# Qatar Re Underwriting Limited

Registration: 08604568

Annual Report and Accounts

31 December 2015

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# Company Information

## Directors

G. Saacke
G. Prescott

## Secretary

Leadenhall Insurance Consultants Limited

## Registered Office

C/o Leadenhall Insurance Consultants Limited
One Lime Street
Suite 835 at Lloyd's
London
EC3M 7DQ
England

## Registered Number

08604568

## Registered Auditor

Deloitte LLP
Hill House, 1 Little New Street
London, EC4A 3TR

# Strategic Report

The Directors present their Strategic Report for the period ended 31 December 2015.

## Principal Activity, Review of the Business and Future Developments

The principal activity of the Company is that of a Corporate Member at Lloyd's. The Company is formerly known as Qatar Re Capital Limited. The Company is a 100% owned subsidiary of QIC Capital LLC.

The Company provides 7.0% of the underwriting capacity for Syndicate 1991 for the 2014 Year of Account. Qatar Re Underwriting Limited places 100% quota share reinsurance with Qatar Reinsurance Company Limited. This is formerly known as Qatar Reinsurance Company LLC.

The impact of this reinsurance is shown in the "Corporate" column of the Profit and Loss Account. R&Q Managing Agency Limited (Managing Agent, RQMA) is the Managing Agent for Syndicate 1991.

Qatar Re Underwriting Limited did not participate on the Syndicate's 2015 Year of Account.

The Directors are satisfied with the results and performance of the Company during the period.

The Company's key financial performance indicators during the period were as follows:

| | 2015 | 2014 As Restated |
|---|---|---|
| | £'000 | £'000 |
| The Company's Share of Syndicate 1991 Loss | (301) | (784) |
| Quota Share Reinsurance with Qatar Reinsurance Company Limited | 301 | 735 |
| Other Expenses | (42) | (15) |
| Loss after Tax for the Financial Year | (42) | (64) |

Under FRS102, the prior year comparatives in the statement of other comprehensive income include a reclassification of foreign exchange gains/(losses) to (profit)/loss on exchange in the non-technical account.

## Syndicate 1991 Result

The Syndicate result shows a loss after tax of £301,000.

## Corporate Result

The Corporate result shows a profit after tax of £301,000.

## Principal Risk and Uncertainties

The Syndicate's activities expose it to a variety of financial and non-financial risks. The Managing Agent is responsible for managing the Syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk.

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

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

# Strategic Report (continued)

The risks for the Syndicate are described in more detail in the Risk Management note on Page 26. In summary, the Syndicate is exposed to risk in the following categories:

**Brexit Risk**

Recently in June a referendum took place in the United Kingdom to vote to leave the European Union ("EU"). Although the precise timing of the exit from the EU ("Brexit") remains uncertain, there is much speculation as to what the potential impact will be to the insurance markets in which the Company operates.

The Chairman of Lloyd's recently made comments to the stakeholders in the Lloyd's Market that conveyed the position of Lloyd's to remain at the centre of the global specialist insurance and reinsurance sector and that a contingency plan is in place which will enable the market to operate in the new environment.

The Board will be closely monitoring the potential risks of Brexit that could affect the Company.

**Insurance Risk**

The very nature of the Syndicate's business exposes it to the possibility that claims will arise from business written. The risk attaching to insurance contracts is based on the fortuity that events will occur which will lead to a claim under the contract. The main underwriting risks which affect the Syndicate are catastrophic events, ratings, business volume and reserving.

**Credit Risk**

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due.

**Reinsurance risk**

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

**Currency risk**

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

**Investment risks**

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

**Interest rate risk**

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

**Financial instruments risk**

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

# Strategic Report (continued)

**Liquidity risk**

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

**Annual venture risk**

Under the Lloyd's annual venture regime, the Syndicate demonstrates annually that it has enough supporting capital to continue underwriting. To mitigate the risk that the Syndicate will not have sufficient backing to continue to trade, the Managing Agent has adopted a policy of diversifying the Syndicate's capital base commensurate with the Managing Agent's risk appetite.

**Solvency risk**

The Board sets the risk appetite in line with its strategy and ensures that sufficient capital resources are raised to cover those risks in line with regulatory and Lloyd's capital setting processes.

**Regulatory risk**

The Managing Agent is required to comply, inter alia, with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's.

**Operational risk**

Much of the effect of the Syndicate's exposure to operational risks is reflected in the various other risk headings above, and is mitigated and managed through the exercise of the management controls and actions described above. The main additional exposures are in relation to business continuity.

