

# **Qatar Re Underwriting Limited**

Registration: 08604568

Annual Report and Accounts

31 December 2017

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## Company Information

### Directors

G. Saacke  
G. Prescott  
R. A. Sutlow, ACII, ACMA (Appointed 7 September 2017)

### Secretary

Leadenhall Insurance Consultants Limited (Resigned 18th August 2017)  
J M Linsao, BA, JD (Appointed 18 August 2017)

### Registered Office

21 Lime Street  
London, EC3M 7HB

### Registered Number

08604568

### Registered Auditor

Ernst & Young LLP  
25 Churchill Place,  
London, E14 5EY

## Strategic Report

The Directors present their Strategic Report for the period ended 31 December 2017.

### 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 provides 20.1% of the underwriting capacity for Syndicate 1492 for the 2016 Year of Account and 25% for the 2017 Year of Account. Capita Managing Agency Limited is the Managing Agent for Syndicate 1492. The Company no longer participates on Syndicate 1991.

Qatar Re Underwriting Limited places 100% quota share reinsurance with Qatar Reinsurance Company Limited. The impact of this reinsurance is shown in the "Corporate" column of the Statement of Comprehensive Income, Statement of Financial Position and the related notes.

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:

	2017 £'000	2016 £'000
The Company's Share of Syndicate 1492 Loss	(7,077)	(1,897)
100% Quota Share Reinsurance with Qatar Reinsurance Company Limited	7,077	1,897
Other Expenses	(50)	(61)
Loss after Tax	(18)	(61)

### Syndicate Result

The Company's share of the Syndicate result shows a loss after tax of £7,077,000 (2016: Loss £1,897,000).

### Corporate Result

The Corporate result shows a profit after tax of £7,059,000 (2016: Profit £1,836,000). This result is principally a consequence of the 100% quota share reinsurance.

### Principal Risk and Uncertainties

The Company's activities expose the business to a number of risks which have the potential to affect the achievement of the business objectives. Capita Managing Agency Limited 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 main source of income for the Company is derived from its participation in Syndicate 1492 ('the Syndicate').

The Syndicate is exposed to risk in the following categories:

#### Insurance Risk

The very nature of the Syndicate's business exposes them to the possibility that claims will arise from business written that differ from expectation. Insurance risk comprises of three main elements to include underwriting risk, claims and reserving risk.

#### Underwriting risk

The insurance policy may be written for insufficient premium and/or provide inappropriate cover.

## Strategic Report (continued)

### Claims risk

This is the risk that the frequency and severity of insured events exceeds the expectations of Syndicate at the time of underwriting.

### Reserving risk

Reserving risk includes the risk that the estimates of claims might subsequently prove to be insufficient. Establishing an appropriate level of loss reserves is an inherently uncertain process. It is therefore possible that the Syndicate's reserves, at any given time, might prove to be inadequate.

### Credit Risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. This is the risk of loss or of adverse change in the Syndicate and Company's financial position, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which the Syndicate and Company is exposed, in the form of counterparty default risk, spread risk, or market risk concentrations.

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.

### Reinsurance risk

The Syndicate purchases reinsurance protection to contain exposure to single claims and the aggregation of claims from catastrophic events. The creditworthiness of the reinsurers are regularly reviewed throughout the year.

### Market Risk

This is defined as the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly from fluctuations in the volatility of market prices of assets, liabilities and financial instruments. It is the risk that the value of Syndicate's own investment holdings change unfavourably, due to economic factors such as variations in interest rates and foreign exchange rates.

### Investment risk

The Syndicate's investment policy is established by the Managing Agent. The Managing Agent will seek to mitigate interest rate risk and foreign exchange risk through its Investment Committee by reviewing the investment performance and associated risks. The Syndicate will also seek to reduce as far as practically any currency assets/liabilities mismatches that may have arisen.

### Liquidity risk

This is defined as the risk of loss, or inability to realise investments and other assets, in order to settle financial obligations when they fall due. To mitigate liquidity risk the Managing Agent will monitor funds on a regular basis and maintain cash levels consistent with the needs of the Syndicate.

### Regulatory risk

This is the risk that the Managing Agency fails to meet the regulatory requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business.

The Managing Agency receives frequent regulatory and compliance risk updates from management. In addition, there is an Audit and Risk Committee that reviews and monitors these risks on a quarterly basis.

## Strategic Report (continued)

### Operational risk

The risk of loss arising from inadequate or failed processes, people, and systems or from external events impacting the Syndicate's ability to operate.

### Group Risk

Group Risk is the possibility that the operation of one part of the Group adversely affects another. Group risk includes: negative publicity; inadequate communication within the organisation; undue influence from fellow subsidiaries; holding companies or stakeholders; financial pressures to make funds available to the Group; and financial restraint leading to shortcomings in core activities.

The overall strategy is to minimise Group risk by ensuring that there are clear lines of authority and communication between related parties, and that any intra-Group agreements are formed objectively and clearly understood by all parties.

### Reputational Risk

The Company recognises reputational risk as a by-product of inappropriate/inadequate management and mitigation of all other risk categories.

### Risk Governance

The Board of the Managing Agent is ultimately responsible for ensuring the effective management and control of risk affecting the Syndicate, which operates in a highly regulated environment. The Managing Agent 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 Managing Agent 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 Boards are prepared to take in pursuit of its objectives. The Risk Appetite is set by the Boards.

