Registered Number: 07382921

R&Q Capital No. 1 Limited

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

Directors	M L Glover H N A Colthurst A K Quilter K E Randall
Company Secretary	R&Q Central Services Limited
Registered Office	71 Fenchurch Street London EC3M 4BS
Auditors	PKF Littlejohn LLP Statutory Auditor 1 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 2017.

Results

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

Directors

The Directors of the Company in office during the year were as follows:

T A Booth
H N A Colthurst
A K Quilter
K E Randall

T A Booth resigned 5 January 2018. M L Glover was appointed 19 January 2018.

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

26 June 2018

STRATEGIC REPORT

Introduction

The Company acts as a corporate underwriting member at Lloyd's. During the year in question, the Company participated on two syndicates, Syndicates 1991 and 3330, which are managed by Coverys Managing Agency Limited.

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			
	2017	2016	2015	2014
Syndicate 1991	47.19%	70%	70%	70%
Syndicate 3330	47.19%	-	-	70%

The company has 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.

Business Review

Results

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

Future Developments

The Company continues to write insurance business in the Lloyd's insurance market as a corporate underwriting member of Lloyd's. The capacity being underwritten on the 2018 year of account for Syndicate 1991 is £50,000 (2017 year of account: £30.7m), a decrease of £30.65m compared to the 2017 year of account. The capacity being underwritten on the 2018 year of account for Syndicate 3330 is £300,000 (2017 year of account: £3m), a decrease of £2.7m compared to the 2017 year of account. Details of the Company's syndicate participations are given in Note 23 to the Financial Statements.

Key Performance Indicators

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

	2017	2016
	£	£
Capacity (youngest underwriting year)	30,687,415	17,692,775
Share of Syndicates underwriting results	(1,312,226)	(1,562,476)
Loss after tax	(1,093,360)	(1,255,006)
Gross premium written as a % of capacity	59.6%	83.9%
Funds at Lloyd's (FAL) as a % of 2018 capacity (2016: 2017 capacity)	9,925%	91.3%

STRATEGIC REPORT (CONTINUED)

Other Performance Indicators

Due to the nature of this Company as 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 Syndicate 1991, including employment of Syndicate staff, as this is the responsibility of the Managing Agent, Coverys Managing Agency Limited (formerly R&Q Managing Agency Limited). The Managing Agency is also responsible for the management of Syndicate 3330 although certain activities are delegated to a fellow subsidiary of Randall & Quilter Investment Holdings Ltd. ('the Group') under an outsourcing agreement and certain Group employees are seconded to the Managing Agency. The Managing Agent has 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.

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 Agent of the syndicates. This Company's role in managing this risk is limited to selection of syndicate participations and monitoring performance of the syndicates.

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

26 June 2018

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 2017 which comprise the Statement of Income and Retained Earnings, 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 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 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

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

1 Westferry Circus
Canary Wharf
London E14 4HD

Date: 4 July 2018

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

	Note	**2017** £	2016 £
Gross premiums written	4	18,288,452	14,836,187
Outwards reinsurance premiums		260,930	2,278,295
Net premiums written		18,549,382	17,114,482
Change in the Provision for unearned premiums			
Gross provision	4	(2,336,535)	(430,104)
Reinsurers' share		122,261	21,514
Earned premiums, net of reinsurance		16,355,108	16,705,892
Allocated investment return transferred from the Non-technical Account		58,807	57,313
Total Technical Income		**16,393,915**	**16,763,205**
Expenses			
Gross claims paid		(6,886,175)	(6,309,537)
Reinsurers' share of gross claims paid		395,460	158,747
Claims paid, net of reinsurance		(6,490,713)	(6,150,790)
Movement in gross technical provisions	6	(2,501,680)	(5,917,550)
Movement in reinsurers' share of technical provisions	6	(757,981)	(374,297)
Net change in provisions for claims	6	(3,259,661)	(6,291,847)
Claims Incurred, net of reinsurance		(9,750,374)	(12,442,637)
Operating expenses	7	(7,536,008)	(6,559,622)
Total Technical Charges		**(17,286,382)**	**(19,002,259)**
Balance on Technical Account		**(892,467)**	**(2,239,054)**

