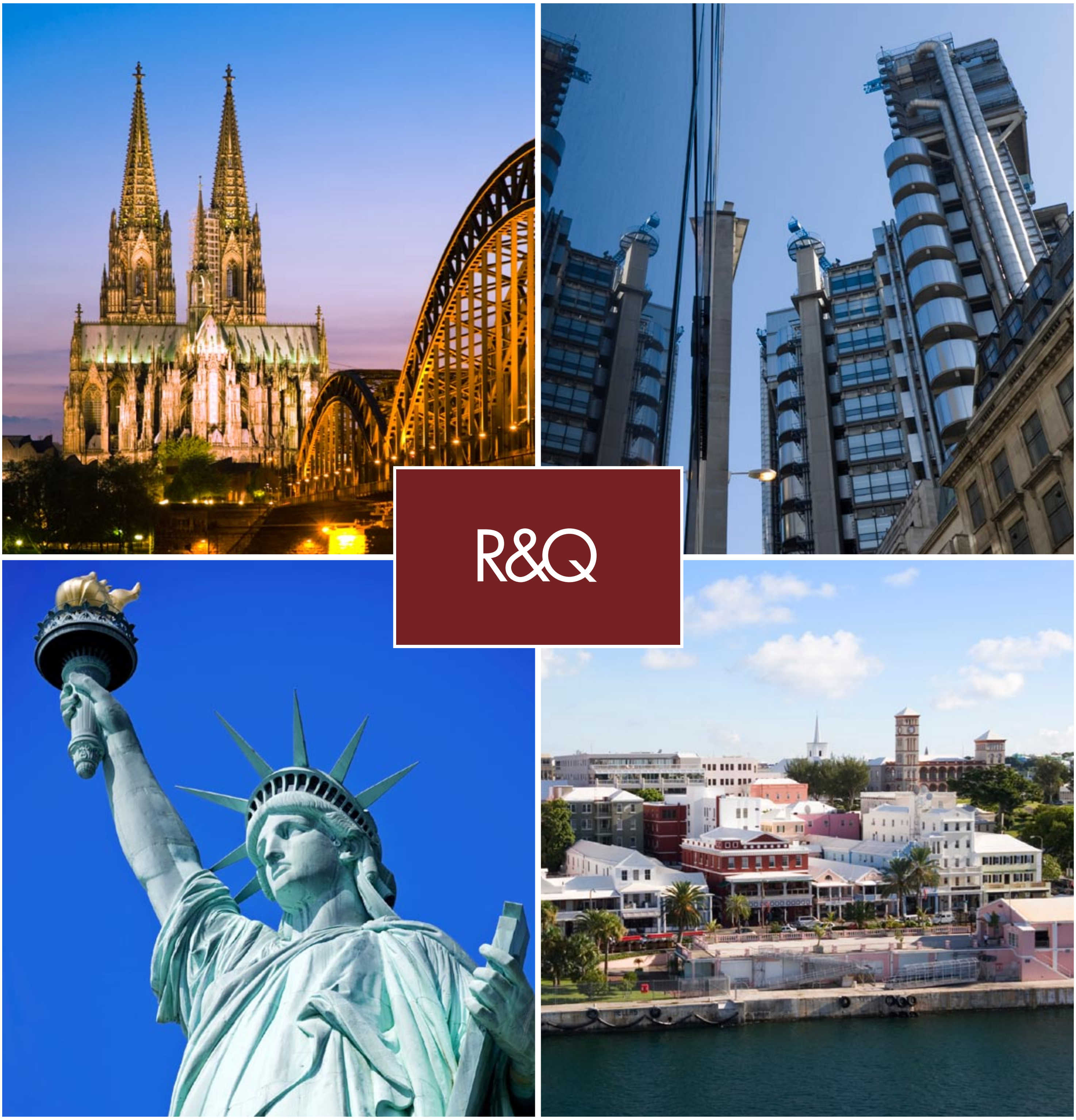
Annual Report and Financial Statements

Randall & Quilter Investment Holdings plc

31 December 2008



R&Q

Company registration number 03671097

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For the year ended 31 December 2008

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Financial Statements

For the year ended 31 December 2008

Directors and Advisers

Directors from left to right and back to front

M G Smith, K P McNamara, J M P Welman
K E Randall, A K Quilter

Secretary

M L Glover

Registered Office

9-13 Fenchurch Buildings
London
EC3M 5HR

Bankers

National Westminster Bank plc
City of London Office
PO Box 12258
1 Princes Street
London
EC2R 8PA

Auditors

Littlejohn LLP
1 Westferry Circus
Canary Wharf
London
E14 4HD

Registered Number

03671097

Highlights and Summary of Results

For the year ended 31 December 2008

Highlights

Profit before tax of £8.8m (2007: £7.0m)

Net assets up 8% to £80.9m (2007: £74.7m)

Final dividend of 2.2p payable in 2009, bringing total to 7.0p for 2008

Acquisition of Quest and KMS groups of companies, enhancing reach and scale of service division

First Lloyd's Reinsurance to Close with management contract for Syndicate 3330 in 2009

Strategic partnership with GLOBAL Re to assist access to European acquisition opportunities

English court judgement in favour of Cavell USA

£11m capital release from Chevanstell

Undiscounted net asset value per share of 144.6p at 31 December 2008 (2007: 133.6p)

Financial Results 2008

	2008	2007
Group Results	**£'000**	**£'000**
Operating profit	8,948	8,720
Operating profit (including impairment)	8,847	8,720
Profit on ordinary activities before income taxes	8,763	7,025
Profit after tax	6,017	8,053
Earnings per share (basic) *	10.8p	29.5p
Total net assets	80,858	74,696

* 2007 earnings per share inflated due to timing of AIM listing on 21 December 2007.

Chairman's Statement and Business Review

For the year ended 31 December 2008

I am pleased to report that the Group has achieved a profit for 2008 of £8.8m before tax (2007: £7.0m).

Total recognised income after tax, including exchange gains on consolidation, was £10.0m (2007: £7.7m). This result was achieved despite incurring costs of £1.4m in relation to the Seaton and Stonewall dispute.

Each of our three operating divisions traded profitably during the year, achieving operating profits of £12.7m in aggregate (2007: £10.1m).

The Group's net assets at year-end increased by 8% to £80.9m from £74.7m in 2007.

The result for the year was achieved in the face of unprecedented turbulence in global financial markets and after significant expenditure on the three major legal disputes which are discussed below. The result proves the strength of our business model, which combines the relatively predictable cash flows from our Insurance Services Division ("ISD") with the net asset value enhancement and cash extraction from the Insurance Company Division ("ICD").

A final dividend of 2.2 pence per share is proposed, bringing the total dividend in respect of 2008 to 7.0 pence per share. The Company aims to pay a progressive dividend, rising annually at a rate which reflects the medium term prospects for the Company's earnings. The Company's high level of retained earnings will allow dividends to continue growing even if there are short term fluctuations in profits. The dividend policy will be reviewed if the Board considers that the Company can generate exceptional returns from investment opportunities that require the retention of resources within the business, or if there is a significant deterioration in outlook for the Company's medium term profitability. In future, the Company expects to pay approximately 40% of the expected annual dividend following the interim results with the balance distributed following the announcement of the final results.

During 2008 we responded to a number of invitations to bid for US and UK domiciled insurers in run-off. Many of these transactions, however, were completed at prices which did not fit our investment criteria. As a result, our focus in 2008 has been on developing new markets and acquiring "bolt-on" service companies which complement and strengthen our existing service offering. I am pleased to report the following activity during 2008:-

- we agreed a strategic partnership with GLOBAL Re for the purchase and management of non-life reinsurers in mainland Europe.
- we acquired the KMS Group of companies in London.
- we acquired the Quest Group of companies in Bermuda.

I deal in more detail with these developments in the Business Review below.

Business Review

The Group comprises three operating divisions; the Insurance Company Division ("ICD"), the Insurance Services Division ("ISD") and the Liquidity Management Division ("LMD").

Insurance Company Division

This division acquires solvent insurance companies in run-off, typically at a discount to net asset value and seeks to manage liabilities to increase surplus capital and release these surpluses once liabilities have been reduced and regulatory approval has been obtained. A good example of achievement of this goal was the release of £11m surplus capital from Chevanstell to the parent company with Financial Services Authority ("FSA") approval during 2008.

Chairman's Statement and Business Review

For the year ended 31 December 2008

Insurance Company Division (continued)
At 31 December 2008, the portfolio of acquired insurance companies under ownership was as follows:-

	Vendor	Country of Incorporation	Acquisition Date
Ludgate Insurance Company Limited ("Ludgate") *	MMI/St Paul	UK	4 August 1992
La Metropole SA ("La Met")	Travelers Group	Belgium	29 November 2000
Transport Insurance Company ("Transport")	American Financial Group	USA	30 November 2004
R&Q Reinsurance Company (UK) Limited ("R&Q Re (UK)")	Ace Group	UK	3 July 2006
R&Q Reinsurance Company (Belgium) ("R&Q Re (Belgium)")	Ace Group	Belgium	3 July 2006
R&Q Reinsurance Company ("R&Q Re (US)")	Ace Group	USA	3 July 2006
Chevanstell Limited ("Chevanstell")	Trygg Forsikring	UK	10 November 2006
Arran Insurance Company Limited ("Arran")	ExxonMobil Group	UK	21 December 2006

* Ludgate was de-authorised as an insurance company by the FSA on 10 July 2007.

At 31 December 2008 the total net assets of the owned insurance companies was £64.4m after adjustments for group accounting policies.

Investment Policy and Returns

The investment return on funds held by our insurance subsidiaries is a key component of the performance of the ICD and despite the extraordinary upheaval in global investment markets, I am pleased to report that the overall investment return for the year was 4.1% generating £11.2m (2007: 5.7% generating £15.8m).

The Group outsources investment management responsibilities to two fund managers:-

BNY Mellon Wealth Management	-	R&Q Re (US)
Epic Investment Partners Limited ("EPIC")	-	R&Q Re (UK)
	-	R&Q Re (Belgium)
	-	Arran
	-	Chevanstell
	-	Transport

Each of the owned insurance companies invests its funds within guidelines established by its Board of Directors, having regard to applicable insurance regulations and, in the case of R&Q Re (US), the contractual obligations imposed by the surplus maintenance insurance agreement provided by the Ace Group when R&Q Re (US) was acquired.

The insurance company assets are invested in fixed interest government and agency securities, high grade corporate bonds, cash and a small percentage of equities. In addition, insurance liabilities are broadly matched in original currencies.

Chairman's Statement and Business Review

For the year ended 31 December 2008

Each fund manager is provided with investment guidelines which allow them to trade from day to day having regard to:-

- our investment objectives, which are aimed at optimising return whilst maintaining the principal value of the investments held.
- our quality criteria, which seek to ensure that funds are invested in high quality government, agency and corporate bonds as well as cash and a small percentage of equities.
- our concentration limits to prevent over exposure to any particular sector or counterparty.
- our average duration which is relatively short in order to provide funds to pay claims as we manage down liabilities through claims settlements and commutations.

The Board of each owned insurance company monitors the performance of the investment managers and their compliance with the investment guidelines.

Going forward, the turmoil in global financial markets and the savage reduction in market returns are obviously a cause for concern in maintaining reasonable returns. In many instances, long-held investment beliefs about security and returns have been dramatically overturned as previously unthinkable events have unfolded.

We continue to work very closely with our investment managers to develop strategies and portfolios to underpin investment returns while maintaining a cautious degree of security, until we see a return to a more stable and "normal" investment environment.

Within the UK domiciled insurance portfolios the Group has invested in subordinated bank debt known as step-up perpetuals. The total market value of these assets as at 31 December 2008 was £9.74m. In 2008 the market values of these investments suffered as a general result of the ongoing debt crisis, but at the beginning of 2009 they experienced a marked decline as a result of investor concerns over possible major bank defaults or nationalisations, particularly in relation to the Royal Bank of Scotland and HBOS (now part of Lloyds Banking Group).

Within the investment return for the year ended 31 December 2008 the Group incurred an unrealised loss of £1.86m in relation to these investments. Further unrealised losses arose during the first quarter of 2009 amounting to £3.77m.

The Group's current intention is to hold these investments until maturity.

Reserving

The Group, unlike some of its major competitors, holds insurance reserves undiscounted, that is we do not reduce the carrying value of future insurance claims to reflect investment returns on funds held to pay those claims. Our cautious accounting approach appears vindicated in light of falling investment returns. Our projections for the investment income of the insurance companies continue to comfortably exceed projected run-off costs.