### 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 relevant Committee and the Boards on a frequent basis.

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

By order of the Board



Richard Sutlow  
Director

31 October 2018

## Directors' Report

The Directors present their report for the period ended 31 December 2017.

### 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 2017 (2016: £nil).

### Post Balance Sheet Events

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 and will continue to act as a Corporate Member to the Syndicate.

### 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 appoint Ernst & Young LLP as the Company's auditors.

By order of the Board

A handwritten signature in black ink, appearing to be 'M. Linsao', is written over a horizontal dotted line.

Company Secretary

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## **Directors' Responsibilities Statement**

The Directors are responsible for preparing the Strategic Report, Directors' Report 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

### Opinion

We have audited the financial statements of Qatar Re Underwriting Limited for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 19, 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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view 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; and
- 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 below. 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.

### 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 this 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 the other information, we are required to report that fact. We have nothing to report in this regard.

## **Independent Auditor's Report (continued)**

### **Opinion on other matter 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 Directors' Report for the financial year for which the financial statements are prepared are consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

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

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.

### **Responsibilities of directors**

As explained more fully in the Directors' Responsibilities statement set out on page 9, 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 <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Independent Auditor's Report (continued)

### Use of our report

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.

A handwritten signature in black ink, appearing to read 'Ed Jervis', followed by 'LLP' in a slightly larger, more formal script.

Ed Jervis (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London, England

31 October 2018

# Statement of Comprehensive Income

for the period ended 31 December 2017

Technical Account – General Business	Notes	Corporate £'000	Syndicate £'000	Total 2017 £'000	Total 2016 £'000
<b>Earned Premium, Net of Reinsurance</b>					
Gross Premium Written	2	-	21,426	21,426	9,365
Outward Reinsurance Premium		(14,541)	(6,885)	(21,426)	(9,365)
<b>Net Premiums Written</b>		<b>(14,541)</b>	<b>14,541</b>	<b>-</b>	<b>-</b>
Change in the Provision for Unearned Premiums					
Gross Amount		-	(6,591)	(6,591)	(3,056)
Reinsurers' Share		3,626	2,965	6,591	3,056
<b>Net Change in Provision for Unearned Premium</b>		<b>3,626</b>	<b>(3,626)</b>	<b>-</b>	<b>-</b>
<b>Earned Premiums, Net of Reinsurance</b>		<b>(10,915)</b>	<b>10,915</b>	<b>-</b>	<b>-</b>
<b>Allocated Investment Return Transferred from the Non-Technical Account</b>		<b>(19)</b>	<b>19</b>	<b>-</b>	<b>-</b>
<b>Claims Incurred, Net of Reinsurance</b>					
Claims Paid					
Gross Amount		-	(3,896)	(3,896)	(3,687)
Reinsurers' Share		3,596	300	3,896	3,687
<b>Net Claims Paid</b>		<b>3,596</b>	<b>(3,596)</b>	<b>-</b>	<b>-</b>
Change in the Provision for Claims					
Gross Amount		-	(15,766)	(15,766)	(2,557)
Reinsurers' Share		8,018	7,748	15,766	2,557
<b>Net Change in the Provision for Claims</b>	5	<b>8,018</b>	<b>(8,018)</b>	<b>-</b>	<b>-</b>
<b>Claims Incurred, Net of Reinsurance</b>		<b>11,614</b>	<b>(11,614)</b>	<b>-</b>	<b>-</b>
<b>Net Operating Income/(Expenses)</b>	2,3	<b>6,596</b>	<b>(6,596)</b>	<b>-</b>	<b>-</b>
<b>Balance on the Technical Account – General Business</b>		<b>7,276</b>	<b>(7,276)</b>	<b>-</b>	<b>-</b>

## Statement of Comprehensive Income (continued)

for the period ended 31 December 2017

		Corporate	Syndicate	Total 2017	Total 2016
Non - Technical Account	Notes	£'000	£'000	£'000	£'000
Balance on the General Business Technical Account		7,276	(7,276)	-	-
Investment Income	7	(22)	22	-	-
Unrealised Gains/(Losses) on Investments	7	3	(3)	-	-
Investment Expenses and Charges	7	-	-	-	-
Allocated Investment Return Transferred to General Business Technical Account	7	19	(19)	-	-
Exchange Gains/(Losses)		(199)	199	-	-
Other Expenses and Charges	4	(50)	-	(50)	(61)
<b>Profit/(Loss) on Ordinary Activities before Tax</b>		<b>7,027</b>	<b>(7,077)</b>	<b>(50)</b>	<b>(61)</b>
Tax (Charge)/Credit on Profit/(Loss) on Ordinary Activities	6	32	-	32	-
<b>Profit/(Loss) for the Financial Period</b>		<b>7,059</b>	<b>(7,077)</b>	<b>(18)</b>	<b>(61)</b>

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.