The Notes on pages 15 to 40 form part of these Financial Statements

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

	Note	2017 £	2016 £
Balance on the Technical Account		**(892,467)**	**(2,239,054)**
Investment income	8	53,230	57,986
Gains on the realisation of investments		14,810	286
Unrealised gains on investments		23,572	994
Investment expenses and charges		(32,805)	(1,954)
Allocated investment return transferred to technical account		(58,807)	(57,312)
Foreign exchange gains (losses)		(336,774)	676,578
Loss on Ordinary Activities before Taxation	9	(1,229,241)	(1,562,476)
Taxation	10	135,881	307,470
Loss on Ordinary Activities after Taxation		(1,093,360)	(1,255,006)
Other Comprehensive Income		-	-
Total Comprehensive Income for the Year		(1,093,360)	(1,255,006)

Retained earnings at the beginning of the year	674,632	1,929,638
Profit / (Loss) for the year	(1,093,360)	(1,255,006)
Retained earnings at the end of the year	**(418,728)**	**674,632**

The Notes on pages 15 to 40 form part of these Financial Statements

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
Registered Number 07382921

		2017			2016		
	Note	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
		£	£	£	£	£	£
Assets							
Investments							
Financial Investments	11	9,105,114	-	9,105,114	5,286,042	-	5,286,042
		9,105,114	-	9,105,114	5,286,042	-	5,286,042
Reinsurers' share of technical provisions							
Provision for unearned Premiums		488,542	-	488,542	391,592	-	391,592
Claims outstanding		2,026,978	-	2,026,978	3,311,423	-	3,311,423
		2,515,520	-	2,515,520	3,703,015	-	3,703,015
Debtors							
Arising out of direct insurance Operations	12	2,233,135	-	2,233,135	1,915,319	-	1,915,319
Arising out of reinsurance Operations	12	6,273,870	-	6,273,870	7,595,406	-	7,595,406
Other debtors	13	10,080,315	5,512,012	15,592,327	12,975,921	5,330,460	18,306,381
		18,587,320	5,512,012	24,099,332	22,486,646	5,330,460	27,817,106
Other Assets							
Cash at bank and in hand	14	359,627	10,019,226	10,378,853	3,830,612	10,000,986	13,831,598
Other		1,066,018	-	1,066,018	744,719	-	744,719
		1,425,645	10,019,226	11,444,871	4,575,331	10,000,986	14,576,317
Prepayments and Accrued income							
Deferred acquisition costs		4,267,854	-	4,267,854	2,976,855	-	2,976,855
Other prepayments and accrued income		816,882	-	816,882	807,651	-	807,651
		5,084,696	-	5,084,696	3,784,506	-	3,784,506
Total Assets		36,718,295	15,531,238	52,249,533	39,835,540	15,331,446	55,166,986

The Notes on pages 15 to 40 form part of these Financial Statements

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
Registered Number 07382921

	Note	2017 Syndicate Participation £	2017 Corporate £	2017 Total £	2016 Syndicate Participation £	2016 Corporate £	2016 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	(2,335,228)	1,916,500	(418,728)	(3,079,449)	3,754,081	674,632
Total Shareholders' Funds	17	(2,355,228)	2,116,500	(218,728)	(3,079,449)	3,954,081	874,632
Technical provisions							
Provision for unearned premiums		9,388,366	-	9,388,366	7,559,597	-	7,559,597
Claims outstanding		26,428,021	-	26,428,021	27,855,990	-	27,855,990
		35,816,387	-	35,816,387	35,415,587	-	35,415,587
Provisions for Other Risks							
Deferred taxation	18	-	-	-	-	-	-
Creditors							
Arising out of direct insurance operations	19	-	-	-	-	-	-
Arising out of reinsurance operations	19	514,819	471,275	986,094	460,011	508,064	968,075
Amounts owed to credit institutions		-	-	-	-	-	-
Other creditors including taxation and social security	20	1,779,181	12,943,463	14,722,644	6,213,038	10,869,301	17,082,339
		2,294,000	13,414,738	15,708,738	6,673,049	11,377,365	18,050,414
Accruals and Deferred income		943,136	-	943,136	826,353	-	826,353
Total Liabilities		36,718,295	15,531,238	52,249,533	39,835,540	15,331,446	55,166,986