Generally our claims reserves have held up well during 2008. External actuaries have confirmed that our held reserves are within their range of reasonable estimate and there have been reserve releases for some of our insurance subsidiaries during the year amounting to £8.3m in aggregate.

Our internal actuarial team continues to work closely with our external actuaries to further enhance and refine our knowledge of the profiles of our insurance company liabilities. I remain confident that such further analysis will highlight areas where reserves can be appropriately reduced to the benefit of future years.

The key issues in the main insurance company subsidiaries during the year were as follows:-

R&Q Reinsurance Company (UK) Limited

As previously reported, the major issue facing R&Q Re (UK) is the dispute with Equitas involving more than 4,000 claims. These claims have been the subject of many arbitration notices served by Equitas and, more recently, attention has been focussed on a more limited number of claims in respect of which litigation has commenced. The trial is scheduled to commence in June this year. The Board of R&Q Re (UK) continues to believe that the majority of claims by value are not payable to Equitas following prior Court of Appeal decisions and market practice and this view is supported by positive legal opinion. It is a regrettable feature of this litigation that Equitas has yet to quantify the total amounts claimed. For this reason it is not possible at this stage to quantify the financial impact on the Group if Equitas were to prevail.

We continue dialogue with cedants and reinsurers with a view to achieving commutations where economically justified.

R&Q Reinsurance Company (US)

Having spent much of 2007 resolving litigation inherited at the time of the acquisition of this company, our focus in 2008 has been a detailed claims analysis and the collection of the company's ceded reinsurance recoveries. We have made good progress on both fronts. Total recoverables reduced by over 70% during the year as a result of the $34.5m collected. This has improved the cash position and allowed us to reduce our provision for bad and doubtful debt. We keep a close watch on all of our key reinsurance relationships, but especially the top 10 reinsurers which represent more than 80% of the company's reinsurance asset.

Chairman's Statement and Business Review

For the year ended 31 December 2008

Insurance Company Division (continued)

R&Q Reinsurance Company (US) (continued)

Our actuarial team is making good progress with the construction of a system to model inwards claims exposures which will enhance our confidence in setting claims reserves and enable us to price commutation deals with greater certainty.

Transport Insurance Company

Transport continues to aggressively collect its reinsurance receivables through a combination of collection activities, offset, arbitration and litigation. By far the largest outstanding balance of $12.3m relates to the Aerojet case being litigated in California. Transport sued two of its reinsurers, Seaton Insurance Company and TIG, under reinsurance agreements covering an environmental claim settled in 1999. Mid-year the case went to trial and the jury returned a verdict in favour of the reinsurers based upon a procedural ruling. Transport has appealed this decision alleging, inter alia, judicial error in the jury instructions. Transport's brief has been submitted to the appeal court and a hearing may be possible before the end of 2009. If our appeal is successful, the case will then be re-heard before another jury on the merits. The full impact of the June 2008 jury decision has been recognised in the Group accounts at 31 December 2008 so that any success on appeal will be for the benefit of future results.

Chevanstell Limited

During the first half of 2008, £11m of surplus capital was released, with FSA approval, from the company. The release was achieved by a share buy-back process and represents a recovery of more than 85% of total acquisition costs within two years of purchase. Good progress is being made with this run-off and there has been favourable claims development in most classes of business, which bodes well for potential further releases of capital.

Remaining Insurance Companies

Our other owned insurance companies continue to run-off broadly in line with their run-off plans.

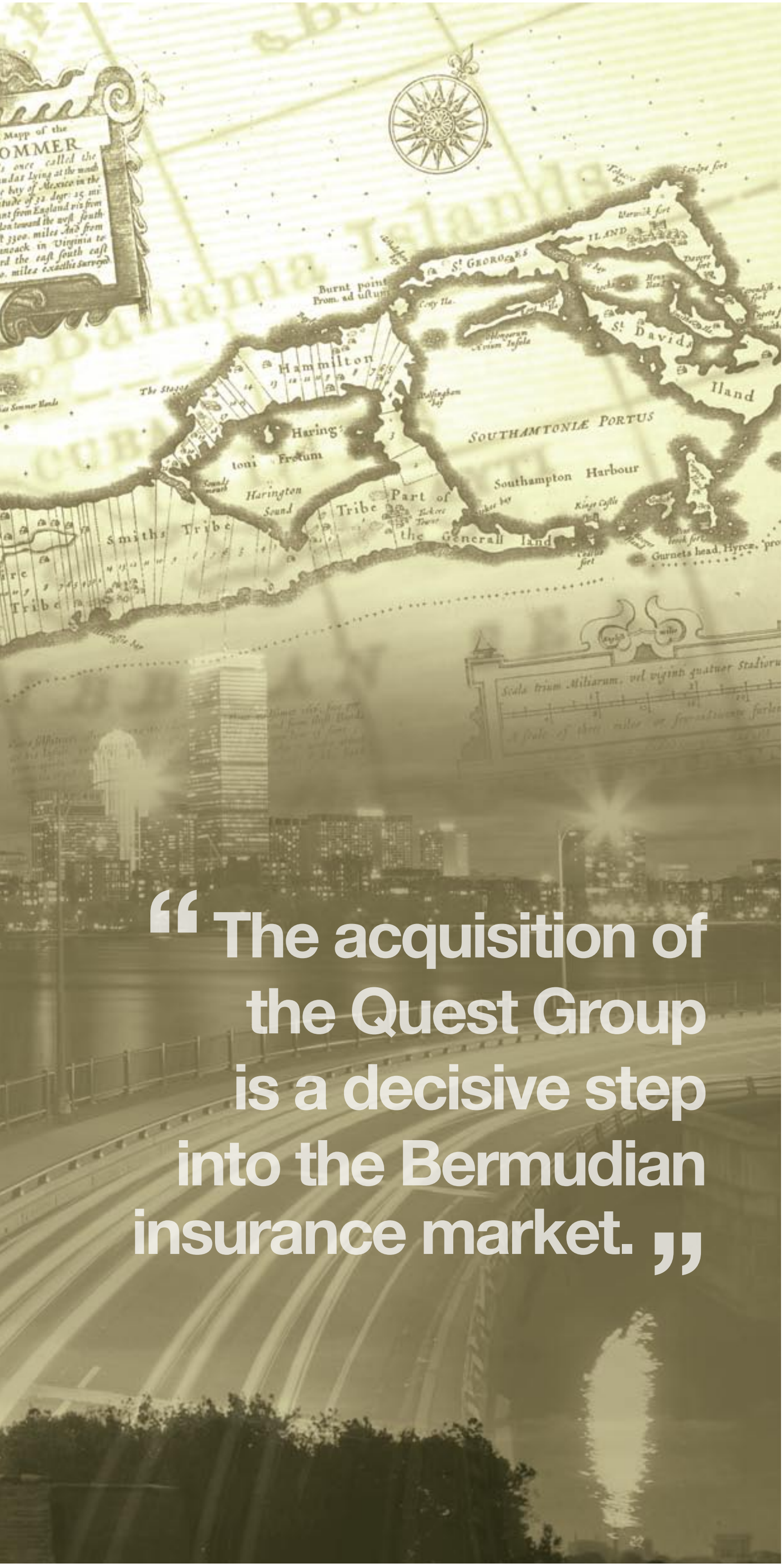
Insurance Services Division

I am pleased to report that the division recorded an operating profit of £5.2m (2007: £4.9m).

ISD provides services to both Group owned insurance companies and third party insurers. A material proportion of ISD income is secured by long-term contracts, is non-cyclical and underpins the Group's cash flows, enabling the payment of regular dividends.

Chairman's Statement and Business Review

For the year ended 31 December 2008



We strive to improve the depth and breadth of our service offering with the aim of creating recognised centres of excellence and world class service provision. In that context, I am delighted to report that the Group retained the title of Legacy Management Services Provider of the Year 2008 (first won in 2007) awarded by the Association of Run-Off Companies. Furthermore the Group was awarded the title of Legacy Company of the Year 2008 by the same organisation. Recognition by our peers in our industry demonstrates our commitment to maintaining service standards.

I am delighted to report the following acquisitions:-

- KMS Group of companies: The KMS team came to prominence as successful managers of the high profile "Weavers" run-off portfolio. R&Q and KMS have worked together on a number of projects in the past and this acquisition complements the existing service capabilities of ISD. The acquisition has brought further skills to the Group to bolster its ability to administer liquidated insurance estates and to manage schemes of arrangement. The integration of KMS has further strengthened the senior management team within ISD.
- Quest Group of Companies: The Quest Group is ranked fourth in Bermuda in terms of number of companies under management and is the second largest of those that are independent. It also ranked in the top ten captive management companies worldwide by Business Insurance Magazine.

Following on from our approval from the Bermuda Monetary Authority for the registration of a Bermudian reinsurance subsidiary in 2007, the acquisition of the Quest Group is a decisive step forward for us into the Bermudian insurance market. The acquisition provides the Group with a great opportunity to diversify its service provision both geographically and functionally and provides excellent opportunities for growth and staff development. The acquisition now provides a service platform in each of the key insurance markets of Bermuda, US and UK which will also enable the Group to source run-off and debt acquisition opportunities and provide risk capital solutions to clients who are seeking to restructure their balance sheets across one or more of these markets.

In addition to these acquisitions, I am pleased to report a further new development that has arisen in the early part of 2009 when the open 2001 and 2002 years of account of Advent Syndicate 2 at Lloyd's were "closed" by Reinsurance to Close into a new Syndicate 3330, the capital for which is wholly provided by the Advent Group. The managing agent for the new Syndicate will be our existing Group owned managing agency, Cavell Managing Agency Limited ("CMAL"). CMAL in turn has outsourced the day-to-day management of the Syndicate to ISD.

Chairman's Statement and Business Review
For the year ended 31 December 2008

Insurance Services Division (continued)

2008 has seen satisfactory development of the replacement claims broking and expert fee collection services, both trading under the RQBS banner, the commencement of which I reported last year.

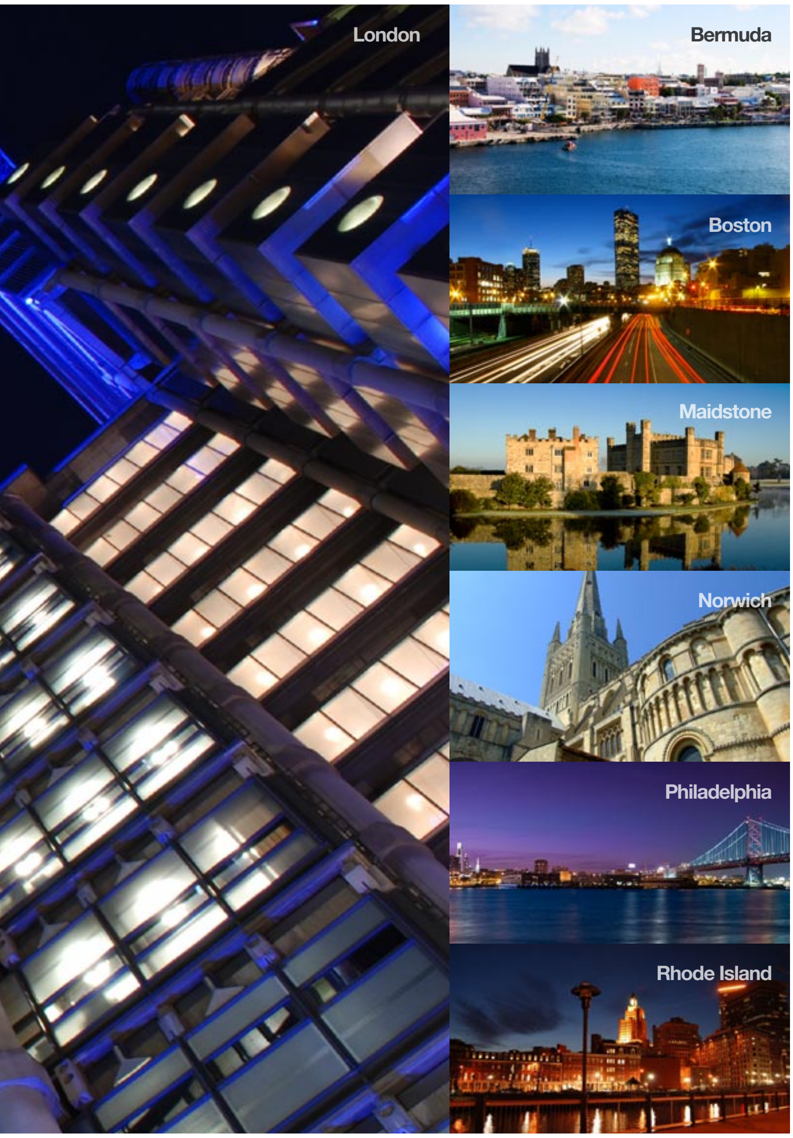
Broker Replacement Services

The focus for claims broking replacement services during 2008 has been the development of the service for Group subsidiaries rather than services to third parties. As a result, RQBS has taken over the broking of reinsurance recoveries for R&Q Re (UK), Chevanstell and Arran. Opportunities to develop third party services will be explored during the forthcoming period. In the current financial climate, where liquidity management is increasingly significant, this activity takes on even more significance. The recruitment of Colin Johnson and Mike Palmer, formerly of Helix UK Limited, will also boost our market profile.