**Statement of Financial Position - Assets**

at 31 December 2017

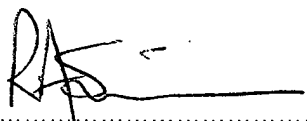
		Corporate	Syndicate	Total 2017	Total 2016
	Notes	£'000	£'000	£'000	£'000
<b>Investments</b>					
Financial Investments	8	-	1,634	1,634	2,510
<b>Reinsurers' Share of Technical Provisions</b>					
Provision for Unearned Premiums		7,193	4,311	11,504	5,517
Claims Outstanding		9,391	7,660	17,051	5,374
		<b>16,584</b>	<b>11,971</b>	<b>28,555</b>	<b>10,891</b>
<b>Debtors</b>					
Debtors Arising out of Direct Insurance Operations - Intermediaries	9	-	5,485	5,485	1,617
Debtors Arising out of Reinsurance Operations		-	2,274	2,274	2,006
Other Debtors	10	32	118	150	417
		<b>32</b>	<b>7,877</b>	<b>7,909</b>	<b>4,040</b>
<b>Other Assets</b>					
Cash at bank and in hand		-	3,092	3,092	1,051
<b>Prepayments and Accrued Income</b>					
Other Prepayments and Accrued Income		-	363	363	61
Deferred Acquisition Costs	12	-	2,206	2,206	1,020
		<b>-</b>	<b>2,569</b>	<b>2,569</b>	<b>1,081</b>
<b>Total Assets</b>		<b>16,616</b>	<b>27,143</b>	<b>43,759</b>	<b>19,573</b>

**Statement of Financial Position – Liabilities**

at 31 December 2017

	Notes	Corporate £'000	Syndicate £'000	Total 2017 £'000	Total 2016 £'000
<b>Capital and Reserves</b>					
Called up Share Capital	14	-	-	-	-
Profit and Loss Account		8,904	(9,089)	(185)	(167)
<b>Equity Shareholder's Funds</b>		<b>8,904</b>	<b>(9,089)</b>	<b>(185)</b>	<b>(167)</b>
<b>Technical Provisions</b>					
Provision for Unearned Premiums		-	11,504	11,504	5,517
Claims Outstanding		-	17,051	17,051	5,374
		-	<b>28,555</b>	<b>28,555</b>	<b>10,891</b>
<b>Creditors</b>					
Creditors Arising out of Direct Insurance Operations - Intermediaries		-	73	73	-
Creditors Arising out of Reinsurance Operations		7,495	5,115	12,610	2,298
Amounts due to Group Companies		195	-	195	3,703
Other Creditors		-	2,180	2,180	2,596
		<b>7,690</b>	<b>7,368</b>	<b>15,058</b>	<b>8,597</b>
<b>Accruals and Deferred Income</b>		<b>22</b>	<b>309</b>	<b>331</b>	<b>252</b>
<b>Total Equity and Liabilities</b>		<b>16,616</b>	<b>27,143</b>	<b>43,759</b>	<b>19,573</b>

The financial statements on pages 13 to 38 were approved and authorised for issue by the Board of Directors on 31 October 2018 and signed on its behalf by:



Richard Sutlow  
Director

Qatar Re Underwriting Limited  
Company registration: 8604568

31 October 2018



## Statement of Changes in Equity

at 31 December 2017

	Called Up Share Capital	Share Premium	Profit and Loss Account	Total Equity
	\$000	\$000	\$000	\$000
At 1 January 2016	-	-	(106)	(106)
Loss for the Year	-	-	(61)	(61)
At 31 December 2016	-	-	(167)	(167)
Loss for the Year	-	-	(18)	(18)
<b>At 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>(185)</b>	<b>(185)</b>

## Notes to the Accounts

at 31 December 2017

### 1. Accounting Policies

#### Statement of Compliance

Qatar Re Underwriting Limited is a limited liability company incorporated in England. The Registered Office is 21 Lime Street, London EC3M 7HB.

These annual accounts have been prepared under the historical cost convention and 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 Financial Reporting Standard 103 Insurance Contracts ("FRS 103").

Under FRS 102, Qatar Re Underwriting Limited has taken advantage of the cash flow exemption available in the financial statements. Group consolidated accounts are prepared by the Ultimate Parent Company and copies of these are available from the registered office at Tamin Street, West Bay, PO Box 666, Doha, Qatar.

The Ultimate Parent Company is Qatar Insurance Company SAQ. The Immediate Parent Company is QIC Capital LLC.

#### Basis of Preparation of Financial Statements

The annual accounts of Qatar Re Underwriting Limited were authorised for issue by the Board of Directors on 31 October 2018. The annual accounts are prepared in Sterling, which is the functional currency of the Company.

The financial statements have been prepared on a going concern basis. The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future.

#### Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with FRS 102 and 103 requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date. The results of these factors allow judgements to be made in respect of the carrying values of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are regularly reviewed and revisions to these are recognised in the period in which the change in estimate is recognised and all future periods affected.

The following are the Syndicate's key sources of estimation uncertainty, where a risk of causing material misstatement to the carrying value of assets and liabilities within the next financial year may exist.

#### Insurance Contracts

For insurance contracts, estimates are made both for the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported (IBNR), at the reporting date. It can take a significant period before the ultimate claims cost can be established with certainty and, for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder method and Bornheutter-Ferguson methods.

The main assumption underlying these standard actuarial claims projection techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the balance sheet date based on statistical methods.

## **Notes to the Accounts**

### **at 31 December 2017**

#### **1. Accounting Policies (continued)**

These methods generally involve projecting from past experience of 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. 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 amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

##### **Estimates of future premiums**

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

##### **Fair value of financial assets and derivatives determined using valuation techniques**

Syndicate 1492 does not have any financial assets or liabilities recorded on the statement of financial position whose fair values cannot be sourced from active markets. Syndicate 1492 has no need to use any valuation techniques to determine fair value.