**Risk Governance**
The RQMA Board is ultimately responsible for ensuring the effective management and control of risk affecting the Syndicate, which is operated in a highly regulated environment. The RQMA Board is committed to maintaining sound risk management and control systems that are suitable, effective and proportionate to protect the interests of all stakeholders, including those of its capital providers and policyholders. The RQMA Board manages this through appropriate governance structure, reporting lines and committees, which is compliant with the applicable regulatory regimes.

**Risk Appetite**
Risk Appetite is the amount of risk that the RQMA Board is prepared to take in pursuit of its objectives. The Risk Appetite is set by the RQMA Board.

**Risk Monitoring and controls**
Risk management processes are based on risk identification; assessment and quantification; response; and monitoring and reporting.

All risk categories are identified in the risk register. The risk register is updated regularly and is reported to the Risk and Capital Committee and the RQMA Board on a monthly basis.

In addition to the risks associated with the Syndicate noted above, the Company itself is exposed to the following risks detailed below:

The Company is exposed to further **Credit Risk** through the purchase of significant quota share reinsurance. The Company considers the principal risk associated with its reliance on this contract to be the risk of default of the reinsurer. The reinsurer is a company within the Qatar Insurance Company LLC Group. The Group has a stable A credit rating. To mitigate this risk the contract is placed on a funds withheld basis.

# Strategic Report (continued)

By order of the Board

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Gunther Saacke
Director

5 September 2016

# Directors' Report

The Directors present their report for the period ended 31 December 2015.

## Directors and Secretary

The names of the Directors who served at the end of the period can be found in the Company Information on page 3.

## Dividends

The Directors do not recommend the payment of a dividend for the period ended 31 December 2015.

## Post Balance Sheet Event

There are no events that are material to the operations of the Company that have occurred since the reporting date.

## Future Developments

The Directors do not anticipate any changes to the Company's strategy.

## Going Concern

The Company's Financial Statements are prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the financial statements, the latest business plan profit forecasts, the latest working capital forecasts, solvency calculations and parental support. The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future.

## Risk Management

The financial risk management is presented in the Strategic Report.

## Statement of Disclosure of Information to the Auditors

Each person who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

- each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

# Directors' Report (continued)

## Auditors

The Company intends to reappoint Deloitte LLP as the Company's auditors.

By order of the Board

G M Wilson ....................................................

Company Secretary

5 September 2016

# Directors' Responsibilities Statement

The Directors are responsible for preparing the Report of the Directors and the 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 those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK 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 proper 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditor's Report

We have audited the financial statements of Qatar Re Underwriting Limited for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Independent Auditor's Report (continued)

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

We have nothing to report in respect of the following matters where 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.

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Andrew Downes ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, England

5 September 2016

# Statement of Comprehensive Income
## for the period ended 31 December 2015

| Technical Account – General Business | Notes | Corporate £'000 | Syndicate 1991 £'000 | Total 2015 £'000 | Total 2014 As Restated £'000 |
|---|---|---|---|---|---|
| **Earned Premium, Net of Reinsurance** | | | | | |
| Gross Premium Written | 3 | - | 3,518 | 3,518 | 307 |
| Outward Reinsurance Premium | | (3,340) | (178) | (3,518) | (307) |
| **Net Premiums Written** | | **(3,340)** | **3,340** | - | - |
| Change in the Provision for Unearned Premiums | | | | | |
| Gross Amount | | - | (1,621) | (1,621) | (249) |
| Reinsurers' Share | | 1,664 | (43) | 1,621 | 249 |
| **Net Change in Provision for Unearned Premium** | | **1,664** | **(1,664)** | - | - |
| **Earned Premiums, Net of Reinsurance** | | **(1,676)** | **1,676** | - | - |
| **Allocated Investment Return Transferred from the Non-Technical Account** | | - | - | - | - |
| **Claims Incurred, Net of Reinsurance** | | | | | |
| Claims Paid | | | | | |
| Gross Amount | | - | (98) | (98) | - |
| Reinsurers' Share | | 98 | - | 98 | - |
| **Net Claims Paid** | | **98** | **(98)** | - | - |
| Change in the Provision for Claims | | | | | |
| Gross Amount | | - | (1,343) | (1,343) | (27) |
| Reinsurers' Share | | 1,170 | 173 | 1,343 | 27 |
| **Net Change in the Provision for Claims** | 6 | **1,170** | **(1,170)** | - | - |
| **Claims Incurred, Net of Reinsurance** | | **1,268** | **(1,268)** | - | - |
| **Net Operating Income/(Expenses)** | 3,4 | **709** | **(709)** | - | **(49)** |
| **Balance on the Technical Account – General Business** | | **301** | **(301)** | - | **(49)** |