Approved by the Board on [illegible] June 2018

A K Quilter

The Notes on pages 15 to 40 form part of these Financial Statements

STATEMENT OF CHANGES IN EQUITY
As at 31 December 2017

	Share capital	Share premium account	Profit and loss account	Total
	£	£	£	£
At 1 January 2017	111,099	88,901	674,632	874,632
(Loss) for the financial year	-	-	(1,093,360)	(1,093,360)
At 31 December 2017	111,099	88,901	(418,728)	(218,728)

	Share capital	Share premium account	Profit and loss account	Total
	£	£	£	£
At 1 January 2016	111,099	88,901	1,929,638	2,129,638
(Loss) for the financial year	-	-	(1,255,006)	(1,255,006)
At 31 December 2016	111,099	88,901	674,632	874,632

The Notes on pages 15 to 40 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 2016 and 2017 years of account, and has continued this participation on the 2018 year of account for both Syndicates 1991 and 3330. The Company's underwriting is supported by Funds at Lloyd's totalling £28,213,322 (2016: £30,745,509). 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 Syndicates on which the Company participates.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

1.3 Basis of Accounting (continued)

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. 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
2017						
Total assets	11,139	17,099	6,564	727	1,189	36,718
Total liabilities	(17,759)	(13,649)	(5,835)	(438)	(1,372)	(39,053)
Surplus/(deficiency)of assets	(6,620)	3,450	729	289	(183)	(2,355)
2016						
Total assets	7,031	28,361	2,235	2,048	161	39,836
Total liabilities	(10,061)	(28,412)	(2,307)	(1,609)	(527)	(42,915)
Surplus/(deficiency)of assets	(3,030)	(51)	(72)	440	(366)	(3,079)

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 £0.21m on the result for the year (2016: £0.00m).

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
2017						
Reinsurers share of claims outstanding	0	439	1,578	10	-	2,027
Reinsurance debtors	432	25	5,751	38	28	6,274
Total	432	464	7,329	48	28	8,301

	AAA £'000	AA £'000	A £'000	BBB or lower £'000	Not rated £'000	Total £'000
2016						
Reinsurers share of claims outstanding	47	506	2,751	19	(12)	3,311
Reinsurance debtors	12	133	195	7,226	29	7,595
Total	59	639	2,946	7,245	17	10,906

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	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
2017						
Reinsurers share of claims outstanding	2,027	-	-	-	-	2,027
Reinsurance debtors	6,274	-	-	-	-	6,274
Insurance debtors	2,233	-	-	-	-	2,233
Total	10,534	-	-	-	-	10,534

	Neither 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
2016						
Reinsurers share of claims outstanding	3,311	-	-	-	-	3,311
Reinsurance debtors	7,595	-	-	-	-	7,595
Insurance debtors	1,915	-	-	-	-	1,915
Total	12,821	-	-	-	-	12,821

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 other Group companies and 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 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

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	86	86	(74)	(8)	(17)	(13)
Fire and other damage to property	6,635	5,795	(3,527)	(2,887)	368	(251)
Third party liability	11,062	9,687	(5,107)	(4,417)	(740)	(557)
Pecuniary Loss	-	-	(289)	(6)	239	(56)
Other	515	394	(355)	(215)	136	(40)
Total Direct	18,298	15,962	(9,352)	(7,533)	(14)	(937)
Reinsurance Balance	(10)	(10)	(36)	(3)	35	(14)
Total	18,288	15,952	(9,388)	(7,536)	21	(951)