##### **Insurance Contracts – Product Classification**

Insurance contracts are those contracts when the Syndicate (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder if a specified uncertain future event (the re/insured event) adversely affects the policyholders. As a general guideline, the Syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with IAS 39 unless the embedded derivative is itself an insurance contract (ie the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

##### **Premiums written**

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

Under some policies, premiums written are adjusted retrospectively in the light of claims experience or when the risk covered cannot be assessed accurately at the commencement of cover. When premiums written are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. When premiums written are subject to a reduction, a re-measurement taking account of such a reduction is made as soon as there is an obligation to the cover-holder.

##### **Reinsurance premium**

Reinsurance premiums written comprise premiums on contracts (including portfolio premiums payable) inception during the financial year as well as adjustments made in the year to premiums on contracts inception in prior accounting periods.

As above, under some policies the reinsurance premiums are adjusted retrospectively.

## Notes to the Accounts

### at 31 December 2017

#### 1. Accounting Policies (continued)

##### Reinstatement Premiums

Reinstatement premiums may arise on both inwards and outwards policies when a loss has been incurred on a policy and there is a clause which requires the reinstatement of the policy with the payment of a further premium by the policyholder. These amounts are generally recognised as written and earned in full, at the date of the event giving rise to the reinstatement premium. Outwards reinstatement premiums payable, in the event of a claim being made, are generally charged to year of account in the same proportions as that to which the recovery is credited.

##### Unearned premiums

Written premiums are 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. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. The same applies for unearned reinsurance premiums.

##### Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

##### Technical provisions

Technical provisions comprise claims outstanding and provisions for unearned premiums.

##### Claims outstanding

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not; together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

##### Deferred Acquisition Costs

Acquisition costs can comprise costs arising from the conclusion of insurance contracts, including direct costs, such as intermediary commissions and indirect costs, such as the administrative expenses connected with the processing of proposals and the issuing of policies. Deferred acquisition costs are costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods. Deferred acquisition costs are amortised over the period in which the related premiums are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement. Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

## **Notes to the Accounts**

### **at 31 December 2017**

#### **1. Accounting Policies (continued)**

##### **Reinsurance assets**

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders.

##### **Insurance receivables**

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are de-recognised when the de-recognition criteria for financial assets have been met.

##### **Insurance payables**

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs.

##### **Financial investments**

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 – Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

The Syndicate classifies its financial investments as either financial assets at fair value through profit or loss, loans and receivables or available for sale. The Syndicate determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as fair value through profit or loss as the Syndicate's documented investment strategy is to manage financial investments acquired on a fair value basis.

Purchases and sales of financial assets are recognised on the trade date, ie the date the Syndicate commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss has two sub categories, namely financial assets held for trading and those designated at fair value through the profit and loss at inception. All the Syndicate's financial assets are held for trading. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

##### **Derivative financial instruments**

The Syndicate does not use derivative financial instruments.

## Notes to the Accounts

at 31 December 2017

### 1. Accounting Policies (continued)

#### Cash at bank and in hand

Cash in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. Overdrafts are reported separately in creditors.

#### Fair value of financial assets

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Refer to Note 13 Risk Management for details on the Fair Value Hierarchy and fair value measurement criteria.

#### Impairment of financial assets

For financial assets not held at fair value through profit or loss, the Syndicate assesses at each reporting date whether the financial asset or group of financial assets is impaired. The Syndicate first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment. If an available for sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income in members' balance to the income statement. Impairment losses recognised in the income statement in respect of an equity instrument are not subsequently reversed through the income statement. Reversals of impairment losses on debt instruments classified as available for sale are reversed through the income statement, if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

#### De-recognition of financial assets

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or
- The Syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

## Notes to the Accounts

### at 31 December 2017

#### 1. Accounting Policies (continued)

##### Financial liabilities

The Syndicate's financial liabilities include trade and other payables, borrowings, insurance payables and derivative financial instruments, where applicable. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

##### 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 financial year, together with the reversal of unrealised gains and losses recognised in earlier financial years in respect of investment disposals in the current financial year.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the technical account - general business. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

##### Foreign Currencies

The Company's functional and presentational currency is Sterling.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

##### 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 Agents. 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.

## Notes to the Accounts

### at 31 December 2017

## 2. Segmental Analysis

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

2017	Gross Written Premiums £'000	Gross Premiums Earned £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
<b>Direct insurance:</b>						
Marine, Aviation and Transport	-	-	-	-	-	-
Fire and Other Damage to Property	4,880	3,086	(6,827)	(1,582)	5,323	-
Third Party Liability	8,439	4,731	(3,094)	(2,747)	1,110	-
Reinsurance	8,107	7,018	(9,741)	(2,267)	4,990	-
	<b>21,426</b>	<b>14,835</b>	<b>(19,662)</b>	<b>(6,596)</b>	<b>11,423</b>	<b>-</b>

2016	Gross Written Premiums £'000	Gross Premiums Earned £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
<b>Direct insurance:</b>						
Marine, Aviation and Transport	2	-	-	(1)	1	-
Fire and Other Damage to Property	1,251	1,355	(502)	(696)	(157)	-
Third Party Liability	2,912	2,352	(4,339)	(1,358)	3,345	-
Reinsurance	5,200	2,602	(1,403)	(1,726)	527	-
	<b>9,365</b>	<b>6,309</b>	<b>(6,244)</b>	<b>(3,781)</b>	<b>3,716</b>	<b>-</b>

The geographical analysis of premiums by place of underwriting is as follows:

	2017 £'000	2016 £'000
UK	21,426	9,228
Other EU Countries	-	12
Rest of the World	-	125
<b>Total</b>	<b>21,426</b>	<b>9,365</b>



## Notes to the Accounts

### at 31 December 2017

#### 3. Net Operating Expenses

	Corporate 2017 £'000	Syndicate 2017 £'000	Total 2017 £'000	Total 2016 £'000
Acquisition Costs	4,405	(4,405)	-	-
Change in deferred acquisition costs	(1,361)	1,361	-	-
Administrative Expenses	3,552	(3,552)	-	-
<b>Net Operating Expenses</b>	<b>6,596</b>	<b>(6,596)</b>	<b>-</b>	<b>-</b>

Administrative expenses include Members' Standard Personal Expenses (Lloyd's Subscription and New Central Fund Contributions) of £512,000 (2016: £395,000).

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

#### 4. Other Expenses and Charges

	Corporate 2017 £'000	Syndicate 2017 £'000	Total 2017 £'000	Total 2016 £'000
Other Expenses	50	-	50	61

Other expenses and charges include auditor's remuneration in respect of the audit of financial statements of £11,000 (2016: £10,000).

#### 5. Change in Net Provision for Claims

	Corporate 2017 £000	Syndicate 2017 £000	Total 2017 £000	Total 2016 £000
Outstanding Claims	4,784	(4,784)	-	-
Claims Incurred but Not Reported	3,204	(3,204)	-	-
Claims Handling Expenses Provision	30	(30)	-	-
<b>Change in Net Provision for Claims</b>	<b>8,018</b>	<b>(8,018)</b>	<b>-</b>	<b>-</b>

## Notes to the Accounts

at 31 December 2017

### 6. Taxation

#### Tax on Profit and Loss Account

##### a) Analysis of tax (credit) for the period

	2017	2016
	£'000	£'000
Current Tax		
Current Tax (Credit) for the year	(9)	(12)
Adjustments in respect of prior year	-	(11)
<b>Total Current Tax</b>	<b>(9)</b>	<b>(23)</b>
Deferred Tax		
Current Period Deferred Tax Charge	-	12
Adjustments in respect of prior year	(23)	11
<b>Total Deferred Tax Arising on the Origination and Reversal of Timing Differences</b>	<b>(23)</b>	<b>23</b>
<b>Total Tax (Credit)</b>	<b>(32)</b>	<b>-</b>

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 19.25%. The differences are reconciled below:

	2017	2016
	£'000	£'000
Total Tax Reconciliation		
Loss on Ordinary Activities before Taxation	(50)	(61)
Loss on Ordinary Activities Multiplied by the Blended Main Rate of Corporation Tax in the UK of 19.25% (2016: 20%)	(9)	(12)
Effects of:		
Tax Losses carried forward	-	-
Adjustments in respect of prior year	(23)	(12)
<b>Total Tax (Credit)</b>	<b>(32)</b>	<b>-</b>

## Notes to the Accounts

### at 31 December 2017

#### 6. Taxation (continued)

##### c) Deferred Tax Charge:

	2017	2016
	£'000	£'000
Current Period Deferred Tax Charge	-	12
Adjustments in respect of prior year	(23)	11
<b>Deferred Tax (Credit)/Charge in the Period</b>	<b>(23)</b>	<b>23</b>

The Finance Act 2015 set the Corporation Tax rate at 19% for the Financial Year 2017.

The Government substantively enacted the rates changes of 19% and 17% from 1 April 2017 and 1 April 2020 respectively. These rates has been applied in the measurement of the Company's deferred tax assets and liabilities accordingly at 31 December 2017.

There is an unrecognised deferred tax asset of £41,000 (2016: £34,000) 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.

#### 7. Investment Income and Expenses

	Corporate 2017 £000	Syndicate 2017 £000	Total 2017 £000	Total 2016 £000
<b>Investment Income</b>				
Income from Investments	(22)	22	-	-
Unrealised Gains/(Losses) on Investments	(3)	(3)	-	-
	<b>(19)</b>	<b>19</b>	<b>-</b>	<b>-</b>
<b>Investment Expenses and Charges</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>(19)</b>	<b>19</b>	<b>-</b>	<b>-</b>

#### 8. Financial Investments

	Market Value		Cost	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Shares and Other Variable Yield Securities and Units in Unit Trusts	1,049	708	1,049	708
Debt Securities and Other Fixed Income Securities	-	475	-	476
Overseas Deposits as Investments	585	518	585	518
Participation in Investment Pools	-	809	-	809
<b>Total</b>	<b>1,634</b>	<b>2,510</b>	<b>1,634</b>	<b>2,511</b>

## Notes to the Accounts

at 31 December 2017

### 9. Debtors Arising out of Direct Insurance Operations

	2017	2016
	£'000	£'000
Due from Intermediaries	5,485	1,617

### 10. Other Debtors

	2017	2016
	£'000	£'000
Amounts due	150	417

### 11. Insurance Contracts and Reinsurance Contracts

	2017			2016		
	Insurance Contract Liabilities	Reinsurance Contract Assets	Net	Insurance Contract Liabilities	Reinsurance Contract Assets	Net
	£000	£000	£000	£000	£000	£000
Claims Outstanding	17,051	17,051	-	5,374	5,374	-
Provision for Unearned Premiums	11,504	11,504	-	5,517	5,517	-
	<b>28,555</b>	<b>28,555</b>	<b>-</b>	<b>10,891</b>	<b>10,891</b>	<b>-</b>