# Statement of Comprehensive Income (continued)
**for the period ended 31 December 2015**

| Non - Technical Account | Notes | Corporate £'000 | Syndicate 1991 £'000 | Total 2015 £'000 | Total 2014 As Restated £'000 |
|---|---|---|---|---|---|
| Balance on the General Business Technical Account | | 301 | (301) | - | (49) |
| Investment Income | | - | - | - | - |
| Unrealised Gains/(Losses) on Investments | | - | - | - | - |
| Investment Expenses and Charges | | - | - | - | - |
| Allocated Investment Return Transferred to General Business Technical Account | | - | - | - | - |
| Exchange Gains/(Losses) | | 1 | (1) | - | - |
| Other Expenses and Charges | 5 | (42) | - | (42) | (15) |
| **Profit/(Loss) on Ordinary Activities before Tax** | | **260** | **(302)** | **(42)** | **(64)** |
| Tax (Charge)/Credit on Profit/(Loss) on Ordinary Activities | 7 | - | - | - | - |
| **Profit/(Loss) on Ordinary Activities after Tax** | | **260** | **(302)** | **(42)** | **(64)** |
| **Retained Profit/(Loss) for the Financial Period** | | **260** | **(302)** | **(42)** | **(64)** |

The Corporate section represents the impact of the Quota Share reinsurance, as well as costs specific to Qatar Re Underwriting Limited.

The statement of comprehensive income relates to continuing activities for the current and preceding financial years.

There is no difference between the profit/(loss) on ordinary activities before taxation and the related profit/(loss) for the year and their historical cost equivalent.

Comparatives for 2014 are based on annual accounts that have been prepared over a longer period from 10 July 2013 to 31 December 2014.

The notes on page 17 to 34 form part of the financial statements.

# Statement of Financial Position - Assets
## at 31 December 2015

| | Notes | Corporate | Syndicate 1991 | Total 2015 | Total 2014 As Restated |
|---|---|---|---|---|---|
| | | £000 | £'000 | £'000 | £'000 |
| **Investments** | | | | | |
| Financial Investments | 8 | - | 5 | 5 | 3 |
| **Reinsurers' Share of Technical Provisions** | | | | | |
| Provision for Unearned Premiums | | 1,805 | 103 | 1,908 | 144 |
| Claims Outstanding | | 1,193 | 174 | 1,367 | 27 |
| | | **2,998** | **277** | **3,275** | **171** |
| **Debtors** | | | | | |
| Debtors Arising out of Direct Insurance Operations - Intermediaries | | - | 524 | 524 | 93 |
| Debtors Arising out of Reinsurance Operations | | - | 43 | 43 | 260 |
| Amounts due from Group Companies | | - | - | - | 747 |
| Other Debtors | 9 | - | 73 | 73 | 32 |
| | | **-** | **640** | **640** | **1,132** |
| **Other Assets** | | | | | |
| Cash at Bank and Hand | | - | 493 | 493 | (751) |
| **Prepayments and Accrued Income** | | | | | |
| Other Prepayments and Accrued Income | | - | 689 | 689 | 113 |
| Deferred Acquisition Costs | | - | 176 | 176 | 355 |
| | | **-** | **865** | **865** | **468** |
| **Total Assets** | | **2,998** | **2,280** | **5,278** | **1,023** |

# Statement of Financial Position – Liabilities

**at 31 December 2015**

| | Notes | Corporate £'000 | Syndicate 1991 £'000 | Total 2015 £'000 | Total 2014 As restated £'000 |
|---|---|---|---|---|---|
| **Capital and Reserves** | | | | | |
| Called up Share Capital | 12 | - | - | - | - |
| Profit and Loss Account | 13 | 988 | (1,094) | (106) | (64) |
| **Equity Shareholder's Funds** | 13 | **988** | **(1,094)** | **(106)** | **(64)** |
| **Technical Provisions** | | | | | |
| Provision for Unearned Premiums | | - | 1,908 | 1,908 | 500 |
| Claims Outstanding | | - | 1,367 | 1,367 | 27 |
| | | **-** | **3,275** | **3,275** | **527** |
| **Creditors** | | | | | |
| Creditors Arising out of Direct Insurance Operations - Intermediaries | | - | - | - | - |
| Creditors Arising out of Reinsurance Operations | | 1,406 | 5 | 1,411 | 6 |
| Amounts due to Group Companies | | 579 | - | 579 | 49 |
| Other Creditors | | - | 25 | 25 | 342 |
| | | **1,985** | **30** | **2,015** | **397** |
| **Accruals and Deferred Income** | | **25** | **69** | **94** | **163** |
| **Total Liabilities** | | **2,998** | **2,280** | **5,278** | **1,023** |

A Statement of Changes in Equity has not been produced because all movements in Equity relate to retained earnings, statement of comprehensive income and share capital. Please refer to note 13.