Expert Fee Collection Services

In response to a perceived demand from "expert" service providers (such as lawyers and loss adjusters) to the London insurance market, we identified a niche to assist in the efficient recovery of fees from the London subscription market. Our expert fee collection service has been active

Chairman's Statement and Business Review
For the year ended 31 December 2008



since July 2008 and to date we have collected more than $2.8m on behalf of our 19 contracted clients.
This is encouraging progress in a market which, we believe, has significant growth potential.

Liquidity Management Division

The subsidiary Reinsurance Finance Management Limited ("RFML") made progress in 2008 with further acquisitions of reinsurance debt and the provision of reinsurance collection and commutation services for third party clients.

The financial climate of 2008 and 2009 has warranted a focused approach to provide liquidity to global creditors of insolvent insurance estates. Some of these creditors are now becoming more willing sellers as their need for immediate and certain liquidity takes preference over an uncertain, slow yielding stream of future dividends. Consequently, RFML continues to acquire the agreed claims due to such creditors. RFML also purchased the residual debt of a Middle Eastern reinsurance insolvency in 2008. Such non-recourse acquisitions continue to yield very satisfactory returns.

An increase in RFML's resource base in 2008 has led to the specialised expertise in Continental European and Middle Eastern markets. Therefore, RFML has begun to explore debt acquisition opportunities in these territories and service contracts have been agreed with several European clients. RFML's presence in the US was also developed further in 2008 and it is now formally authorised to tender for collection opportunities arising from insurance liquidations in various jurisdictions including New York and California.

Litigation

Cavell USA acted as run-off managers of US insurers Seaton and Stonewall from 1999/2000 until early 2006.

In early 2006 allegations of mis-management were raised by the owners of Seaton and Stonewall, Dukes Place. Although these allegations were wholly misconceived, a settlement agreement was subsequently entered with Dukes Place. Cavell USA agreed to withdraw from managing run-offs in exchange for a full release of all claims, excluding claims for fraud. The settlement specified the English court would have exclusive jurisdiction over all disputes.

Despite the settlement, Seaton and Stonewall issued New York proceedings against Cavell USA and me in August 2007.

The New York court dismissed these proceedings in May 2008, in favour of the English court taking jurisdiction.

Cavell USA and I also issued proceedings in the English Commercial Court seeking a declaration confirming the English court's jurisdiction and damages.

After a trial of preliminary issues in October 2008, the English Commercial Court issued its judgment in December 2008. It found that Seaton and Stonewall had breached the settlement agreement by filing the New York proceedings. The Commercial Court agreed to allow Seaton and Stonewall to appeal the Court's definition of the term "fraud" under English law, but refused permission to appeal on the question of whether the English court has jurisdiction. Seaton and Stonewall are now seeking permission from the Court of Appeal directly to appeal the finding on jurisdiction.

Chairman's Statement and Business Review
For the year ended 31 December 2008

Litigation (continued)

Seaton and Stonewall were ordered to and have now made "on account" payments of US$1,000,000 and £150,000 into court as security for the damages suffered. They were also ordered to and have now paid legal costs of £275,000 and US$121,000 directly to the Group with the balance to be determined once any appeals have been heard.

The English Commercial Court proceedings continue in respect of calculating the full amount of damages caused by Seaton and Stonewall.

As a matter of commercial prudence no credit has been taken in the financial statements at 31 December 2008. The benefit of all recoveries, which are likely to be substantial, will flow to future years.

Staffing

During 2008, I was pleased to welcome John O'Neill as Chief Operating Officer of our UK Insurance Services Division, Jo Morcom as Human Resources Manager, Mark Langridge, George Clarke, Richard Finney and Paul Corver with the KMS acquisition and Nick Dove, Nick Frost and Larry Turnbull with Quest. In addition, Mike Palmer and Colin Johnson have recently joined the Group to bolster our marketing effort and broker file replacement services respectively. I look forward to working with these new members of our senior management team in moving our business forward. Jerry McArthur who was recruited as CEO of our US and Bermuda operations in the year has recently left the Group.

As a Group, we will continue to seek high quality individuals to develop existing and new business areas. Whilst Alan Quilter and I continue to enjoy the cut and thrust of the business we recognise the importance of succession planning and we are working work closely with the Non Executive Directors in this regard.

During the past year, the staff have continued to make valuable contributions to the success of the Group and I wish to express my gratitude for this. It is inevitable in the current economic environment that staff costs have to be kept under very tight control. This in no way reflects on staff performance but merely the difficult and uncertain times in which we live. We will continue to award staff and management bonuses reflecting the Group's financial performance.

Market and Outlook

During 2008 inflated prices were paid by some investors for run-off books of business in the UK and the US. I believe the "high water" mark was reached at year-end when Unionamerica Insurance Company Limited was sold at a premium to Net Asset Value. We have refused to engage in this bidding frenzy.

Ironically, the global economic and financial turbulence may result in opportunities for the Group. My assessment of the current position is as follows:-

Impact of market turbulence on potential buyers of run-off portfolios:-

- Investors who specialise in distressed markets have many other opportunities as a result of the credit crunch.
- Some investors have, themselves, suffered losses in the capital markets - witness the demise of many hedge funds – and there is less "hot money" looking for deals.
- Banks have less money to lend.
- Run off portfolios will earn less investment income in the current low interest environment, which may adversely effect those companies who discount reserves.
- There is uncertainty over the extent of financial institution ("FI") claims in the pipeline and whether these are adequately reserved in legacy portfolios.

Factors encouraging potential sellers of run-off portfolios:-

- Capital strain from the need to increase sterling balance sheets to maintain market share of US dollar denominated business, financial losses incurred by insurance groups as a result of the 2008 hurricanes, other claims activity and investment losses.
- Uncertainty over the cost of FI claims for bad advice and alleged fraudulent practices such as Madoff and Stanford.

Chairman's Statement and Business Review
For the year ended 31 December 2008

My conclusions are that the credit crunch will undoubtedly concentrate the minds of non-life insurers on the disposal of discontinued business in order to focus capital into their core activities. At the same time, the reduced availability of credit is likely to bring a dampening effect on the pricing expectations of those organisations making disposals.

Our multi-currency revolving credit facility with the Royal Bank of Scotland and our access to capital markets with our AIM listed status, leave us in a favourable position to address opportunities that may arise.

To date, the Group focus for acquisitions of run-off books has been in the UK and the US. While we continue to believe that substantial opportunities will arise in these markets, the relative lack of activity by European insurers in this area is likely to change as the adverse financial impact of holding discontinued business on Balance Sheets is more fully recognised. There are, of course, cultural, operational and language barriers to moving into the European market and I am therefore delighted to report the commencement during 2008 of a strategic partnership with GLOBAL Re, a group which have established service capabilities within Europe and under the terms of the partnership, GLOBAL Re will actively seek our European acquisition opportunities, assist in the acquisition process and manage the run-off companies acquired. I look forward to reporting developments in this partnership in later reports.

The acquisitions of the KMS and Quest groups in the year are evidence of our desire to develop the breadth and quality of our service offering. There remains a proliferation of service providers and we are in preliminary discussions with a view to acquiring a number of other service providers which will further complement and extend our activities.

Although the development of RFML in terms of the acquisition of reinsurance debt has not been as rapid as hoped, the collection of reinsurance receivables in the current financial climate remains a critical necessity within the insurance industry. We continue to believe that the current environment will provide material opportunities for the development of this business.

In summary, I expect to see further growth in our insurance servicing operations. I also expect that we will return to the market for acquisitions of run-off portfolios when common sense returns and prices come down to meet our investment criteria. We have a good pipeline of acquisition opportunities for review and our strategic partnership with GLOBAL Re has bolstered our potential penetration into mainland Europe. Our greatest challenge is likely to be investment management where, in common with the rest of the financial community, we need to develop strategies and portfolios to maintain the investment returns within our owned insurance subsidiaries.

Overall, the business is in good shape and I am very optimistic about the Group’s long-term prospects.

K E Randall
Chairman and Chief Executive Officer

5 May 2009

Report of the Directors
For the year ended 31 December 2008

The Directors present their report together with the audited Financial Statements of the Company and its subsidiaries for the year ended 31 December 2008.

Principal Activities

The Company is a holding and investment company.

Group companies carry on business in the UK, Europe, United States and Bermuda as owners and managers of insurance companies in run-off, as purchasers of reinsurance receivables, as captive managers and as consultants for the insurance market.

Results and Dividends

The results for the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 18.

The Directors declared and paid dividends in the year of 4.8 pence per share on the ordinary shares amounting to £2,683,824 (2007: £nil). A final dividend for 2008 of 2.2 pence per share has been proposed. The Company paid a dividend of £nil (2007: £1,400,000) in the year on the Preference C Shares, which have now been redeemed.

Future dividend intentions are disclosed in the Chairman's Statement and Business Review on page 3.

Directors

The present Directors are shown on page 1.

Directors' Interests in Shares

As at 31 December 2008, the following Directors held shares as below. The total shares in issue amounted to 55,913,000.

K E Randall	21,804,000
A K Quilter	4,865,500
K P McNamara	28,000

Business Review

An overview of the Company's business and review of the activities of the Group in the year are contained in the Chairman's Statement and Business Review on pages 3 – 11.

Risk Management – Group

Risk Management

The Directors have 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.

The Directors recognise that the acquired insurance companies have different risk profiles from other members of the Group. This report separately sets out the Directors' approach to the strategic management of risks within the Group as a whole, as well as the responsibilities and the approach to the management of risk within the insurance companies and the service companies.

Detailed analysis of risk management is included at Note 4 to the Financial Statements.

Regulatory Risk

A number of the companies in the Group are regulated by the FSA. A number of overseas subsidiaries are regulated in the countries in which they operate. Failure to comply with applicable regulations could result in a variety of sanctions. The Directors are responsible for ensuring that best practice is applied to a standard which ensures regulatory compliance.

Loss of Key Staff

The operations of the Group are reliant on key staff. The Directors believe that its Human Resources policies are appropriate to recruit and retain such staff.

Environmental Matters

Whilst the Directors do not consider that the business of an insurance group has a large adverse impact upon the environment, the Directors of the subsidiary companies are encouraged to have regard for their environmental impact.

Risk Management – Insurance Companies

The activities of the Group's insurance companies expose each of them to financial and non financial risks.

As reported in the principal accounting policies (Note 2) the Company and its other subsidiaries bear no financial responsibility for any liabilities or obligations of the insurance companies. Should any of the insurance companies cease to be able to continue as a going concern any loss to the Company and its other subsidiaries is restricted to the book value of their investment in that insurance company and any balances due by it.

Although the Directors strategically manage the risks within the Group, it is the responsibility of the Directors of the insurance companies to adhere to the Group's ethos in

Report of the Directors
For the year ended 31 December 2008

managing their company's exposure to these risks and, where possible, introduce controls and procedures that mitigate the effects of the exposure to risk.

Insurance Risk

The very nature of insurance business is that insurers are exposed to the possibility that claims will arise on 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 insurance risks which affect the insurance companies are:-

- Reinsurance risk – the risk that the reinsurers of the insurance companies will dispute the coverage of losses.
- Claims risk – a series of claims in respect of a latent liability that the insurance industry is not currently aware of.
- Legal risk – changes in statute or legal precedent.
- Reserving risk – the risk that the reserves established by the companies prove to be inadequate.

Credit Risk on Receivables

Reinsurance recoverable is evaluated each quarter as to credit risk and existing bad debt provisions are evaluated as to adequacy.