#### (a) Movement in Claims Outstanding

	2017			2016		
	Insurance Contract Liabilities	Reinsurance Contract Assets	Net	Insurance Contract Liabilities	Reinsurance Contract Assets	Net
	£000	£000	£000	£000	£000	£000
Balance at 1 January	5,374	5,374	-	1,367	1,367	-
Movements During the Year	15,766	15,766	-	2,557	2,557	-
Change in Syndicate Participation	(3,555)	(3,555)	-	-	-	-
Claims RITC per 2013	-	-	-	1,006	1,006	-
Impact of Foreign Exchange	(534)	(534)	-	444	444	-
<b>Balance at 31 December</b>	<b>17,051</b>	<b>17,051</b>	<b>-</b>	<b>5,374</b>	<b>5,374</b>	<b>-</b>

## Notes to the Accounts

### at 31 December 2017

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

##### (b) Movement in Unearned Premium

	2017			2016		
	Insurance Contract Liabilities	Reinsurance Contract Assets	Net	Insurance Contract Liabilities	Reinsurance Contract Assets	Net
	£000	£000	£000	£000	£000	£000
Balance at 1 January	5,517	5,517	-	1,908	1,908	-
Premiums Written During the Year	21,426	21,426	-	9,365	9,365	-
Premiums Earned During the Year	(14,835)	(14,835)	-	(6,309)	(6,309)	-
Change in Syndicate Participation	(313)	(313)	-	-	-	-
Impact of Foreign Exchange	(291)	(291)	-	553	553	-
<b>Balance at 31 December</b>	<b>11,504</b>	<b>11,504</b>	<b>-</b>	<b>5,517</b>	<b>5,517</b>	<b>-</b>

#### 12. Deferred Acquisition Costs

	2017	2016
	£'000	£'000
Balance as at 1 January	1,020	689
Changes during the year	1,361	196
Change in Syndicate Participation	(120)	-
Impact of Foreign Exchange	(55)	135
<b>Deferred Acquisition Costs</b>	<b>2,206</b>	<b>1,020</b>

#### 13. Risk Management

##### Principal Risk and Uncertainties

The Syndicate activities expose the business to a number of risks which have the potential to affect the achievement of the business objectives. The Board is responsible for maintaining an appropriate structure for managing these risks and acknowledges that it is not possible to eliminate risk entirely. However, the Board seeks to manage risk in line with risk appetite by maintaining effective systems and controls.

The Syndicate is exposed to risk in the following categories:

##### Insurance Risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

## Notes to the Annual Accounts

at 31 December 2017

### 13. Risk Management (continued)

The risk exposure is mitigated by diversification across a portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Syndicate purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded may be placed on both a proportional and non-proportional basis. The majority of any proportional reinsurance which might be ceded is likely to be quota-share reinsurance which would be taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess of loss reinsurance and is usually designed to mitigate the Syndicate's net exposure to catastrophe losses. Retention limits for the excess of loss reinsurance will vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The Syndicate principally issues the following types of general insurance contracts: Property and Casualty and risks usually cover twelve month's duration.

The Syndicate's most significant risks arise from natural disasters. For longer tail casualty claims that take some years to settle, there is also inflation risk.

Variability in claims and hence profits is a significant risk to the Syndicate. This is mitigated by writing a diverse range of products including diversification by industry sector and geography. The Syndicate has an agreed maximum and normal line size for each underwriting team. It also has a reinsurance strategy and purchasing plan to mitigate the effects of individual large losses and events. The pricing of the business includes the consideration of inflation and other economic factors. Operational risk can also increase the volatility of profits. This risk is mitigated by strict claim handling procedures and frequent investigation of possible fraudulent claims.

The Syndicate has an overarching risk appetite expressed in terms of the Solvency Capital Requirement on an ultimate basis which is not to exceed this figure by more than 15% on an ongoing basis. (This is consistent with the definition of a 'major change' which would require an updated plan to be submitted and approved by Lloyd's). The Syndicate also has a subsidiary risk appetite for natural catastrophe exposure which is primarily to limit exhaustion of the reinsurance programme to be less than a 1 in 200 level on an occurrence basis.

The Syndicate uses commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an un-modelled event are greater than those arising from a modelled event.

#### 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.

#### 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. Performance against plan is monitored on a regular basis, as well as regular review and oversight by the Syndicate's Management Committee and Board of the Managing Agent.

## Notes to the Annual Accounts

### at 31 December 2017

#### 13. Risk Management (continued)

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.

At 31 December 2017	2014	2015	2016	2017	Total
Whole Account Underwriting Year	£000	£000	£000	£000	£000
<b>Gross incurred claims</b>					
At the end of underwriting year	-	-	4,431	13,531	
One year later	-	-	9,874	-	
Two years later	-	-	-	-	
Three years later	-	-	-	-	
<b>Cumulative Gross paid claims</b>	-	-	4,298	2,056	
<b>Gross claims reserve</b>	-	-	<b>5,576</b>	<b>11,475</b>	<b>17,051</b>

Due to the effect of the quota share reinsurance the net claims reserve position is nil in 2017 (2016: nil).