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	7	7	(1,652)	(132)	466	(1,311)
Fire and other damage to property	5,628	5,838	(3,287)	(2,954)	(470)	(873)
Third party liability	9,194	8,554	(5,355)	(3,283)	(1,439)	(1,523)
Pecuniary Loss	-	-	(1,464)	(117)	(22)	(1,603)
Other	(9)	(9)	(695)	(56)	(171)	(931)
Total Direct	14,820	14,390	(12,453)	(6,542)	(1,636)	(6,241)
Reinsurance Balance	16	16	226	(18)	3,721	3,945
Total	14,836	14,406	(12,227)	(6,560)	2,085	(2,296)

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

5. Geographical Analysis

Direct Gross Premium Written in:	2017 £000	2016 £000
United Kingdom	7,790	6,976
Other EU Member States	2,612	2,927
Rest of the World	7,896	4,917
	18,298	14,820

NOTES TO THE FINANCIAL STATEMENTS

6. Technical provisions

	Gross £'000	Reinsurance £'000	2017 Net £'000	Gross £'000	Reinsurance £'000	2016 Net £'000
Movement in claims outstanding						
At 1 January	27,856	(3,311)	24,545	22,192	(3,605)	18,587
Movement in technical account	2,502	758	3,260	5,917	374	6,291
Other movements	(3,930)	526	(3,404	(253)	(80)	(333)
At 31 December	26,428	(2,027)	24,401	27,856	(3,311)	24,545
Movement in unearned premiums						
At 1 January	7,560	(392)	7,168	6,542	(362)	6,180
Movement in technical account	2,337	(122)	2,215	430	(22)	408
Other movements	(509)	25	(484)	588	(8)	580
At 31 December	9,388	(489)	8,899	7,560	(392)	7,168

	2017 £'000	2016 £'000
Movement in deferred acquisition costs		
At 1 January	2,977	2,826
Movement in deferred acquisition costs	1,591	(5)
Other movements	(300)	156
At 31 December	4,268	2,977

The movements in the technical account above are before the application of the member level quota share reinsurance agreements. 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 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.

NOTES TO THE FINANCIAL STATEMENTS

6. Technical provisions (continued)

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 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 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 (2016: £0.5m) following application of the quota share reinsurance agreement;
- a 5% increase/decrease in the managing agent's calculation of net claims reserves will decrease/increase the Company's pre-tax profit/loss by £1.2m (2016: £1.2m) 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	Current GAAP	Cumulative payments	Total reserves
2011 and prior (incl. RITC)	60,526	52,349	57,842	62,834	55,610	57,463	56,449	56,449	(47,585)	8,864
2012	18,240	13,030	9,875	9,855	11,351	11,375		11,375	(8,536)	2,839
2013	115	1,808	3,532	3,604	3,464			3,464	(2,330)	1,134
2014	58	3,089	6,188	5,738				5,738	(2,233)	3,505
2015	50	3,745	8,128					8,128	(2,346)	5,782
2016	663	5,212						5,212	(1,168)	4,044
2017	264							264	(4)	260
										26,428

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	Current GAAP	Cumulative payments	Total reserves
2011 and prior (incl. RITC)	43,207	37,498	43,390	48,823	42,328	45,020	44,052	44,052	(36,317)	7,735
2012	15,092	10,537	7,150	7,481	8,852	8,948		8,948	(6,422)	2,526
2013	115	1,713	3,272	3,389	3,316			3,316	(2,182)	1,134
2014	58	2,726	5,514	5,528				5,528	(2,233)	3,295
2015	46	3,658	7,902					7,902	(2,334)	5,568
2016	659	5,058						5,058	(1,168)	3,890
2017	257							257	(4)	253
										24,401

7. Net Operating Expenses

	2017 £	2016 £
Acquisition costs	6,927,378	5,150,476
Change in deferred acquisition costs	(1,591,060)	4,521
Administrative expenses	2,199,690	1,404,625
	7,536,008	6,559,622