The financial statements on pages 13 to 34 were approved and authorised for issue by the Board of Directors on 5 September 2016 and signed on its behalf by:

Gunther Saacke
Director

Qatar Re Underwriting Limited
Company registration: 8604568

5 September 2016

# Notes to the Accounts
**at 31 December 2015**

## 1. Basis of Preparation

These annual accounts have been prepared under the historical cost basis, except for financial assets at fair value through the profit or loss which are measured at fair value. The Financial Statements are in accordance with applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and 103 ("FRS 103").

This is the first year in which the financial statements have been prepared under FRS 102 and 103 and there is no impact on the financial result in prior year as well as current year.

Under FRS 102, Qatar Re Underwriting Limited has taken advantage of the cash flow exemption available in the financial statements.

Under FRS102, the prior year comparatives in the statement of other comprehensive income include a reclassification of foreign exchange gains/(losses) to (profit)/loss on exchange in the non-technical account. Please refer to note 17.

## 2. Accounting Policies

### (a) Premiums written

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

### (b) Unearned premiums

Written premiums is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

### (c) Reinsurance premium ceded

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

### (d) Technical provisions – claims incurred and reinsurers' share

Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year and the movement in provision for outstanding claims and settlement expenses brought forward. Allowance is made for the cost of claims incurred by the balance sheet date but not reported until after the year end. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties. The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on a market blended average applied by RQMA's in-house reserving team and reviewed by external consulting actuaries. Where appropriate, the blended rates are adapted to reflect experience to date. The provision for claims also includes amounts in respect of internal and external claims handling costs. The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The Syndicate uses a number of statistical techniques to assist in making these estimates. Accordingly the two most critical assumptions with regards to claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used, including pricing models, for recent business are reasonable indicators of the likely level of ultimate claims to be incurred. The level of uncertainty with regard to the estimations within these provisions generally decreases with time as experience develops.

# Notes to the Accounts
**at 31 December 2015**

## 2. Accounting Policies (continued)

### (d) Technical provisions – claims incurred and reinsurers' share (continued)

In addition the nature of short tail claims, such as property, where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long tail risks, such as some liability business, where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim, this may increase the uncertainty in the estimation of the outcomes. The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly. A reinsurance to close contract of insurance which, in return for a premium paid by the closing year of account, transfers, normally to the following year of account, all known and unknown liabilities arising out of transactions connected with insurance business underwritten by the closing year of account. However, it should be noted that a reinsurance contract does not extinguish the primary liability of the original underwriter.

### (e) Unexpired risks provision

A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

### (f) Net operating expenses (including acquisition costs)

Net operating costs include acquisition costs and amounts charged to members through the Syndicate. Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date. Employee costs include the cost of all employee benefits to which employees have become entitled as a result of service rendered to the entity during the reporting period, which the Managing Agent considers to be attributable to this syndicate.

### (g) Distribution of profits and collection of losses

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

### (h) Foreign currencies

The presentational and functional currency of the Syndicate and the Company is Sterling. Transactions in US dollars, Euros, Canadian dollars, Australian dollars and New Zealand dollars are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

# Notes to the Accounts
**at 31 December 2015**

## 2. Accounting Policies (continued)

### (h) Foreign currencies (continued)

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

### (i) Financial assets and liabilities

**Classification**

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

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

**Recognition**

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

**Initial measurement**

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

**Subsequent measurement**

Non-current debt instruments are subsequently measured at amortised cost using the effective interest method. Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received. Investments in shares and other debt instruments are measured at fair value through profit or loss. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in previous calendar years in respect of the investment disposed of in the current period.

# Notes to the Accounts
**at 31 December 2015**

## 2. Accounting Policies (continued)

### (i) Financial assets and liabilities (continued)

**Derecognition of financial assets and liabilities**

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

**Fair value measurement**

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

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

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. using the effective interest method. For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date. Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

**Offsetting**

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

### (j) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

# Notes to the Accounts
**at 31 December 2015**

## 2. Accounting Policies (continued)

### (k) Taxation

The Company is taxed on its share of the underwriting results declared by the Syndicate. For tax purposes the results are deemed to accrue evenly over the calendar year in which they are declared.