Currency Risk

The insurance companies are exposed to currency risk in respect of liabilities, generated through regular trading activity, denominated in currencies other than Sterling. The most significant currencies to which the companies are exposed are the US Dollar and the Euro. Group policy requires that the Directors seek to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The cash position of each of the insurance companies is monitored on a regular basis to ensure that sufficient funds are available to meet liabilities as they fall due. Funds required to meet immediate and short term needs are invested in short term deposits. Funds in excess of those required to meet short term needs are managed by external fund managers. The investment performance of the fund managers is closely monitored throughout the year by the Directors of each insurance company and the investment committee.

Interest Rate Risk

The insurance companies' main exposure to fluctuation in interest rates arises from the effect that this may have on the valuation of funds invested in bonds. In order to mitigate this risk, the Directors, advised by external investment managers, monitor the economic situation to seek to anticipate any further interest rate movement and to take appropriate action to mitigate the impact on the value of investments held.

Risk Management – Service Companies

The activities of the Group's service companies expose each of them to financial and non financial risks.

Although the Directors strategically manage the risks within the Group, it is the responsibility of the Directors of the service companies to adhere to the Group's ethos in managing their company's exposure to these risks and, where possible, introduce controls and procedures that mitigate the effects of the exposure to risk.

Dependence on Clients

The service companies derive most income from management contracts, which vary in length but most are for five years. As at the Balance Sheet date almost all of the major contracts had in excess of three years to run.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The billing arrangements of the major management contracts are such that funds are usually received in advance, therefore mitigating liquidity risk for the companies. The cash position of each of the service companies is monitored on a regular basis to ensure that sufficient funds are available to meet liabilities as they fall due.

Share Capital

Details of the changes in the Company's share capital structure, rights and obligations attaching to, and any restrictions on the transfer or voting rights of the Company's shares are given in Note 24 to the financial statements.

Charitable Donations

During the year the Group contributed £2,575 (2007: £3,621) for charitable purposes.

Employee Involvement

Review meetings are held with employees to discuss the financial position and prospects of the Group. Opportunity is given at these meetings for senior executives to be questioned about matters which concern the employees.

Report of the Directors
For the year ended 31 December 2008

Employment of Disabled Persons

The Company and its subsidiaries have continued their policy of offering equal rights to employment training, career development and promotion to all their employees including disabled employees.

Creditor Payment Policy

It is the Group's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

Disclosure of information to Auditors

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are individually aware:-

- there is no relevant audit information of which the Group's auditors are unaware; and
- each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

Our independent auditors, Littlejohn, have transferred their business to Littlejohn LLP, a limited liability partnership. In accordance with section 26(5) of the Companies Act 1989, the Directors have consented to the extension of the audit appointment of Littlejohn to its successor firm, Littlejohn LLP.

Littlejohn LLP has signified its willingness to continue in office as auditors and a resolution will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Signed by

M L Glover

Company Secretary

5 May 2009

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards.

The Group Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year.

The Parent Company Financial Statements are required by law to give a true and fair view of the state of the affairs of the Parent Company.

In preparing these 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;
- for the Group Financial Statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements;
- for the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group and Parent Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Report of the Directors that complies with that law and those regulations.

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 the Financial Statements may differ from legislation in other jurisdictions.

Independent Auditors' Report
to the shareholders of Randall & Quilter Investment Holdings plc

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Randall & Quilter Investment Holdings plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and IFRSs as adopted by the European Union, and for preparing the Parent Company Financial Statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Report of the Directors is consistent with the Financial Statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises only the Highlights and Summary of Results, the Chairman's Statement and Business Review and the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Independent Auditors' Report
to the shareholders of Randall & Quilter Investment Holdings plc

Opinion

In our opinion:-

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group and parent Company Financial Statements have been properly prepared in accordance with the Companies Act 1985;
- the Parent Company Financial Statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2008;
- the information given in the Report of the Directors is consistent with the Financial Statements.

Emphasis of matter - significant uncertainty in relation to technical provisions

In forming our opinion we have considered the adequacy of the disclosures made in Notes 2 and 3 to the Financial Statements. Significant uncertainty arises in the quantification of technical provisions because of the long tail nature of the business underwritten by the Group's insurance company subsidiaries in run-off. If further information becomes available to the Directors of those companies which gives rise to material additional liabilities, the going concern basis might no longer be appropriate for those companies and adjustments would need to be made to reduce the value of their assets to their realisable amount and to provide for any further liabilities which might arise. Our opinion is not qualified in this respect.

Littlejohn LLP

Littlejohn LLP

Chartered Accountants
and Registered Auditors
5 May 2009

1 Westferry Circus
Canary Wharf
London
E14 4HD

Consolidated Income Statement
For the year ended 31 December 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Gross premiums written		642		1,460	
Reinsurers' share of gross premiums		284		35	
Earned premium net of reinsurance			926		1,495
Net investment income	6	12,036		15,941	
Other income	7	9,560		9,629	
			21,596		25,570
Total income			22,522		27,065
Gross claims paid		(45,263)		(61,722)	
Reinsurers' share of gross claims paid		25,718		33,860	
Claims paid, net of reinsurance		(19,545)		(27,862)	
Movement in gross technical provision		50,367		71,282	
Movement in reinsurers' share of technical provisions		(22,565)		(43,204)	
Net change in provision for claims		27,802		28,078	
Net insurance claims released			8,257		216
Operating expenses	8		(21,831)		(18,561)
Result of operating activities before impairment of intangible assets			8,948		8,720
Impairment of intangible assets			(101)		-
Result of operating activities			8,847		8,720
Finance costs	9		(84)		(1,695)
Profit on ordinary activities before income taxes	10		8,763		7,025
Income tax (expense)/credit	11		(2,746)		1,028
Profit for the year			6,017		8,053
Attributable to equity holders of the parent					
Attributable to ordinary shareholders			6,017		7,996
Minority interests			-		57
			6,017		8,053

Earnings per ordinary share for the profit attributable to the ordinary shareholders of the Company:-

	Note	2008	2007
Basic	12	10.8p	29.5p
Diluted	12	10.5p	28.0p

The accounting policies and notes on pages 22 to 57 form part of these Financial Statements.

Consolidated Balance Sheet
As at 31 December 2008

	Note	2008 £000	2007 £000
Assets			
Intangible assets	14	17,557	12,215
Property, plant and equipment	15	304	205
Investment properties	16a	1,336	1,108
Financial asset			
- Investments	16b	261,612	214,818
- Deposits with ceding undertakings		4,812	3,901
Reinsurers' share of insurance liabilities	22	297,650	239,681
Current tax assets	19	2,845	269
Deferred tax assets	23	3,030	5,320
Insurance and other receivables	17	34,158	37,053
Cash and cash equivalents	18	68,189	57,681
Total assets		691,493	572,251
Liabilities			
Insurance contract provisions	22	571,190	466,382
Financial liabilities			
- Amounts owed to credit institutions	21	4,613	-
- Deposits received from reinsurers		5,752	4,814
Deferred tax liabilities	23	2,586	4,343
Insurance and other payables	20	26,438	22,016
Current tax liabilities		56	-
Total liabilities		610,635	497,555
Equity			
Share capital	24	1,118	1,118
Shares to be issued	25	150	151
Share premium account	25	17,255	17,250
Treasury share reserve	25	(1,197)	-
Retained earnings	25	63,532	56,177
Total equity		80,858	74,696
Total liabilities and equity		691,493	572,251

The Financial Statements were approved by the Board of Directors on 5 May 2009 and were signed on its behalf by:-

K E Randall

A K Quilter

The accounting policies and notes on pages 22 to 57 form part of these Financial Statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 £000	2007 £000
Cash flows from operating activities			
Profit before income taxes		8,763	7,025
Finance costs		84	1,695
Depreciation		162	218
Share based payments		-	748
Impairment of intangible assets		101	6
Fair value loss/(gain) on financial assets		3,543	(3,730)
Loss on disposal of property, plant and equipment		3	-
Gain on net assets of pension schemes		(141)	(313)
Decrease/(increase) in receivables		8,750	(4,633)
(Increase)/decrease in deposits with ceding undertakings		(911)	722
Decrease in payables		(1,565)	(28,216)
Decrease in net insurance technical provisions		(27,860)	(28,078)
		(9,071)	(54,556)
Sale of financial assets		15,953	34,675
Purchase of financial assets		(4,632)	(12,323)
Cash generated from operations		2,250	(32,204)
Income taxes paid		(50)	(1,414)
Net cash from/(used in) operating activities		2,200	(33,618)
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		12	-
Purchase of property, plant and equipment		(212)	(132)
Acquisition of subsidiary undertakings (net of cash acquired)		(5,634)	-
Purchase of minority interest in subsidiary undertakings		(33)	-
Net cash used in investing activities		(5,867)	(132)
Cash flows from financing activities			
Repayment of borrowings		-	(25,228)
Redemption of preference D shares		-	(580)
New borrowing arrangements		4,613	14,352
Equity dividends paid		(2,684)	(1,400)
Interest and other finance costs paid		(84)	(1,231)
Receipts from issue of shares		4	15,966
Purchase of treasury shares		(1,197)	-
Net cash from financing activities		652	1,879
Net decrease in cash and cash equivalents		(3,015)	(31,871)
Cash and cash equivalents at beginning of year		57,681	90,857
Foreign exchange movement on cash and cash equivalents		13,523	(1,305)
Cash and cash equivalents at end of year	18	68,189	57,681

The accounting policies and notes on pages 22 to 57 form part of these Financial Statements.

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2008

	Note	2008 £000	2007 £000
Recognised in the financial year:-			
Exchange gains/(losses) on consolidation		4,163	(49)
Pension scheme actuarial losses		(197)	(447)
Deferred tax on pension scheme actuarial losses		56	134
Net income/(expense) recognised directly in equity		4,022	(362)
Profit for the year		6,017	8,053
Total recognised income for the year		10,039	7,691
Attributable to:			
Equity holders of the parent	25	10,039	7,634
Minority interests		-	57
Total recognised in the year		10,039	7,691

The accounting policies and notes on pages 22 to 57 form part of these Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. Corporate information

Randall & Quilter Investment Holdings plc (the "Company") is a company domiciled and incorporated in England and Wales. Group companies carry on business in the UK, Europe, United States and Bermuda as owners and managers of insurance companies in run off, as purchasers of reinsurance receivables, as captive managers and as consultants to the insurance market. The financial statements were approved by the Board of Directors on 5 May 2009.

2. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), endorsed by the European Union ("EU"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The Company has elected to prepare its Parent Company Financial Statements in accordance with UK GAAP; these are presented on pages 58 – 63.

The Group Financial Statements have been prepared under the historical cost convention except that financial assets are stated at their fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year (Note 3). Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the current and future years depending on when the revision is made and the year it affects.

At the date of preparation of these consolidated financial statements a number of standards and other interpretations had been published by the International Accounting Standards Board but were not yet effective and have therefore not been adopted in these consolidated financial statements.

These are:-

› IAS1:	Presentation and Financial Statements (Revised)
› IAS23:	Borrowing Costs (Revised)
› IAS1 and IAS32:	Puttable Financial Instruments and Obligations Arising on Liquidation (Amended)
› IFRS1 and IAS27:	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amended)
› IFRS2:	Share-based payment (Amended)
› IFRS8:	Operating Segments
› IFRIC13:	Customer Loyalty Programmes
› IFRIC16:	Hedges of a Net Investment in a Foreign Operation
› IFRIC17:	Distributions of Non-cash Assets to Owners

It is not anticipated that adoption of the above will have a material impact on the consolidated financial statements, except for IAS1 (Revised) and IFRS8 which may result in additional disclosures in the financial statements.

Significant uncertainty in technical provisions

Significant uncertainty exists as to the accuracy of the provisions for claims outstanding and the amounts due from reinsurers established in the insurance company subsidiaries as shown in the consolidated balance sheet. Further details of the uncertainties inherent in estimating technical reserves are set out in Note 3. The ultimate costs of claims and the amounts ultimately recovered from reinsurers could vary materially from the amounts established and could therefore have a materially adverse affect on the ability of each insurance company subsidiary to meet its liabilities in full.

Notwithstanding this significant uncertainty, the consolidated financial statements have been prepared and consolidated on a going concern basis since the Directors are of the opinion, based on information currently available, that each of the insurance company subsidiaries will continue in operational existence and be able to meet all their liabilities and obligations for the foreseeable future.

In the event that further information were to become available to the Directors of an insurance company subsidiary which gave rise to material additional liabilities, the going concern basis might no longer be appropriate for that company and adjustments would have to be made to reduce the value of its assets to their realisable amount, and to provide for any further liabilities which might arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

The Company and its other subsidiaries bear no financial responsibility for any liabilities or obligations of any insurance company subsidiary in run-off, except as referred to in Note 31.