At 31 December 2016	2013 RITC	2014	2015	2016	Total
Whole Account Underwriting Year	£000	£000	£000	£000	£000
<b>Gross incurred claims</b>					
At the end of underwriting year	63	30	-	4,590	
One year later	944	1,604	-	-	
Two years later	1,808	3,192	-	-	
Three years later	1,845	-	-	-	
<b>Cumulative Gross paid claims</b>	839	643	-	2,771	
<b>Gross claims reserve</b>	<b>1,006</b>	<b>2,549</b>	-	<b>1,819</b>	<b>5,374</b>

The Company no longer participates on Syndicate 1991 for the 2014 Year of Account.

#### Credit Risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. This is the risk of loss or of adverse change in the Syndicate and Company's financial position, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which the Syndicate and Company is exposed, in the form of counterparty default risk, spread risk, or market risk concentrations.

Compliance with the policy is monitored and exposures and any breaches are reported initially to the Syndicate Monitoring Committee

Management performs an assessment of creditworthiness of both reinsurers and brokers and updates the reinsurance purchase strategy, while also considering suitable allowance for impairment.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by CMA's 'Broker Vetting & Reinsurance Security Group' (BVRSG) and are subject to regular reviews.

## Notes to the Annual Accounts

### at 31 December 2017

#### 13. Risk Management (continued)

The tables below show the maximum exposure to credit risk for the Company (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position.

At 31 December 2017	Neither past due nor impaired	Past Due	Impaired	Total
	£000	£000	£000	£000
Financial Investments	1,634	-	-	1,634
Cash at bank and in hand	3,092	-	-	3,092
Insurance and other receivables	18,284	3,698	-	21,982
Reinsurance contracts assets	17,051	-	-	17,051
<b>Total Credit Risk</b>	<b>40,061</b>	<b>3,698</b>	<b>-</b>	<b>43,759</b>

At 31 December 2016	Neither past due nor impaired	Past Due	Impaired	Total
	£000	£000	£000	£000
Financial Investments	2,510	-	-	2,510
Cash at bank and in hand	1,051	-	-	1,051
Insurance and other receivables	10,638	-	-	10,638
Reinsurance contracts assets	5,374	-	-	5,374
<b>Total Credit Risk</b>	<b>19,573</b>	<b>-</b>	<b>-</b>	<b>19,573</b>

Assets which are past due but not impaired have been in arrears for less than 3 months from the reporting date.

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Syndicate's rating policy. The attributable risk ratings are assessed and updated regularly.

The Company is exposed to further Credit Risk through the purchase of Quota Share reinsurance. The Board 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.



## Notes to the Annual Accounts

### at 31 December 2017

#### 13. Risk Management (continued)

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

At 31 December 2017	AAA	AA	A	BBB & Below	Unrated	Total
	£000	£000	£000	£000	£000	£000
Financial Investments	355	83	1,071	72	53	1,634
Cash at bank and in hand	-	-	3,092	-	-	3,092
Insurance and other receivables	-	-	-	-	7,909	7,909
Reinsurance contracts assets	-	693	16,197	-	161	17,051
	<b>355</b>	<b>776</b>	<b>20,360</b>	<b>72</b>	<b>8,123</b>	<b>29,686</b>

At 31 December 2016	AAA	AA	A	BBB & Below	Unrated	Total
	£000	£000	£000	£000	£000	£000
Financial Investments	1,157	415	882	50	6	2,510
Cash at bank and in hand	-	25	914	112	-	1,051
Insurance and other receivables	-	-	-	-	4,040	4,040
Reinsurance contracts assets	-	-	5,214	-	160	5,374
	<b>1,157</b>	<b>440</b>	<b>7,010</b>	<b>162</b>	<b>4,206</b>	<b>12,975</b>

#### Reinsurance risk

The Syndicate purchases reinsurance protection to contain exposure to single claims and the aggregation of claims from catastrophic events. The creditworthiness of the reinsurers are regularly reviewed throughout the year.

#### Currency risk

A market risk policy exists that sets out the assessment and determination of what constitutes market risk for the Syndicate. As the Syndicate develops, compliance with the policy will be monitored and any exposures and breaches arising will be reported to the Investment committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is Sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in US Dollars and Euros. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The Syndicate will match its currency position wherever practicable, and so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates. As a result, the Syndicate holds a significant proportion of its assets in foreign currency investments.

## Notes to the Annual Accounts

### at 31 December 2017

#### 13. Risk Management (continued)

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, by reporting currency, as follows:

##### At 31 December 2017:

	GBP	US	Euro	Can	Aud	Other	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Financial investments	447	330	-	857	-	-	1,634
Cash at bank and in hand	-	1,126	1,966	-	-	-	3,092
Insurance and other receivables	3,141	2,578	1,363	677	-	-	7,759
Reinsurance contracts assets (Inc. UPR)	18,474	9,219	591	271	-	-	28,555
Other assets	1,365	514	926	(86)	-	-	2,719
<b>Total assets</b>	<b>23,427</b>	<b>13,767</b>	<b>4,846</b>	<b>1,719</b>	<b>-</b>	<b>-</b>	<b>43,759</b>
Insurance contracts liabilities	8,458	14,729	3,985	1,383	-	-	28,555
Provisions, reinsurance and other payables	10,555	4,723	60	51	-	-	15,389
<b>Total liabilities</b>	<b>19,013</b>	<b>19,452</b>	<b>4,045</b>	<b>1,434</b>	<b>-</b>	<b>-</b>	<b>43,944</b>
<b>Net assets</b>	<b>4,414</b>	<b>(5,685)</b>	<b>801</b>	<b>285</b>	<b>-</b>	<b>-</b>	<b>(185)</b>