HM Revenue & Customs determines the taxable results of individual syndicates on the basis of computations submitted by the Managing Agent. Any adjustments that may be necessary to the tax provisions established by the Company as a result of HM Revenue & Customs' agreement of the taxable results will be reflected in the financial statements of subsequent periods.

### (l) Profit Commission

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

### (m) Pension costs

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

### (n) Key accounting judgements and estimation uncertainties

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

**Technical provisions**

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

**Premium income**

The accounting policy for written and earned premium income is described on page 17 and the related risks are described in the risk management section. The estimation of written premium includes amounts for additional or return premiums and business that may have been underwritten but not yet notified. The earning of this premium has been calculated on a basis of time apportionment. The directors consider that this represents a reasonable approximation of the overall earning risk profile of the policies written. As described in the risk management section there is detailed evaluation of premium written estimates at the time of writing risks and these are monitored and checked as remaining valid until they are received.

# Notes to the Accounts
**at 31 December 2015**

## 2. Accounting Policies (continued)

### (o) Investment valuations

All investments are shown at their fair value as described in the accounting policy on page 20 and details of the risks relating to investments are disclosed in the risk management section. All investments are highly rated securities and regularly traded on major stock exchanges so that the risks in their valuations are reduced.

## 3. Segmental Analysis

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

| 2015 | Gross Written Premiums | Gross Premiums Earned | Gross Claims Incurred | Gross Operating Expenses | Reinsurance Balance | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Direct insurance:** | | | | | | |
| Fire and Other Damage to Property | 1,449 | 859 | (718) | (340) | 199 | - |
| Third Party Liability | 2,069 | 1,038 | (723) | (369) | 54 | - |
| | **3,518** | **1,897** | **(1,441)** | **(709)** | **253** | **-** |

| 2014 – As Restated | Gross Written Premiums | Gross Premiums Earned | Gross Claims Incurred | Gross Operating Expenses | Reinsurance Balance | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Direct insurance:** | | | | | | |
| Fire and Other Damage to Property | 205 | 27 | (9) | (278) | 260 | - |
| Third Party Liability | 102 | 31 | (18) | (214) | 201 | - |
| | **307** | **58** | **(27)** | **(492)** | **461** | **-** |

All premium transactions were concluded in the UK.

The geographical analysis of premiums by destination (or by situs of the risk) is as follows:

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| UK | 1,477 | 123 |
| Other EU Countries | 992 | - |
| Rest of the World | 1,049 | 184 |
| **Total** | **3,518** | **307** |

# Notes to the Accounts
**at 31 December 2015**

## 4. Net Operating Expenses

| | Corporate 2015 | Syndicate 2015 | Total 2015 | Total 2014 As Restated |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Acquisition Costs | 998 | (998) | - | - |
| Change in deferred acquisition costs | (326) | 326 | - | - |
| Administrative Expenses | 37 | (37) | - | 49 |
| **Net Operating Expenses** | **709** | **(709)** | **-** | **49** |

Administrative expenses include Members' Standard Personal Expenses (Lloyd's Subscription and New Central Fund Contributions) of £22,604.

There are no staff costs, as no employees are employed directly by the Company.

## 5. Other Expenses and Charges

| | Corporate 2015 | Syndicate 2015 | Total 2015 | Total 2014 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Other Expenses | 42 | - | 42 | 15 |

Other expenses and charges include auditor's remuneration in respect of the audit of financial statements of £10,000, Leadenhall Insurance Consultants Limited fees £27,000 and Lloyd's fees £5,000.

## 6. Change in Net Provision for Claims

| | Corporate 2015 | Syndicate 2015 | Total 2015 | Total 2014 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Outstanding Claims | 438 | (438) | - | - |
| Claims Incurred but Not Reported | 694 | (694) | - | - |
| Claims Handling Expenses Provision | 38 | (38) | - | - |
| **Change in Net Provision for Claims** | **1,170** | **(1,170)** | **-** | **-** |

# Notes to the Accounts
**at 31 December 2015**

## 7. Taxation

### Tax on Profit and Loss Account

a) Analysis of tax charge/(credit) for the period

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Current Tax | | |
| Current Tax (Credit) for the Period | (9) | (3) |
| **Total Current Tax** | **(9)** | **(3)** |
| Deferred Tax | | |
| Current Period Deferred Tax Charge | 9 | 3 |
| **Total Deferred Tax Arising on the Origination and Reversal of Timing Differences** | **9** | **3** |
| **Total Tax (Credit)/Charge** | **-** | **-** |

b) The tax assessed on the profit on ordinary activities for the period is different from the standard rate of corporation tax in the UK of 20%. The differences are reconciled below:

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Current Tax Reconciliation | | |
| Loss on Ordinary Activities before Taxation | (42) | (64) |
| Profit on Ordinary Activities Multiplied by the Blended Main Rate of Corporation Tax in the UK of 20.25% (2014: 21.49%) | (9) | (14) |
| Effects of: | | |
| Balance on Technical Account (Open Periods) | - | 11 |
| Tax Losses carried forward | 9 | 3 |
| **Total Tax (Credit** | **-** | **-** |

c) Deferred Tax Charge:

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Current Period Deferred Tax Charge | 9 | 3 |
| **Deferred Tax Charge in the Period** | **9** | **3** |

# Notes to the Accounts
**at 31 December 2015**

## 7. Taxation (continued)

The Finance Act 2015 has set a reduction in the Corporation Tax rate from 21% to 20% with effect from 1 April 2015.

The Government substantively enacted the rates changes of 19% and 18% from 1 April 17 and 1 April 20 respectively. These rates have been applied in the measurement of the Company's deferred tax assets and liabilities accordingly as at 31 December 2015.

There is an unrecognised deferred tax asset of £12,000 (2014: £3,000) in respect of the tax losses carried forward and other timing differences. A deferred tax asset has not been recognised on the grounds that there is insufficient evidence that the asset will be recoverable in the future.

## 8. Financial Investments

| | Market Value | | Cost | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | £'000 | £'000 | £'000 | £'000 |
| Shares and Other Variable Yield Securities and Units in Unit Trusts | 2 | 3 | 2 | 3 |
| Participation in Investment Pools | 3 | - | 3 | - |
| **Total** | **5** | **3** | **5** | **3** |

## 9. Other Debtors

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Syndicate Debtors | 73 | 32 |

## 10. Insurance Contracts and Reinsurance Contracts

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Insurance Contract Liabilities | Reinsurance Contract Assets | Net | Insurance Contract Liabilities | Reinsurance Contract Assets | Net |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Claims Outstanding | 1,367 | 1,367 | - | 27 | 27 | - |
| Provision for Unearned Premiums | 1,908 | 1,908 | - | 500 | 144 | 356 |
| | **3,275** | **3,275** | **-** | **527** | **171** | **356** |
| Contracts due no more than 12 *months after the reporting date* | | | - | | | - |
| Contracts due more than 12 months after the reporting date | | | - | | | - |
| | **3,275** | **3,275** | **-** | **527** | **171** | **356** |

# Notes to the Accounts
**at 31 December 2015**

## 10. Insurance Contracts and Reinsurance Contracts (continued)

### (a) Movement in Claims Outstanding

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Insurance Contract Liabilities | Reinsurance Contract Assets | Net | Insurance Contract Liabilities | Reinsurance Contract Assets | Net |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 January | 27 | 27 | - | - | - | - |
| Movements During the Year | 1,343 | 1,343 | - | 27 | 27 | - |
| Impact of Foreign Exchange | (3) | (3) | - | - | - | - |
| **Balance at 31 December** | **1,367** | **1,367** | **-** | **27** | **27** | **-** |

### (b) Movement in Unearned Premium

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Insurance Contract Liabilities | Reinsurance Contract Assets | Net | Insurance Contract Liabilities | Reinsurance Contract Assets | Net |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 January | 500 | 144 | 356 | - | - | - |
| Premiums Written During the Year | 3,518 | 3,518 | - | 307 | 307 | - |
| Premiums Earned During the Year | (1,897) | (1,897) | - | (58) | (58) | - |
| Impact of Foreign Exchange | (213) | 143 | (356) | 251 | (105) | 356 |
| **Balance at 31 December** | **1,908** | **1,908** | **-** | **500** | **144** | **356** |

## 11. Risk Management

### Risk background

The Syndicate's activities expose it to a variety of financial and non-financial risks. The Managing Agent is responsible for managing the Syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. The Managing Agent is required to prepare a Solvency Capital Requirement (SCR) for the syndicate, the purpose of this being to agree capital requirements with Lloyd's, based on an agreed assessment of the risks impacting the Syndicate's business and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are all reflected in the SCR.