Should any insurance company subsidiary cease to be able to continue as a going concern in the light of further information becoming available, any loss to the Company and its other subsidiaries would thus be restricted to the book value of their investment in and amounts due from that subsidiary and any guarantee liability that may arise.

The book value of the Group's investments in the insurance company subsidiaries at 31 December 2008 was £21.9m (2007: £21.9m).

b. Selection of accounting policies

The Directors exercise judgement in selecting each Group accounting policy. The accounting policies of the Group are selected by the Directors to present consolidated financial statements that they consider provide the most relevant information. For certain accounting policies there are different accounting treatments that could be adopted, each of which would be in compliance with IFRS and would have a significant influence upon the basis on which the consolidated financial statements are presented. The bases of selection of the accounting policies in accounting for financial assets and for the recognition of actuarial gains and losses related to pension obligations are set out below:-

› The Group accounting policy is to designate all financial assets that meet the necessary conditions as fair value through profit or loss. This designation allows the Group to recognise investment return against the movement in insurance technical provisions. The financial assets will be realised and used to settle the Group's insurance technical provisions as the business is run off.

› The Group accounting policy is to recognise actuarial gains and losses arising from the recognition and funding of the Group's pension obligations in equity in the year in which they arise. This policy has been adopted as it provides the most relevant basis of recognition of such gains and losses. The amount of any surplus recognised will be restricted as required by IAS19.

c. Consolidation

The consolidated financial statements incorporate the financial statements of the Company, and entities controlled by the Company (its subsidiaries), for the years ended 31 December 2008 and 2007. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired the difference is negative goodwill and is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the statement of recognised income and expense and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

d. Premiums

No new business is written by the insurance company subsidiaries as they are in run off. Premium and reinsurance premium adjustments are recognised in the year that they arise.

e. Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

f. Claims provisions and related reinsurance recoveries

Provisions are made in insurance company subsidiaries for the full estimated costs of claims notified but not settled, including claims handling costs, on the basis of the best information available, taking account of inflation and increasing court awards. The Directors of the insurance company subsidiaries have established such provisions on the basis of their own investigations and with the assistance of run-off managers and independent actuaries. Deductions are made for salvage and other recoveries as appropriate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

2. Accounting policies (continued)

f. Claims provisions and related reinsurance recoveries (continued)

The provisions for claims incurred but not reported ("IBNR") in insurance company subsidiaries have been based on a number of factors including previous experience in claims and settlement patterns, the nature and amount of business written, inflation, the possibility of non-recovery of reinsurance and the latest available information.

Where all or parts of an insurance company subsidiary's claims are subject to a solvent scheme of arrangement, only claims admitted into the scheme rank as liabilities. At the balance sheet date all such claims are included at their agreed or determined amount or, where not agreed or determined, at the Directors' best estimate of the amounts which would ultimately be payable to creditors admitted into the Scheme.

A reinsurance asset (reinsurers' share of insurance liabilities) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the outstanding claims reported under insurance liabilities. The amount recoverable from reinsurers is initially valued on the same basis as the underlying claims provision. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Group may not receive all amounts due under the contract and the event has a reliably measurable impact on the expected amount that will be recovered from the reinsurer.

Neither the outstanding claims nor the provisions for IBNR have been discounted.

The uncertainties which are inherent in the process of estimating are such that, in the normal course of events, unforeseen or unexpected future developments may cause the ultimate cost of settling the outstanding liabilities to differ materially from that presently estimated. Any differences between provisions and subsequent settlements are dealt with in the income statement in the year which they arise. Having regard to the significant uncertainty inherent in the business of the insurance company subsidiaries as explained in Note 3, and in the light of the information presently available, in the opinion of the Directors the provisions for outstanding claims and IBNR in the consolidated financial statements are fairly stated.

g. Claims handling costs

Full provision is made for all costs of running off the business of the insurance company subsidiaries to the extent that the provision exceeds the estimated future investment return expected to be earned by those subsidiaries. Changes in the amount of the estimates of such costs and future investment return are reflected in the year in which the estimates are changed.

When assessing the amount of future investment income to be recognised, the investment return and claims handling and all other costs of all the insurance company subsidiaries are considered in aggregate.

The uncertainty inherent in the process of estimating the period of run off and the payout pattern over that period, the anticipated run off administration costs to be incurred over that period and the level of investment return to be made are such that in the normal course of events unforeseen or unexpected future developments may cause the ultimate costs of settling the outstanding liabilities to differ from that previously estimated.

h. Structured settlements

Certain insurance company subsidiaries have entered into structured settlements whereby settlements of claims have been effected by the purchase of annuities from third party life insurance companies in favour of the claimants. Provided that the life insurance company continues to meet the annuity obligations, no further liability will fall on the insurance company subsidiary; however, if the life insurance company fails to meet the annuity obligations the liability for any remaining payments due under the annuity will revert to the relevant subsidiary. The amounts payable to policyholders are recognised in liabilities. These are offset by the amounts that will be directly payable to policyholders by third party insurance companies.

In the opinion of the Directors, this treatment reflects the substance of the transaction on the basis that the liability of group companies under structured settlements is contingent upon the failure of the relevant third party life insurance companies.

Should the Directors become aware that a third party life insurance company responsible for the payment of an annuity under a structured settlement may not be in a position to meet its annuity obligations in full, provision will be made for any such failure.

Disclosure of the position in relation to structured settlements is shown in Note 20.

i. Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from other business segments. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

j. Foreign currency translation

(i) Functional and presentational currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

The consolidated financial statements are presented in thousands of sterling, which is the Group's functional and presentational currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date; the resulting foreign exchange gain or loss is recognised in the income statement. 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.

The assets and liabilities of overseas subsidiaries, including associated goodwill, held in functional currencies other than sterling are translated from their functional currency into sterling at the exchange rate at the balance sheet date. Income and expenses are translated at average rates for the period.

Foreign exchange differences arising from retranslation of the opening net assets of each overseas subsidiary and the opening net assets held in currency by each UK insurance company subsidiary are recognised initially in the statement of recognised income and expense and subsequently in the income statement in the year in which the entity is disposed of.

k. Financial instruments (assets and liabilities)

(i) Financial assets held for investment purposes

The Group has classified its investments as financial assets at fair value through profit or loss. The Group's strategy is to manage financial investments held to cover its insurance liabilities on the same basis, being fair value. As such the Group's investments are classified as fair value through profit or loss at inception.

Investments in listed securities are stated at their quoted bid price at the balance sheet date. Investments in unlisted securities are valued by the Directors on a prudent basis having regard to their likely realisable value.

Realised and unrealised gains and losses arising from changes in the fair value of financial assets designated as fair value through profit or loss are recognised in the income statement in the year in which they arise.

(ii) Investment properties

Investment properties, comprising freehold land and buildings, are held for long term rental yields and are not occupied by the Group.

Investment properties are recorded at fair value, measured by independent professionally qualified valuers, who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment property being valued, on a triennial basis or more frequently and by internal valuers for interim periods, with reference to current market conditions. Related unrealised gains and unrealised losses or changes thereof are recognised in net investment income.

(iii) Preference shares

Preference A and B shares are classified as equity.

l. Employee benefit trust

The Group makes contributions to an Employee Benefit Trust ("EBT"). The assets and liabilities of the EBT are held on the balance sheet until such time as the contributions vest unconditionally with identified beneficiaries. The income statement expense reflects the period in which the Company benefits from the employees services.

m. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classed as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

n. Property, plant and equipment

All assets included within property, plant and equipment ("PPE") are carried at historical cost. Depreciation is calculated to write down the cost less estimated residual value of motor vehicles, office equipment and computer equipment by the straight line method over their expected useful lives. The principal rates per annum used for this purpose are:-

	%
Motor vehicles	25
Office equipment/refurbishment	8 – 50
Computer equipment	25 – 33.3
Leasehold improvements	Term of lease

The gain or loss arising on the disposal of an item of PPE is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

2. Accounting policies (continued)

o. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the fair value of the consideration paid for the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purposes of assessing the fair value of the net assets of insurance companies acquired, the Directors adopt the same accounting policies for determining the amounts of assets and liabilities as are applied in these consolidated financial statements. In particular the provisions for outstanding claims and IBNR are not discounted, future investment returns are recognised only to the extent of provisions for claims handling and all other costs to the conclusion of the run off of the insurance company subsidiary acquired.

When assessing the amount of future investment income to be recognised, the investment returns, the claims handling and all other costs of all the insurance company subsidiaries are considered in aggregate.

p. Other intangible assets

Intangible assets, other than goodwill, that are acquired separately are stated at cost less accumulated amortisation.

	%
Computer software	20 – 33.3

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement to reduce the carrying amount to the recoverable amount.

q. Pensions

The Group makes contributions to defined contribution schemes and a defined benefit scheme.

The pension cost in respect of the defined contribution schemes represents the amounts payable by the Group for the year. The funds of the schemes are administered by the trustees and are separate from the Group. The Group's liability is limited to the amount of the contributions.

The defined benefit scheme is funded by contributions from a subsidiary company and its assets are held in a separate Trustee administered fund. Pension scheme assets are measured at market value, and liabilities are measured using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability.

Current service cost, interest cost, the expected return on scheme assets and any curtailments/settlements are charged to the income statement. Pension liabilities are recognised and disclosed separately in the balance sheet. Surpluses are only recognised up to the aggregate of any cumulative unrecognised net actuarial gains and past service costs, and the present value of any economic benefits available in the form of any refunds or reductions in future contributions.

Subject to the restrictions relating to the recognition of a pension surplus, all actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur.

r. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less from the date of acquisition, and bank overdrafts.

s. Investment income

Investment income comprises interest, dividends, realised and unrealised gains and losses on financial assets held at fair value through profit or loss.

The fair value of unrealised gains and losses is calculated as the difference between the current fair value at the balance sheet date and fair value at date of acquisition adjusted for previously recognised unrealised gains and losses of financial assets disposed of in the year.

Realised gains and losses are calculated as the difference between the net sales proceeds and the fair value at the previous balance sheet date or date of acquisition if in the year.

Dividend income is recognised when the right to receive that income is established.

t. Finance costs

Finance costs comprise loan and bank interest and redemption costs of preference shares treated as liabilities. Finance costs are recognised in the income statement on an accruals basis. Arrangement fees in relation to loan facilities are deducted from the relevant financial liability and amortised over the period of the facility.

u. Operating expenses

Operating expenses are accounted for on an accruals basis.

v. Pre-contract costs

Directly attributable pre-contract costs are recognised as an asset when it is virtually certain that a contract will be obtained and the contract is expected to result in future net cash inflows in excess of any amounts recognised as an asset.

Pre-contract costs are charged to the income statement over the shorter of the life of the contract or five years.

w. Other income

Other income includes the value of management and consultancy fees receivable, income from investment properties, the value of debt collection fees receivable and the proceeds of the sale or recovery of purchased reinsurance receivables and is stated excluding any applicable value added tax.

Management and consultancy Fees

Management and consultancy fees are from non group customers and are recognised when the right to such fees is established through a contract and to the extent that the services concerned have been performed.

Income from investment properties

Income from investment properties is recognised on an accruals basis.

Debt collection fees

Debt collection fees are recognised when the right to such fees is established through a contract and either the debt has been collected or the services concerned have been performed at the balance sheet date and the Group has received confirmation that the fee will be paid.

Purchased reinsurance receivables

Purchased reinsurance receivables are generally purchased at a discount to their principal amount. They are recorded at cost. Such receivables are shown in debtors and stated at the lower of cost and net realisable value.

When receivables are purchased in bulk, the Directors allocate the cost to individual or groups of receivables based on the characteristics and quality of the respective elements.

When purchased reinsurance receivables are realised, the book value of such receivables is charged to the income statement.

Proceeds arising from the sale or recovery of purchased reinsurance receivables are recognised when received.

x. Share based payments

The Group issues equity share based payments to certain of its employees.

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense on a straight line basis over the vesting period. The fair value is measured using the binomial option pricing method, taking into account the terms and conditions on which the awards were granted.

y. Income taxes

Tax on the profit or loss for the year comprises current and deferred tax.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax liabilities are provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination and which, at the time of the transaction, affects neither accounting nor taxable profit or loss, it is not provided for.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are determined using tax rates that have been enacted by the balance sheet date or subsequently enacted and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

z. Share premium account

Incremental costs attributable to the issue of equity instruments are deducted from equity as a charge to the share premium account against the proceeds of the issue, net of tax.

