsurers, of which £644,180 (2018: £4,694,167) is due in over one year. Included in debtors due from intermediaries is £43,894,083 which is due in over one year.

13. Other Debtors

			2019			2018
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
	£	£	£	£	£	£
Deferred tax (Note 18)	-	-	-	-	968,619	968,619
Amounts due from Group undertakings	-	2,570,988	2,570,988	-	4,671,557	4,671,557
Other	9,853,924	4,000,000	13,853,924	10,789,952	1,000,537	11,790,489
	9,853,924	6,570,988	16,424,912	10,789,952	6,640,713	17,430,665

Corporate other debtors includes £4,000,000 (2018: £1,000,000) in respect of cash calls paid to Lloyd's Syndicate 3330. This amount is recoverable when the year of account on whose behalf the call was made is closed with a profit, or will be treated as a payment on account if the year is closed at a loss.

NOTES TO THE FINANCIAL STATEMENTS

14. Cash at Bank and in Hand

	2019			2018		
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
	£	£	£	£	£	£
Cash at bank and in hand	7,843,143	10,087,554	17,930,697	6,393,572	11,127,192	17,520,764

Cash at bank under the corporate heading includes £28,100 (2018 - £9,104,784) in respect of cash deposited with the Corporation of Lloyd's in order to support the Company's underwriting.

15. Called-up Share Capital

	2019	2018
	Allotted, called-up and fully paid	
	£	£
111,099 Ordinary shares of £1 each	111,099	111,099
	111,099	111,099

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

16. Profit and Loss Account

	2019			2018		
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
	£	£	£	£	£	£
Retained profit/(loss) brought forward	(2,990,323)	1,385,840	(1,604,483)	(2,335,228)	1,916,500	(418,728)
Closing YOA	466,054	(466,054)	-	456,065	(456,065)	-
Loss for the financial year	(723,182)	(991,882)	(1,715,064)	(1,111,160)	(74,595)	(1,185,755)
Retained profit/(loss) carried forward	(3,247,451)	(72,096)	(3,319,547)	(2,990,323)	1,385,840	(1,604,483)

NOTES TO THE FINANCIAL STATEMENTS

17. Shareholders' Funds

	2019	2018
	£	£
Opening Shareholders' funds	(1,404,483)	(218,728)
Loss for the financial year	(1,715,064)	(1,185,755)
Closing Shareholders' funds	(3,119,547)	(1,404,483)

18. Provision for Deferred Tax

	2019	2018
	£	£
(Asset) brought forward	(968,619)	(903,793)
Deferred tax charge/(credit) in the Profit and Loss Account for the financial year	968,619	(64,826)
(Asset) carried forward	-	(968,619)
Analysis of Provision for Deferred Taxation		
Timing differences arising from the taxation of the underwriting results	-	(435,822)
Tax losses carried forward	-	(460,287)
Foreign tax credit available (Double Taxation Relief)	-	(72,510)
Deferred tax (asset) per Note 13	-	(968,619)

Deferred tax has been calculated at a rate of 17% (2018: 17%). No deferred tax asset is being recognised due to uncertainty of future profits.

NOTES TO THE FINANCIAL STATEMENTS

19. Creditors arising out of Direct Insurance and Reinsurance Operations

	2019			2018		
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
	£	£	£	£	£	£
Direct insurance operations						
Falling due within one year	-	-	-	-	-	-
Due after one year	-	-	-	-	-	-
Reinsurance operations						
Falling due within one year	360,845	482,352	843,197	766,676	497,788	1,264,464
Due after one year	-	-	-	-	-	-
	360,845	482,352	843,197	766,676	497,788	1,264,464

The Corporate Reinsurance balance represents the Company's share of an amount due to a 3rd party as a result of the successful resolution of the Kelco arbitration.

20. Creditors

	2019			2018		
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
	£	£	£	£	£	£
Other creditors	6,762,617	10,639,186	17,401,803	5,220,376	10,058,441	15,278,817
Amount due to group Undertakings	-	5,409,100	5,409,100	-	5,625,836	5,625,836
	6,762,617	16,048,286	22,810,903	5,220,376	15,684,277	20,904,653

Included in Other Creditors in the Syndicate Participation column is £4,000,000 (2018: £1,000,000) which represents funds transferred to Syndicate 3330 in respect of cash calls made on the open years of accounts.

NOTES TO THE FINANCIAL STATEMENTS

21. 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.

22. Funds at Lloyd's

The Company's Lloyd's underwriting is supported by funds at Lloyd's of £30,660,340 (2018: £30,045,995). This comprises £28,100 (2018: £9,104,783) held in the Company's name, £13,313,307 (2018: £13,941,212) held in the name of Group Companies, R&Q Re (Bermuda) Limited, Randal & Quilter Investment Holdings Ltd and Accredited Insurance (Europe) Limited. A further £12,000,000 (2018: £7,000,000) is provided by a third party letter of credit arrangement, and £5,318,933 is provided by intra-availability of funds at Lloyds held in the names of R&Q Capital No. 6 Limited and R&Q Capital No. 7 Limited.

The Company has entered into a Lloyd's Deposit Trust Deed which gives the Corporation the right to apply these monies in settlement of any claims arising from the participation on the syndicates. 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.

23. Syndicate Participation

	Allocated capacity per underwriting year					
Syndicate No.	**Managing Agent**	**2020 £'000**	**2019 £'000**	**2018 £'000**	**2017 £'000**	**2016 £'000**
1991	Coverys Managing Agency Ltd	50	50	50	30,687	17,693
1110	Capita Managing Agency Ltd	-	3,000	-	-	-
3330	Coverys Managing Agency Ltd	-	-	300	3,000	-
		50	3,050	350	33,687	17,693

24. Ultimate Group Undertaking and Ultimate Controlling Party

The immediate parent undertaking is Randall & Quilter II Holdings Limited, a company registered in England and Wales.

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.

NOTES TO THE FINANCIAL STATEMENTS

25. Post Balance Sheet Event

COVID-19

The Board has considered the potential impact of the recent COVID-19 outbreak on the Company's business. Its conclusion is that, whilst there is likely to be a small negative impact on the investments and investment returns of the Syndicates, the Company's participation in Lloyds syndicates is not expected to receive any significant impact to the underwriting results caused by COVID-19, as the vast majority of business relates to mature policies in run-off. The Company's cash calls of £4m with Syndicate 3330 should provide sufficient funds to cover the loss on closing the 2017 YOA.

Significant reinsurance is in place with a fellow Group subsidiary and following reassurance from the Group Board, the Directors do not anticipate any financial impact from COVID-19 on the Group reinsurer's ability to settle claims. Details on the insurance market exposure and impact of COVID-19 will become available as Lloyds receives further information from the Syndicates over the next few months.

The Board is confident that the Company is well positioned and will continue to be once stability returns to financial markets.

Acquisition of CMAL LLC.

On the 12 March 2020, the Company acquired a 100% shareholding in CMAL LLC, a Delaware limited liability company, from Coverys Managing Agency Limited. The total consideration paid by the Company was £1.