NOTES TO THE FINANCIAL STATEMENTS

8. Investment Income

	2017 £	2016 £
Income from investments	53,230	57,986
Realised gains on investments	14,810	286
Interest received from Group companies	-	-
Investment income	68,040	58,272
Investment management expenses	(4,674)	(1,954)
Losses on the realisation of investments	(8,882)	-
Investment expenses and charges	(13,556)	(1,954)
Unrealised gains and (losses) - net	4,323	994
Total investment return	58,807	57,312

Analysed as follows:

	2017			2016		
	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	5,928	-	5,928	286	-	286
Unrealised gains or losses	4,323	-	4,323	994	-	994
	10,251	-	10,251	1,280	-	1,280
Interest and similar income, net of expenses			48,556			56,032
Total investment return			58,807			57,312

NOTES TO THE FINANCIAL STATEMENTS

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

This is stated after charging:

	2017 £	2016 £
Directors' remuneration	-	-
Auditors' remuneration - audit of the Financial Statements	-	-
Exchange (gain) or loss – Syndicate	419,759	(676,578)
Exchange (gain) or loss – Corporate Member	(82,985)	-

The Company has no employees. Director's costs and other expenses, including audit fees of £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	2017 £	2016 £
Current tax:		
Adjustments in respect of prior years	-	-
Foreign tax	35,867	-
Total current tax	35,867	-
Deferred tax:		
Origination and reversal of timing differences	(212,417)	(349,927)
Effects of change in tax rate on opening liability	40,669	42,457
Tax on loss on ordinary activities	(135,881)	(307,470)

NOTES TO THE FINANCIAL STATEMENTS

10. Taxation (continued)

Factors affecting tax charge for the year	**2017**	**2016**
	£	**£**
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	(1,265,108)	(1,562,476)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	(243,490)	(312,495)
Effects of:		
Timing difference arising on the taxation of the underwriting profits	12,325	(7,105)
Expenses not deductible for tax purposes	-	-
Trading losses carried forward	59,417	12,130
Foreign tax	35,867	-
Group relief not charged	-	-
Tax credit for the year	(135,881)	(307,470)

Factors that may affect future tax charges

The Company has trading losses of £2,981,319 (2016: £606,501) 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.

Legislation was passed on 18 November 2016 to reduce the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. Further legislation was introduced on 15 September 2016 to reduce the main rate of corporation tax to 17% with effect from 1 April 2020 (this supersedes the 18% rate).

NOTES TO THE FINANCIAL STATEMENTS

11. Investments

Other Financial Investments – Syndicate

		2017		2016
	Market value £	Cost £	Market value £	Cost £
Shares and other variable yield securities and units in unit trusts	432,608	432,608	428,001	428,001
Debt securities and other fixed income securities	3,386,063	2,455,648	2,033,719	2,042,498
Participation in investment pools	5,286,443	5,254,895	2,390,301	2,387,066
Deposits with credit institutions	-	-	434,021	434,021
	9,105,114	8,143,151	5,286,042	5,291,586
Listed investments included within the above	9,105,114	8,143,151	5,286,042	5,291,586

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.

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

NOTES TO THE FINANCIAL STATEMENTS

12. Debtors arising out of Direct Insurance and Reinsurance Operations

			2017			2016
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
	£	£	£	£	£	£
Direct insurance Operations:						
Intermediaries	2,233,135	-	2,233,135	1,915,319	-	1,915,319
	2,233,135	-	2,233,135	1,915,319	-	1,915,319
Reinsurance operations	6,273,870	-	6,273,870	7,595,406	-	7,595,406
	6,273,870	-	6,273,870	7,595,406	-	7,595,406

Included within debtors due from reinsurance operations is £5,749,479 (2016: £7,185,388) due from the quota share reinsurers, of which £4,685,324 (2016: £2,946,221) is due over one year.