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

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

# Notes to the Annual Accounts
**at 31 December 2015**

## 11. Risk Management (continued)

### Insurance Risk

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

- Catastrophic Events: the risk that catastrophic events occur which will lead to claims at a level not anticipated by the Syndicate.

- Rating Levels: the risk that the expected attritional losses and anticipated catastrophic events, together with the cost of reinsurance, will result in net claims which exceed the premium income of the Syndicate.

- Business Volume: the risk that the Syndicate will not be able to write as much business as planned.

- Reserving: the risk that the reserves established by the Syndicate at the previous year-end prove to be inadequate.

### Catastrophic events

The Managing Agent has developed underwriting guidelines which express limits to the authority of the underwriters and to exposure analysed geographically and by insured entities. The Syndicate has also developed Realistic Disaster Scenarios which provide an estimate of the effect on the Syndicate results of an aggregation of claims arising from a number of disasters specified by Lloyd's. The Syndicate uses modelling tools to monitor the aggregation of exposure and to simulate catastrophe losses, in order to measure the effectiveness of the underwriting guidelines in limiting exposure to these scenarios and the effectiveness of the Syndicate's reinsurance programmes. The Syndicate has not been affected adversely by any catastrophic events.

### Business volumes and rating levels

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

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

The key driver to achievement of planned income forecasts is the due diligence performed on individual coverholders and new products and on their respective plans. Where rating levels are under pressure, the Syndicate will seek to underwrite business in less distressed territories or classes of business. The Syndicate's governance framework encompassing the Underwriting and Claims Committee, Product Oversight Group and Syndicate Management Committee provide the requisite oversight.

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

# Notes to the Annual Accounts
**at 31 December 2015**

## 11. Risk Management (continued)

### Reserving risk

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

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

Claims development tables are shown on an underwriting year basis; these set out the development of claims over time on a gross and net of reinsurance basis (without any adjustment for any impact from changes to projected premiums). These claims are shown on an incurred basis for each successive development year.

| **Whole Account Underwriting Year** | 2014 | 2015 | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Gross incurred claims** | | | |
| At the end of underwriting year | 848 | - | - |
| One year later | 1,465 | - | - |
| **Gross paid claims** | | | |
| At the end of underwriting year | - | - | - |
| One year later | 98 | - | - |
| **Gross claims reserve** | **1,367** | **-** | **1,367** |

Due to the effect of the quota share reinsurance the net claims reserve position is nil in 2015 (2014: nil).

# Notes to the Annual Accounts
**at 31 December 2015**

## 11. Risk Management (continued)

### Credit Risk

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

- Reinsurers: whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the Syndicate.

- Brokers and intermediaries: whereby counterparties fail to pass on premiums collected or claims paid on behalf of the Syndicate.

- Investments: whereby issuer default results in the Syndicate losing all or part of the value of a financial instrument.

- Claims funds held by third party administrators are held in segregated bank accounts and are not subject to credit risk.

The Company's maximum exposure to counterparty credit risk analysed by credit quality is detailed below.

| **At 31 December 2015** | AAA | AA | A | BBB & Below | Lloyd's syndicates | Unrated | Total |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Financial Investments | 3 | 2 | - | - | - | - | 5 |
| Cash and cash equivalents | - | 9 | 247 | 237 | - | - | 493 |
| Insurance and other receivables | - | 14 | 29 | - | - | 597 | 640 |
| Reinsurance contracts assets | - | 12 | 1,248 | - | - | 107 | 1,367 |
| | **3** | **37** | **1,524** | **237** | **-** | **704** | **2,505** |

| **At 31 December 2014** | AAA | AA | A | BBB & Below | Lloyd's syndicates | Unrated | Total |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Financial Investments | - | - | - | 3 | - | - | 3 |
| Cash and cash equivalents | - | - | (538) | (213) | - | - | (751) |
| Insurance and other receivables | - | - | - | - | - | 385 | 385 |
| Reinsurance contracts assets | - | - | - | - | - | 27 | 27 |
| | **-** | **-** | **(538)** | **(210)** | **-** | **412** | **(336)** |

The Company is exposed to further Credit Risk through the purchase of Quota Share reinsurance. The Syndicate considers the principal risk associated with its reliance on these contracts to be the risk of default of the reinsurer. To mitigate this risk the contracts are placed on a funds withheld basis.

### Credit Risk – ageing and impairment

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

# Notes to the Annual Accounts
**at 31 December 2015**

## 11. Risk Management (continued)

### Reinsurance risk

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

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

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

### Currency risk

The main exposure to foreign currency risk arises from insurance business originating overseas and the uncertainty over the recent Brexit. The Syndicate attempts to fully match assets with liabilities on a regular basis.