3. Estimation techniques, uncertainties and contingencies

Claims provisions

The Group owns a number of insurance companies in run-off. The consolidated financial statements include provisions for all outstanding claims and IBNR, for related reinsurance recoveries and for all costs expected to be incurred in the completion of the run-off.

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For the year ended 31 December 2008

3. Estimation techniques, uncertainties and contingencies (continued)

Claims provisions

The provision for claims outstanding and IBNR is based upon actuarial and other studies of the ultimate cost of liabilities including exposure based and statistical estimation techniques. There are significant uncertainties inherent in the estimation of each insurance company subsidiary's insurance liabilities and reinsurance recoveries. There are many assumptions and estimation techniques that may be applied in assessing the amount of those provisions which individually could have a material impact on the amounts of liabilities, related reinsurance assets and reported shareholders' funds disclosed in the consolidated financial statements. Actual experience will often vary from these assumptions, and any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified. Potential adjustments arising in the future could, if adverse in the aggregate, exceed the amount of shareholders' funds of an insurance company subsidiary.

The business written by the insurance company subsidiaries consists in part of long tail liabilities, including asbestos, pollution, health hazard and other US liability insurance. The claims for this type of business are typically not settled until several years after policies have been written. Furthermore, much of the business written by these companies is re-insurance and retrocession of other insurance companies, which lengthens the settlement period.

Significant delays occur in the notification and settlement of certain claims and a substantial measure of experience and judgement is involved in making the assumptions necessary for assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The gross provisions for claims outstanding and related reinsurance recoveries are estimated on the basis of information currently available. Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

The provision for claims outstanding includes significant amounts in respect of notified and potential IBNR claims for long tail liabilities. The settlement of most of these claims is not expected to occur for many years, and there is significant uncertainty as to the timing of such settlements and the amounts at which they will be settled.

While many claims are clearly covered and are paid quickly, many other claims are subject to significant disputes, for example over the terms of a policy and the amount of the claim. The provisions for disputed claims are based on the view of the Directors of each insurance company subsidiary as to the expected outcomes of such disputes. If the outcome differs substantially from expectation there could be a material impact on the Group's liabilities. Claim types impacted by such disputes include asbestos, pollution and certain health hazards and retrocessional reinsurance claims arising out of the Exxon Valdez oil spill and the first Gulf War.

Uncertainty is further increased because of the potential for unforeseen changes in the legal, judicial, technological or social environment, which may increase or decrease the cost, frequency or reporting of claims, and because of the potential for new sources or types of claim to emerge.

Asbestos, pollution and health hazard claims

The estimation of the provisions for the ultimate cost of claims for asbestos, pollution and health hazard is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of asbestos, pollution and health hazard claims with the same degree of reliability as with other types of claims. Consequently, traditional techniques for estimating claims provisions cannot wholly be relied upon. The Group employs further techniques which utilise the exposure to these losses by contract to determine the claims provisions.

Insurance run-off expenses

The provision for the cost of handling and settling outstanding claims to extinction and all other costs of managing the run off is based on an analysis of the expected costs to be incurred in run-off activities, incorporating expected savings from the reduction of transaction volumes over time.

The period of the run off may be between 5 and 50 years depending upon the nature of the liabilities within each insurance company subsidiary. Ultimately, the period of run-off is dependant on the timing and settlement of claims and the collection of reinsurance recoveries; consequently similar uncertainties apply to the assessment of the provision for such costs.

Reinsurance recoveries

Reinsurance recoveries are included in respect of claims outstanding (including IBNR claims) and claims paid after making provision for irrecoverable amounts.

The reinsurance recoveries on IBNR claims are estimated based on the recovery rate experienced on notified and paid claims for each class of business.

The insurance company subsidiaries are exposed to disputes on contracts with their reinsurers and the possibility of default by reinsurers. In establishing the provision for non-recovery of reinsurance balances the Directors of each insurance company subsidiary consider the financial strength of each reinsurer, its ability to settle their liabilities as they fall due, the history of past settlements with the reinsurer, and the Group's own reserving standards and have regard to legal advice regarding the merits of any dispute.

Defined benefit pension scheme

The pension assets and pension and post retirement liabilities are calculated in accordance with International Accounting Standard 19 ("IAS 19"). The assets, liabilities and income statement charge or credit, calculated in accordance with IAS 19, are sensitive to the assumptions made, including inflation, interest rate, investment return and mortality. IAS 19 compares, at a given date, the current market value of a pension fund's assets with its long term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and equity markets.

Litigation, mediation and arbitration

The Group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries in the normal course of its business. The Directors do not believe that, except as mentioned in The Chairman's Statement and Business Review, any current mediation, arbitration, regulatory, governmental or sectoral inquiries and pending or threatened litigation or dispute will have a material adverse effect on the Group's financial position, although there can be no assurance that losses resulting from any current mediation, arbitration, regulatory, governmental or sectoral inquiries and pending or threatened litigation or dispute will not materially affect the Group's financial position or cash flows for any period.

Changes in foreign exchange rates

The Group's consolidated financial statements are prepared in pounds sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the US dollar, into pounds sterling will impact the reported consolidated financial position, results of operations and cash flows from year to year. These fluctuations in exchange rates will also impact the pound sterling value of our investments and the return on our investments. Income and expenses for each income statement item are translated at average exchange rates. Balance sheet assets and liabilities are translated at the closing exchange rates at the balance sheet date.

4. Risk management

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

The following describes the Group's exposure to the more significant risks and the steps management have taken to mitigate their impact from a quantitative and qualitative perspective.

a. Investment risks (including market risk)

The investment of the Group's financial assets, except certain deposits with ceding undertakings, is managed by external investment managers. The Boards of the owned insurance companies monitor the performance of the external investment managers on a regular basis and periodically agree with them the investment strategy to be adopted to mitigate risks of interest rate fluctuation and credit risks and to provide appropriate liquidity.

The main objective of the investment policy is to maximise return whilst maintaining and protecting the principal value of funds under management.

The investment allocation (including surplus cash) at the year end is shown below:-

	2008 £m	2007 £m
Government and government agencies	127.7	113.7
Corporate bonds	124.5	71.8
Equities	1.0	2.2
Cash based investment funds	27.8	27.1
Cash and cash equivalents	48.8	57.7
	329.8	272.5
	%	%
Government and government agencies	38.7	41.7
Corporate bonds	37.8	26.4
Equities	0.3	0.8
Cash based investment funds	8.4	10.0
Cash and cash equivalents	14.8	21.1
	100.0	100.0

Corporate bonds include asset backed mortgage obligations totalling £4.5m (2007: £4.0m).

Based on invested assets at external managers of £280,940,000 as at 31 December 2008 (2007: £214,799,000) a 1 percentage increase/decrease in fair value would result in an increase/decrease in the profit before income taxes for the year to 31 December 2008 of £2,809,400 (2007: £2,147,990).

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For the year ended 31 December 2008

4. Risk management (continued)

a. Investment risks (including market risk) (continued)

The following shows the Group's securities maturity dates and interest rate ranges:-

As at 31 December 2008

Maturity date or contractual re-pricing date

	Total	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
	£m	£m	£m	£m	£m	£m
Fixed rate	280.0	101.9	87.2	52.7	19.3	18.9

Interest rate ranges (coupon-dates)

	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
	%	%	%	%	%
Fixed rate	0-7.38	1.75 – 8.75	3.375 – 6.35	3.25 - 7	3.88 – 11.5

As at 31 December 2007

Maturity date or contractual re-pricing date

	Total	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
	£m	£m	£m	£m	£m	£m
Fixed rate	212.6	83.3	60.5	37.6	22.0	9.2

Interest rate ranges (coupon-dates)

	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
	%	%	%	%	%
Fixed rate	0-6.61	3.25-6.625	3.55-8.75	4.5-7	4.875-11.5

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b. Credit risk

Credit risk arises on all the Group's financial assets, however the most significant area where it arises is where reinsurers fail to meet their obligations in full as they fall due. In addition, the Group is exposed to the risk of disputes on individual claims presented to its reinsurers or in relation to the contracts entered into with its reinsurers.

The ratings used in the below analysis are based upon the published rating of Standard & Poor's or other recognised ratings agency.

As at 31 December 2008

	A rated £000	B rated £000	than B £000	Other* £000	Exposures of less than £0.2m £000	Total £000
Deposits with ceding undertakings	1,905	-	-	407	2,500	4,812
Reinsurers' share of insurance liabilities	134,725	40,759	1,044	94,421	26,701	297,650
Receivables arising out of reinsurance contracts	6,624	2,012	-	2,552	10,438	21,626

The average credit period of receivables arising out of reinsurance contracts are as follows:-

	0-6 months %	6-12 months %	12-24 months %	> 24 months %
Percentage of receivables	21.4	13.4	21.1	44.1

* Other includes reinsurers who currently have no credit rating.

As at 31 December 2007

	A rated £000	B rated £000	Less than B £000	Other* £000	Exposures of less than £0.2m £000	Total £000
Deposits with ceding undertakings	703	559	-	309	2,330	3,901
Reinsurers' share of insurance liabilities	144,139	18,923	407	38,055	38,157	239,681
Receivables arising out of reinsurance contracts	17,367	2,509	286	3,946	6,589	30,697

The average credit period of receivables arising out of reinsurance contracts are as follows:-

	0-6 months %	6-12 months %	12-24 months %	> 24 months %
Percentage of receivables	52.1	10.4	17.2	20.3

* Other includes reinsurers who currently have no credit rating.

The reinsurers share of insurance liabilities is based upon a best estimate given the profile of the insurance provisions outstanding and the related IBNR.

4. Risk management (continued)

c. Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The cash position of each of the insurance companies is monitored on a regular basis to ensure that sufficient funds are available to meet liabilities as they fall due. Funds required to meet immediate and short term needs are invested in short term deposits. Funds in excess of those required to meet short term needs are managed by external fund managers. The investment performance of the fund managers is closely monitored throughout the year by each company's investment committee. This includes a review of performance against agreed benchmarks on a monthly basis.

The cash position of each company within the ISD and the LMD is monitored weekly to ensure that sufficient funds are available to meet liabilities as they fall due.

The management contracts within Cavell Management Services Limited are typically structured such that fees are payable by clients quarterly or annually in advance providing the division with sufficient working capital to support the obligations of all companies within the division.

d. Currency risk

The Group and in particular the insurance companies are exposed to currency risk generated through regular trading activity denominated in currencies other than their functional currency. The most significant currencies to which the companies are exposed are the US Dollar and the Euro. Group policy requires that the Directors seek where possible to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. As the Group reports in Sterling, any fluctuations in foreign currency are reflected in the consolidated financial statements. The significant exchange rates at 31 December 2008 were £:US$ 1.45 (2007: 2.00) and £:Euro 1.03 (2007: 1.36). The Sterling equivalent of monetary assets and liabilities held by the Group designated in US Dollars at the year end are as follows:-

	2008 £000	**2007 £000**
US Dollars		
Reinsurance assets	273,463	209,755
Financial investments	224,301	160,430
Insurance receivables	16,026	24,629
Cash and cash equivalents	34,747	26,851
Insurance liabilities including provisions	(518,470)	(414,936)
Other provisions	(4,917)	(4,377)
Trade and other (payables)/receivables	(2,586)	5,313
	22,564	7,665

A 10 per cent increase/decrease in the value of the US Dollar against Sterling would result in an increase/decrease in the net asset value as at 31 December 2008 of £2,256,000 (2007: £766,000).

The Sterling equivalent of monetary assets and liabilities held by the Group designated in Euros at the year end are as follows:-

	2008 £000	**2007 £000**
Euro		
Reinsurance assets	1,975	2,325
Financial investments	12,717	1,833
Insurance receivables	516	62
Cash and cash equivalents	2,659	10,093
Insurance liabilities including provisions	(20,731)	(9,588)
Trade and other receivables/(payables)	657	(72)
	(2,207)	4,653

A 10 per cent decrease/increase in the value of the Euro against Sterling would result in a decrease /increase in the net asset value as at 31 December 2008 of £221,000 (2007: increase/decrease of £465,000).

e. Interest rate risk

The Group's main exposure to fluctuation in interest rates arises in its effect on the value of funds invested in bonds and equities. In order to mitigate this risk, the investment committees of the insurance companies, together with the external investment managers, attempt to anticipate any future interest rate movement and to take appropriate action to mitigate its effect on the value of investments held.

f. Insurance risk

None of the Group's insurance subsidiaries are writing new business and all are in run-off; the date at which each entity went into run off together with the date that each was acquired by the Group is summarised below:-

Subsidiary	Date business entered run off	Date acquired by the Group
Ludgate *	1987	4 August 1992
La Metropole SA	1995	29 November 2000
Transport Insurance Company	1996	30 November 2004
R&Q Reinsurance Company	1994	3 July 2006
R&Q Reinsurance (Belgium) Limited	1994	3 July 2006
R&Q Reinsurance (UK) Limited	1990	3 July 2006
Chevanstell Limited	2003	10 November 2006
Arran Insurance Company Limited	1984	21 December 2006

* Ludgate was de-authorised as an insurance company by the FSA on 10 July 2007.