13. Other Debtors

			2017			2016
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
	£	£	£	£	£	£
Deferred tax (Note 18)	-	903,793	903,793	-	732,045	732,045
Amounts due from Group undertakings	-	3,607,403	3,607,403	-	642,398	642,398
Other	10,080,315	1,000,816	11,081,131	12,975,921	3,956,017	16,931,938
	10,080,315	5,512,012	15,592,327	12,975,921	5,330,460	18,306,381

Other debtors includes £1,000,000 (2016: £3,954,786) 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

	2017			2016		
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
	£	£	£	£	£	£
Cash at bank and in hand	359,627	10,019,226	10,378,853	3,830,592	10,000,987	13,831,579
	359,627	10,019,226	10,378,853	3,830,592	10,000,987	13,831,579

Cash at bank under the corporate heading includes £7,996,821 (2016 - £10,000,904) in respect of cash deposited with the Corporation of Lloyd's in order to support the Company's underwriting.

15. Called-up Share Capital

	2017	2016
	Allotted, called-up and fully paid	
	£	£
111,099 Ordinary share 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

	2017			2016		
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
	£	£	£	£	£	£
Retained profit/(loss) brought forward	(3,079,448)	3,754,081	674,632	(2,122,875)	4,052,513	1,929,638
Closing YOA	1,816,668	(1,816,668)	-	605,902	(605,902)	-
Profit/(Loss) for the financial year	(1,072,477)	(20,913)	(1,093,360)	(1,562,476)	307,470	(1,255,006)
Retained profit/(loss) carried forward	(2,335,228)	1,916,500	(418,728)	(3,079,448)	3,754,081	674,632

NOTES TO THE FINANCIAL STATEMENTS

17. Shareholders' Funds

	2017	2016
	£	£
Opening Shareholders' funds	874,632	2,129,638
(Loss) for the financial year	(1,093,360)	(1,255,006)
Closing Shareholders' funds	(218,728)	874,632

18. Provision for Deferred Tax

	2017	2016
	£	£
(Asset) brought forward	(732,045)	(424,575)
Deferred tax (credit) in the Profit and Loss Account for the financial year	(171,748)	(307,470)
(Asset) carried forward	(903,793)	(732,045)

Analysis of Provision for Deferred Taxation

	2017	2016
Timing differences arising from the taxation of the underwriting results	(396,969)	(622,875)
Tax losses carried forward	(506,824)	(109,170)
Deferred tax (asset) per Note 13	(903,793)	(732,045)

Deferred tax has been calculated at a rate of 17% (2016: 18%).

NOTES TO THE FINANCIAL STATEMENTS

19. Creditors arising out of Direct Insurance and Reinsurance Operations

	2017			2016		
	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	514,822	471,275	986,094	460,011	508,064	968,075
Other	-	-	-	-	-	-
Due after one year	-	-	-	-	-	-
	514,822	471,275	986,094	460,011	508,064	968,075

The Corporate Reinsurance amounts represent the Company's share of an amount due to a 3rd party as a result of the successful resolution of the Kelco arbitration in 2015.

20. Creditors

	2017			2016		
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
	£	£	£	£	£	£
Other creditors	1,779,181	10,024,405	11,803,586	6,213,038	10,000,904	16,213,942
Amount due to group Undertakings	-	2,919,058	2,919,058	-	868,397	868,397
	1,779,181	12,943,463	14,722,644	6,213,038	10,869,301	17,082,339

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 £27,736,986 (2016: £23,745,509) of which £12,721,291 is held in the name of R&Q Re (Bermuda) Limited, RQIH Ltd and R&Q Insurance (Malta) Limited and £7,996,821 has been provided by an independent reinsurer under a quota share reinsurance arrangement. A further £7,000,000 (2016: £7,000,000) is provided by letter of credit by an independent reinsurer under an excess of loss reinsurance arrangement.

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	2018	2017	2016	2015	2014
		£'000	£'000	£'000	£'000	£'000
1991	Coverys Managing Agency Ltd	50	30,687	17,693	19,900	30,000
3330	Coverys Managing Agency Ltd	300	3,000	-	-	3,000
		350	33,687	17,693	19,900	33,000

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.