##### At 31 December 2016:

	GBP	US	Euro	Can	Aud	Other	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Financial investments	503	318	583	1,078	28	-	2,510
Cash at bank and in hand	355	379	256	25	54	(18)	1,051
Insurance and other receivables	971	2,030	510	111	1	-	3,623
Reinsurance contracts assets (Inc. UPR)	9,147	1,518	213	13	-	-	10,891
Other assets	475	671	293	32	26	1	1,498
<b>Total assets</b>	<b>11,451</b>	<b>4,916</b>	<b>1,855</b>	<b>1,259</b>	<b>109</b>	<b>(17)</b>	<b>19,573</b>
Insurance contracts liabilities	3,614	4,203	2,737	257	71	9	10,891
Provisions, reinsurance and other payables	8,870	167	(191)	3	-	-	8,849
<b>Total liabilities</b>	<b>12,484</b>	<b>4,370</b>	<b>2,546</b>	<b>260</b>	<b>71</b>	<b>9</b>	<b>19,740</b>
<b>Net assets</b>	<b>(1,033)</b>	<b>546</b>	<b>(691)</b>	<b>999</b>	<b>38</b>	<b>(26)</b>	<b>(167)</b>

## Notes to the Annual Accounts

### at 31 December 2017

#### 13. Risk Management (continued)

##### Investment risks

The Syndicate's investment policy is established by the Managing Agent. The Managing Agent will seek to mitigate interest rate risk and foreign exchange risk through its Investment Committee by reviewing the investment performance and associated risks. The Syndicate will also seek to reduce as far as practicably any currency assets/liabilities mismatches that may have arisen.

##### Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

An increase of 50 basis points in interest rates, with all other variables constant, would decrease the valuation of the Syndicate's profit by £24,000. The effect of the quota share reinsurance would have a £nil impact on the result.

An increase of 50 basis points in interest rates, with all other variables constant, would increase the valuation of the Syndicate's profit by £24,000. The effect of the quota share reinsurance would have a £nil impact on the result.

##### 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.

##### Fair value of financial assets

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Managing Agent applies valuation techniques to measure such instruments.

These valuation techniques make maximum use of market observable data; in some cases management estimates as well as observable market inputs are used within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independently of the risk taker. These inputs and outputs are provided to us by our investment managers who derive them through a formal valuation committee.

The table below shows financial investments grouped into the level in the fair value hierarchy into which each fair value measurement is categorised.

## Notes to the Annual Accounts

### at 31 December 2017

#### 13. Risk Management (continued)

##### At 31 December 2017:

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial investments	1,095	539	-	1,634

##### At 31 December 2016:

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial investments	2,032	478	-	2,510

#### Liquidity risk

This is defined as the risk of loss, or inability to realise investments and other assets, in order to settle financial obligations when they fall due. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. To mitigate liquidity risk the Managing Agent will monitor the policy on a regular basis and for changes in the risk environment.

##### At 31 December 2017:

	No Stated Maturity	< 1 year	1-3 years	3-5 years	> 5 years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Claims Outstanding	-	5,428	7,019	2,666	1,938	17,051
Creditors	2,038	5,245	7,775	-	-	15,058
<b>Net assets</b>	<b>2,038</b>	<b>10,673</b>	<b>14,794</b>	<b>2,666</b>	<b>1,938</b>	<b>32,109</b>

##### At 31 December 2016:

	No Stated Maturity	< 1 year	1-3 years	3-5 years	> 5 years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Claims Outstanding	-	1,608	2,601	670	495	5,374
Creditors	2,571	214	5,812	-	-	8,597
<b>Net assets</b>	<b>2,571</b>	<b>1,822</b>	<b>8,413</b>	<b>670</b>	<b>495</b>	<b>13,971</b>

#### Regulatory risk

This is the risk that the Managing Agency fails to meet the regulatory requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business.

## Notes to the Annual Accounts

### at 31 December 2017

#### 13. Risk Management (continued)

The Managing Agency receives frequent regulatory and compliance risk updates from management. In addition, there is an Audit and Risk Committee that reviews and monitors these risks on a quarterly basis.

##### Operational risk

The risk of loss arising from inadequate or failed processes, people, and systems or from external events impacting the Syndicate's ability to operate.

#### 14. Share Capital

	2017	2016
	£	£
Authorised, Issued and Fully Paid:		
1 Ordinary Share of £1	1	1

#### 15. 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:

	2017		2016	
	QIC Capital LLC	Qatar Reinsurance Company LLC	QIC Capital LLC	Qatar Reinsurance Company LLC
	£'000	£'000	£'000	£'000
Expenses Re-Charged	-	(54)	-	(60)
100% Reinsurance Quota Share Agreement	-	(1,165)	-	(3,063)
Transactions in the Period	-	(1,219)	-	(3,123)
<b>Balance at Year End</b>	<b>(42)</b>	<b>(4,880)</b>	<b>(42)</b>	<b>(3,661)</b>

The Ultimate Parent Company is Qatar Insurance Company SAQ, who have provided a parental guarantee to the Company to 30<sup>th</sup> November 2019.

#### 16. 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 2017**

#### **17. Funds at Lloyd's**

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 the Syndicates' 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. The Ultimate Parent Company has placed FAL on behalf of the Company by way of a Letter of Credit, at Lloyd's of £27.3m (2016: £27.3m).

#### **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. Events after the reporting period**

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