The very nature of insurance business is that insurers are exposed to the possibility that claims will arise on 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 insurance risks which affect the insurance companies are:-

- **Reinsurance risk** – the risk that the reinsurers of the insurance companies will dispute the coverage of losses.
- **Claims risk** – a series of claims in respect of a latent liability that the insurance industry is not currently aware of.
- **Legal risk** – changes in statute or legal precedent.
- **Reserving risk** – the risk that the reserves established by the companies prove to be inadequate.

In order to mitigate reserving risk, the companies use a number of approaches, including actuarial techniques, to project gross and net insurance liabilities.

Claims development information is disclosed in order to illustrate the effect of the uncertainty in the estimation of future claims settlements by the Group. The tables compare the ultimate claims estimates with the payments made to date. Details are only presented on an aggregate basis and look at the movements on a gross and net basis, and separately identify the effect of the various acquisitions made by the Group since 1 January 2004.

4. Risk management (continued)

f. Insurance risk (continued)

Analysis of claims development – gross (including claims handling expenses)

	Group entities at 1 January 2004 £000	Entities acquired by the group during 2004 £000	Entities acquired by the group during 2005 £000	Entities acquired by the Group during 2006 £000
Gross reserves at:				
1 January 2004/acquisition	4,914	89,221	-	499,383
First year movement	48	(1,375)	-	(46,472)
Second year movement	(2,385)	14,750	-	(72,066)
Third year movement	(2,482)	(12,098)	-	79,773
Fourth year movement	(4)	(5,052)	-	-
Fifth year movement	30	25,005	-	-
Gross position at 31 December 2008	121	110,451	-	460,618
Estimated gross ultimate claims at:				
1 January 2004/acquisition	4,914	89,221	-	499,383
Foreign exchange	(310)	26,525	-	100,923
Payments in the year	(4,694)	(16,402)	-	(116,950)
Gross position at 31 December 2008	(121)	(110,451)	-	(460,618)
(Deficit)/surplus to date	(211)	(11,107)	-	22,738

No insurance operations have been acquired by the Group during 2007 or 2008.

Analysis of claims development – net

	Group entities at 1 January 2004 £000	Entities acquired by the group during 2004 £000	Entities acquired by the group during 2005 £000	Entities acquired by the Group during 2006 £000
Net reserves at:				
1 January 2004/acquisition	4,853	3,603	-	276,958
First year movement	109	(38)	-	(23,490)
Second year movement	(2,385)	1,751	-	(30,099)
Third year movement	(2,482)	(2,048)	-	40,924
Fourth year movement	(4)	(27)	-	-
Fifth year movement	30	5,885	-	-
Net position as at 31 December 2008	121	9,126	-	264,293
Estimated net ultimate claims at:				
1 January 2004/acquisition	4,853	3,603	-	276,958
Foreign exchange	(309)	2,106	-	58,517
Net payments in the year	(4,457)	939	-	(55,693)
Net position as at 31 December 2008	(121)	(9,126)	-	(264,293)
(Deficit)/surplus to date	(34)	(2,478)	-	15,489

No insurance operations have been acquired by the Group during 2007 or 2008.

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g. Regulatory risk

A number of the companies in the Group are regulated by the FSA. A number of overseas subsidiaries are regulated in the countries in which they operate. Failure to comply with applicable regulations could result in a variety of sanctions. The Directors are responsible for ensuring that best practice is applied to a standard which ensures regulatory compliance.

h. Property price risk

The Group is subject to property price risk due to holding investment properties. No derivative contracts have been entered into to mitigate the effects of changing property prices.

i. Operational risk

Operational risks arise as a result of inadequately controlled internal processes or systems, human error or external events.

This definition is intended to include all risks to which the Group is exposed, other than the financial risks described previously, and strategic and risks of the Group which are considered elsewhere. It includes risks relating to regulation, financial procedures, information technology, financial crime, business protection, human resources, outsourcing, purchasing, communications and legal.

j. Capital risk management

The Directors have overall responsibility for managing the Group's capital base with the principal objectives of maintaining a sufficient capital to satisfy regulatory requirements. The Directors also recognise the need to maintain a strong capital base that provides the necessary protection to policy holders and creditors at the same time generating sufficient returns to create shareholder value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

5. Segmental information

The Group has three primary segments:-

- Insurance companies in run-off
- Insurance services
- Liquidity management

Primary segment information – Segment result for the year ended 31 December 2008

	Insurance companies £000	Insurance services £000	Liquidity management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Gross premium written	642	-	-	-	-	642
Reinsurers' share of gross premium	284	-	-	-	-	284
Earned premium net of reinsurance	926	-	-	-	-	926
Net investment income	11,210	606	7	213	-	12,036
Other income	-	22,935	594	-	(13,969)	9,560
	11,210	23,541	601	213	(13,969)	21,596
Total income	12,136	23,541	601	213	(13,969)	22,522
Gross claims paid	(45,263)	-	-	-	-	(45,263)
Reinsurers' share of gross claims paid	25,718	-	-	-	-	25,718
Claims paid, net of reinsurance	(19,545)	-	-	-	-	(19,545)
Movement in gross technical provisions	50,367	-	-	-	-	50,367
Movement in reinsurers' share of technical provisions	(22,565)	-	-	-	-	(22,565)
Net change in provision for claims	27,802	-	-	-	-	27,802
Net insurance claims released	8,257	-	-	-	-	8,257
Operating expenses	(13,011)	(18,195)	(468)	(3,964)	13,969	(21,669)
Earnings before interest, tax, depreciation and amortisation	7,382	5,346	133	(3,751)	-	9,110
Depreciation and impairment	(12)	(150)	-	(101)	-	(263)
Result of operating activities	7,370	5,196	133	(3,852)	-	8,847
Finance costs	-	(1)	-	(83)	-	(84)
Management charges	-	(327)	-	327	-	-
Profit/(loss) on ordinary activities before income taxes	7,370	4,868	133	(3,608)	-	8,763
Income tax (expense)/credit	(1,254)	(2,269)	-	777	-	(2,746)
Profit/(loss) for the year	6,116	2,599	133	(2,831)	-	6,017
Segment assets	665,658	11,479	885	55,164	(41,693)	691,493
Segment liabilities	601,277	7,321	479	23,244	(21,686)	610,635

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Primary segment information – Segment result for the year ended 31 December 2007

	Insurance companies £000	Insurance services £000	Liquidity management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Gross premium written	1,460	-	-	-	-	1,460
Reinsurers' share of gross premium	35	-	-	-	-	35
Earned premium net of reinsurance	1,495	-	-	-	-	1,495
Net investment income	15,819	101	2	19	-	15,941
Other income	-	21,655	584	208	(12,818)	9,629
	15,819	21,756	586	227	(12,818)	25,570
Total income	17,314	21,756	586	227	(12,818)	27,065
Gross claims paid	(61,722)	-	-	-	-	(61,722)
Reinsurers' share of gross claims paid	33,860	-	-	-	-	33,860
Claims paid, net of reinsurance	(27,862)	-	-	-	-	(27,862)
Movement in gross technical provisions	71,282	-	-	-	-	71,282
Movement in reinsurers' share of technical provisions	(43,204)	-	-	-	-	(43,204)
Net change in provision for claims	28,078	-	-	-	-	28,078
Net insurance claims released	216	-	-	-	-	216
Operating expenses	(12,607)	(16,616)	(336)	(1,596)	12,818	(18,337)
Earnings before interest, tax, depreciation and amortisation	4,923	5,140	250	(1,369)	-	8,944
Depreciation and impairment	(22)	(202)	-	-	-	(224)
Result of operating activities	4,901	4,938	250	(1,369)	-	8,720
Finance costs	-	-	-	(1,695)	-	(1,695)
Management charges	-	(3,226)	-	3,226	-	-
Profit on ordinary activities before income taxes	4,901	1,712	250	162	-	7,025
Income tax (expense)/credit	(427)	1,459	15	(19)	-	1,028
Profit for the year	4,474	3,171	265	143	-	8,053
Segment assets	569,416	8,824	437	35,144	(41,570)	572,251
Segment liabilities	493,702	3,477	165	12,583	(12,372)	497,555

The Group's Insurance Services Division makes charges to the owned insurance subsidiaries. These amounts, which are eliminated in the consolidated income statement, are charged against the insurance companies claims handling cost provision. The claims handling costs have, as stated in the accounting policies Note 2, been provided only to the extent that they exceed the future investment return expected to be earned by those subsidiaries.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

5. Segmental information (continued)

Secondary segment information – geographical analysis

As at 31 December 2008	**UK £000**	**United States & Bermuda £000**	**Europe £000**	**Total £000**
Gross assets	244,604	464,606	23,976	733,186
Intercompany eliminations	(38,426)	(3,263)	(4)	(41,693)
Segment assets	206,178	461,343	23,972	691,493
Gross liabilities	172,149	439,406	20,766	632,321
Intercompany eliminations	(12,697)	(7,512)	(1,477)	(21,686)
Segment liabilities	159,452	431,894	19,289	610,635
Segment income	12,082	9,796	644	22,522
As at 31 December 2007				
Gross assets	239,818	352,929	21,074	613,821
Intercompany eliminations	(39,633)	(1,937)	-	(41,570)
Segment assets	200,185	350,992	21,074	572,251
Gross liabilities	148,047	340,358	21,522	509,927
Intercompany eliminations	(8,994)	(2,541)	(837)	(12,372)
Segment liabilities	139,053	337,817	20,685	497,555
Segment income	15,971	11,039	55	27,065

Primary segment information – other information

As at 31 December 2008	**Insurance companies in run-off £000**	**Insurance services £000**	**Other corporate services £000**	**Eliminations £000**	**Total £000**
Assets acquired through business combination	-	39	-	-	39
Capital expenditure	12	200	-	-	212
Depreciation	12	150	-	-	162
As at 31 December 2007					
Assets acquired through business combination	-	-	-	-	-
Capital expenditure	1	131	-	-	132
Depreciation	35	183	-	-	218

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. Net investment income

	2008 £000	2007 £000
Investment income	13,514	12,756
Realised gains on financial assets	1,250	305
Unrealised (losses)/gains on financial assets	(2,252)	3,425
Investment management expenses	(476)	(545)
	12,036	15,941

7. Other income

	2008 £000	2007 £000
Administration of third party insurance companies in run-off	8,713	8,603
Expected return on pension scheme assets	1,463	1,581
Interest on pension scheme liabilities	(1,250)	(1,199)
Purchased reinsurance receivables (including debt collection fees)	634	644
	9,560	9,629

8. Operating expenses

	2008 £000	2007 £000
Costs of insurance company subsidiaries	3,617	3,049
Other operating expenses	18,214	15,512
	21,831	18,561

The costs of insurance company subsidiaries exclude group charges.