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

The Syndicate monitors these currency balances and aims to ensure excessive balances beyond accumulated profits do not accrue beyond those necessary to meet overseas trust fund requirements. The Syndicate has not taken out any transactions to hedge these balances.

### Investment risks

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

### Interest rate risk

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

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

# Notes to the Annual Accounts
**at 31 December 2015**

## 11. Risk Management (continued)

### Interest rate risk (continued)

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Impact of a 50 basis point increase in interest rates on result | - | - |
| Impact of a 50 basis point decrease in interest rates on result | - | - |
| Impact of a 50 basis point increase in interest rates on net assets | - | - |
| Impact of a 50 basis point decrease in interest rates on net assets | - | - |

### Financial instruments risk

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

*Fair value hierarchy*

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

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

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

**At 31 December 2015:**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Financial investments | 5 | - | - | 5 |

**At 31 December 2014:**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Financial investments | 3 | - | - | 3 |

# Notes to the Annual Accounts
**at 31 December 2015**

## 11. Risk Management (continued)

### Liquidity risk

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

### Annual venture risk

Under the Lloyd's annual venture regime, the Syndicate demonstrates annually that it has enough supporting capital to continue underwriting. To mitigate the risk that the Syndicate will not have sufficient backing to continue to trade, the Managing Agent has adopted a policy of diversifying the Syndicate's capital base commensurate with the Managing Agent's risk appetite.

### Solvency risk

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

### Regulatory risk

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

### Operational risk

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

# Notes to the Annual Accounts
**at 31 December 2015**

## 12. Share Capital

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Authorised, Issued and Fully Paid: | | |
| 1 Ordinary Share of £1 | 1 | 1 |

## 13. Reconciliation of Movement in Shareholder's Funds

| | Called Up Share Capital | Retained Earnings | Total Shareholder's Funds |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Shareholder's Funds as at 31 December 2014 | - | (64) | (64) |
| 2015 Loss of the Year | - | (42) | (42) |
| **Shareholder's Funds as at 31 December 2015** | **-** | **106** | **106** |

## 14. Related Party Transactions

During the period, the Company entered into transactions in the ordinary course of business with other group companies. The transactions entered into during the period and trading balances outstanding at 31 December are as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | QIC Capital LLC | Qatar Reinsurance Company LLC | QIC Capital LLC | Qatar Reinsurance Company LLC |
| | £'000 | £'000 | £'000 | £'000 |
| Expenses Re-Charged | 6 | 40 | 36 | 13 |
| 100% Reinsurance Quota Share Agreement | - | 498 | - | (747) |
| Transactions in the Period | 6 | 538 | 36 | (734) |
| **Balance at the End of the Period** | **(6)** | **(538)** | **(36)** | **734** |

## 15. Directors' Remuneration

The Directors of the Company are not remunerated separately for their roles as Directors of this entity.

# Notes to the Annual Accounts
**at 31 December 2015**

## 16. Guarantees

Every member at Lloyd's is required to hold capital which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Financial Conduct Authority and Prudential Regulation Authority requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten.

FAL supporting the underwriting at Lloyd's is provided by Qatar Insurance Company SAQ, the Ultimate Parent Company. Under the terms of the quota share reinsurance, the parent has placed FAL on behalf of the Company by way of Letters of Credit, at Lloyd's of £24m (2014: £9m).

## 17. Transition to FRS 102 and FRS 103

In converting to FRS 102 and FRS 103 there has been no impact on the Total Comprehensive Income. Under previous UK GAAP, foreign exchange on the retranslation of opening balance sheet items was reported in the Statement of Total Recognised Gains and Losses ("STRGL"). Under FRS 102 these foreign exchange gains/(losses) have been reclassified to (Profit)/Loss on exchange in the non-technical account.

## 18. Ultimate Parent Company and parent Undertaking of Larger Group of which the Company is a Member

The immediate parent company is QIC Capital LLC, a company incorporated and registered in the State of Qatar which has a 100% shareholding. The ultimate parent company is Qatar Insurance Company SAQ, an insurance group incorporated in the State of Qatar and listed on the Qatar Exchange. Consolidated accounts are prepared by Qatar Insurance Company SAQ and copies of these are available from the registered office at Tamin Street, West Bay, PO Box 666, Doha, Qatar.

## 19. Post Balance Sheet Event

There are no events that are material to the operations of the Company that have occurred since the reporting date.