9. Finance costs

	2008 £000	2007 £000
Bank loan and overdraft interest	84	951
Other finance costs	-	268
Preference D share dividend and premium on redemption	-	476
	84	1,695

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10. Profit on ordinary activities before income taxes

	2008 £000	2007 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):-		
Employee benefits (Note 27)	11,199	10,559
Payment to employee benefit trust (Note 26)	-	40
Total employee benefits expense (Note 27)	11,199	10,599
Depreciation of fixed assets	162	218
Impairment of intangible assets	101	6
Amortisation of pre contract costs	166	166
Operating lease rental expenditure	876	796
Operating lease rental income	(420)	(426)

Auditors remuneration

	2008 £000	2007 £000
Fees payable to the Company's auditors for the audit of the annual accounts	55	35
Fees payable to the Company's auditors and its associates for other services provided to the Company and its subsidiaries:-		
The audit of the Company's subsidiaries under legislative requirements:-		
The Company's auditors	203	161
Other auditors	155	151
	358	312
Other services under legislative requirements	30	33
Services relating to corporate finance transactions		
Pre-acquisition due diligence and advice	89	-
All other services		
Non-regulatory reporting on internal controls and corporate governance matters	44	58
Advice on financial and accountancy matters	5	5

11. Income tax

	2008 £000	2007 £000
a. Analysis of charge in the year		
Current tax – continuing operations		
Current year	(118)	-
Adjustments in respect of previous years	62	(1,492)
Foreign tax	(2,101)	(59)
	(2,157)	(1,551)
Deferred tax	(589)	2,579
Income tax (charge)/credit	(2,746)	1,028

b. Factors affecting tax charge for the year

The tax assessed differs from the standard rate of corporation tax in the United Kingdom.
The differences are explained below:-

	2008 £000	2007 £000
Profit on ordinary activities before taxation	8,763	7,025
Profit on ordinary activities at the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	2,497	2,107
Permanent differences	(354)	(236)
Capital allowances for the year in excess of depreciation	(37)	(25)
Utilisation of tax losses	(206)	(928)
Timing differences – pension schemes	(56)	(134)
Other timing differences	(102)	(2,147)
Unrelieved losses	2,526	3,678
Movement on deferred insurance company losses	(1,845)	(4,952)
Foreign tax rate differences	385	117
Adjustments to the tax charge in respect of prior years	(62)	1,492
Income tax charge/(credit) for the year	2,746	(1,028)

Included within the deferred tax credit for 2007 was an amount of £1,300,000 which was recognised for anticipated use of losses within the insurance company subsidiaries in 2008. This has reversed as part of the 2008 deferred tax charge.

c. Factors that may affect future tax charges

In addition to the recognised deferred tax asset, the Group has other trading losses of approximately £79.5m (2007: £71.5m) in various group companies available to be carried forward against future trading profits of those companies. The recovery of these losses is uncertain and no deferred tax asset has been provided in respect of these losses. Should it become possible to offset these losses against taxable profits in future years the Group tax charge in those years will be reduced accordingly.

12. Earnings/net assets per share

a. Basic earning per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	2008 £000	2007 £000
Profit for the year attributable to ordinary shareholders	6,017	7,996
	Number 000's	**Number 000's**
Shares in issue throughout the year	55,903	25
Bonus issue	-	49,975
Converted to ordinary 2p shares	-	(25,000)
Weighted average number of shares issued in the year	8	2,113
Weight average of shares held as Treasury shares	(18)	-
Weighted average number of ordinary shares	55,893	27,113
Basic earnings per ordinary share	10.8p	29.5p

12. Earnings/net asset per share (continued)

b. Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to assume conversion of all potentially dilutive ordinary shares. The Group's earnings per share is diluted by the effects of outstanding share options.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	2008 £000	2007 £000
Profit for the year attributable to ordinary shareholders	6,017	7,996
	Number 000's	**Number 000's**
Weighted average number of ordinary shares in issue in the year	55,893	27,113
Options	1,507	1,430
	57,400	28,543
Diluted earnings per ordinary share	10.5p	28.0p

c. Net asset value per share

	2008 £000	2007 £000
Net assets as at 31 December	80,858	74,696
	Number 000's	**Number 000's**
Ordinary shares in issue as at 31 December	55,913	55,903
Net asset value per ordinary share	144.6p	133.6p

13. Dividends

The amounts recognised as distributions to equity holders in the year are:-

	2008 £000	2007 £000
Dividend to ordinary shareholders	2,684	-
Dividend to preference C shareholders	-	1,400
	2,684	1,400

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14. Intangible assets

	Patents £000	Goodwill £000	Software £000	Total £000
As at 1 January 2007	1	11,730	16	11,747
Additions	-	474	-	474
Impairments	-	-	(6)	(6)
As at 31 December 2007	1	12,204	10	12,215
Additions	-	5,443	-	5,443
Impairments	-	(101)	-	(101)
As at 31 December 2008	1	17,546	10	17,557

When testing for impairment of goodwill the recoverable amount of each relevant cash generating subsidiary is determined based on cash flow projections. These cash flow projections are based on the financial budgets approved by management covering a five year period. Management also consider the current net asset value and earnings of each cash generating subsidiary. Management does not believe that a change in any of the key assumptions would cause the carrying value of each relevant cash generating subsidiary to materially exceed its recoverable amount.

The carrying amounts disclosed above for other intangible assets reasonably approximate their fair values at the balance sheet date.

15. Property, plant and equipment

	Computer equipment £000	Motor vehicles £000	Office equipment £000	Leasehold improvements £000	Total £000
Cost					
As at 1 January 2007	724	60	576	70	1,430
Exchange adjustments	(24)	-	(1)	-	(25)
Additions	81	-	51	-	132
Disposals	(31)	(21)	(3)	-	(55)
As at 31 December 2007	750	39	623	70	1,482
Exchange adjustments	36	-	16	3	55
Acquisition of subsidiary	22	-	9	8	39
Additions	88	50	74	-	212
Disposals	(36)	(34)	(22)	-	(92)
As at 31 December 2008	860	55	700	81	1,696
Depreciation					
As at 1 January 2007	576	36	456	70	1,138
Exchange adjustments	(23)	-	(1)	-	(24)
Charge for the year	106	13	99	-	218
Disposals	(31)	(21)	(3)	-	(55)
As at 31 December 2007	628	28	551	70	1,277
Exchange adjustments	27	-	9	-	36
Charge for the year	89	14	59	-	162
Disposals	(36)	(25)	(22)	-	(83)
As at 31 December 2008	708	17	597	70	1,392
Carrying amount					
As at 31 December 2008	152	38	103	11	304
As at 31 December 2007	122	11	72	-	205

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

15. Property, plant and equipment (continued)

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

As at 31 December 2008, the Group had no capital commitments (2007: £nil). The depreciation charge for the year is included in administrative expenses.

16. Financial assets

a. Investment properties

	2008	2007
	£000	£000
As at 31 December	1,336	1,108

The increase in the valuation of these properties is due to an exchange adjustment of £228,000 (2007: £21,000).

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

b.Financial investment assets at fair value through profit or loss (designated at initial recognition)

	2008	2007
	£000	£000
Equities	827	2,155
Debt securities – fixed interest rate	260,785	212,663
	261,612	214,818

In the normal course of business insurance company subsidiaries have deposited investments in 2008 of £18,285,620 (2007: £19,298,049) in respect of certain contracts in escrow which can only be released or withdrawn with the approval of the appropriate regulatory authority.

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

c. Shares in subsidiary undertakings and other investments

The Company has interests in the following principal subsidiaries at 31 December 2008, which, except where indicated, are registered in England and Wales:-

		% of ordinary shares held		Overall
Principal activity and name of subsidiaries	Country of incorporation /registration	The Company	Subsidiary undertakings	effective % of share capital held
Insurance companies in run-off				
Arran Insurance Company Ltd	England	-	100	100
Chevanstell Ltd	England	100	-	100
La Metropole SA	Belgium	100	-	100
Ludgate Insurance Company Ltd	England	-	100	100
R&Q Reinsurance Company	USA	-	100	100
R&Q Reinsurance Company (Belgium)	Belgium	100	-	100
R&Q Reinsurance Company (UK) Ltd	England	100	-	100
Transport Insurance Company	USA	-	100	100

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For the year ended 31 December 2008

Principal activity and name of subsidiaries	Country of incorporation /registration	% of ordinary shares held The Company	% of ordinary shares held Subsidiary undertakings	Overall effective % of share capital held
Insurance Services Division				
Cavell BCS, Inc.	USA	-	100	100
Cavell Managing Agency Ltd	England	100	-	100
Cavell Management Services Ltd	England	100	-	100
Cavell USA, Inc.	USA	-	100	100
Chevanstell Management Ltd	England	-	100	100
EC3 Solutions Ltd	England	100	-	100
Peter Blem Adjusters Ltd	England	-	100	100
Randall & Quilter Consultants Ltd	England	100	-	100
R&Q Broking Services Ltd	England	100	-	100
KMS Insurance Services Ltd	England	-	100	100
KMS Insurance Management Ltd	England	-	100	100
KMS Employment Ltd	England	-	100	100
Quest Management Services Ltd	Bermuda	-	100	100
Quest (SAC) Ltd	Bermuda	-	100	100
Sentry Intermediaries Ltd	Bermuda	-	100	100
Liquidity Management Division				
Reinsurance Finance Management Ltd	England	100	-	100
Investment / Property companies				
Malling Investments Ltd	England	-	100	100
Oast Holdings Ltd	England	100	-	100
Randall & Quilter France 43 SA	France	-	100	100
Randall & Quilter France 58 SA	France	-	100	100
Intermediate holding companies / Others				
Randall & Quilter America Holdings Inc (formerly Cavell America Inc)	USA	100	-	100
Instech Corporation	USA	-	100	100
Ken Randall Associates Ltd	England	100	-	100
R&Q No. 1 Ltd	England	100	-	100
R&Q Re (Bermuda) Ltd	Bermuda	100	-	100
Continuum Holdings Ltd	England	100	-	100
R&Q Bermuda Holdings Ltd	Bermuda	100	-	100
RedQuince Ltd	England	-	100	100

17. Insurance and other receivables

	2008 £000	2007 £000
Debtors arising from direct insurance operations	1,693	956
Debtors arising from reinsurance operations	21,626	30,697
Insurance receivables	23,319	31,653
Trade debtors	2,126	487
Other debtors/receivables	1,652	965
Prepayments and accrued income	7,061	3,948
	10,839	5,400
	34,158	37,053
Due within 12 months	33,892	36,624
Due after 12 months	266	429
	34,158	37,053

Pre-payments and accrued income includes £265,814 (2007: £429,343) in respect of pre contract costs which will be expensed after more than one year.

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

18. Cash and cash equivalents

	2008 £000	2007 £000
Cash at bank and in hand	68,189	57,681

Included in cash and cash equivalents is £460,331 (2007: £375,000) being funds held in escrow accounts in respect of guarantees provided to the Institute of London Underwriters (“ILU”). This increase is due to exchange movements. See Note 31.

In addition a further amount of £250,000 (2007: £250,000) is held in escrow in respect of an ongoing dispute.

In the normal course of business insurance company subsidiaries will have deposited funds in respect of certain contracts which can only be released with the approval of the appropriate regulatory authority.

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

19. Current income tax

	2008 £000	2007 £000
Current tax assets	2,845	269

20. Trade and other payables

	2008 £000	2007 £000
Structured liabilities	403,534	294,000
Structured settlements	(403,534)	(294,000)
	-	-
Creditors arising from reinsurance operations	16,083	11,753
Creditors arising from direct insurance operations	1,990	3,797
Insurance payables	18,073	15,550
Trade creditors	1,064	2,548
Other taxation and social security	406	399
Other creditors	3,058	163
Accruals and deferred income	3,837	3,356
	26,438	22,016
Due within 12 months	26,438	22,016
Due after 12 months	-	-
	26,438	22,016

No new structured settlement arrangements have been entered into during the year. The increase in these structured liabilities is due to exchange movements.

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

The Group has purchased annuities from third party life insurance companies for the benefit of certain claimants. In the event that any of these life insurance companies were unable to meet their obligations to these annuitants, any remaining liability would fall upon the respective insurance company subsidiaries. The Directors believe that, having regard to the quality of the security of the life insurance companies, the possibility of a material liability arising in this way is very unlikely. The life companies will settle the liability directly with the claimants and no cash will flow through the group. Accordingly, these assets and liabilities have been offset to reflect the substance of the transactions and to ensure that the disclosure of the balances does not detract from the users' ability to understand the Group's future cash flows.

In respect of the Quest group, the assets, liabilities of the segregated cells and the profits and losses of each cell are not available for use by the group, nor the Group, and as such these balances are not included in the consolidated balance sheet. The amounts held on behalf of the segregated cells as at 31 December 2008 amount to £44,488,000.

21. Financial liabilities

Total financial liabilities	**2008 £000**	**2007 £000**
Amounts owed to credit institutions	4,613	-
Amounts due to credit institutions are payable as follows:-		
Less than one year	536	-
Between one to five years	4,077	-
More than five years	-	-
	4,613	-

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

As outlined in Note 33 the amounts owed to credit institutions are secured by debentures over the assets of the Company, Randall & Quilter Consultants Limited and Cavell Management Services Limited.

22. Insurance contract provisions and reinsurance balances

Gross	**2008 £000**	**2007 £000**
Claims outstanding at 1 January	466,382	543,504
Claims paid	(45,263)	(61,722)
Release of reserves	(5,104)	(9,560)
Net exchange differences	155,175	(5,840)
As at 31 December	571,190	466,382
Reinsurance		
Reinsurers share of claims outstanding at 1 January	239,681	286,673
Reinsurers share of gross claims paid	(25,718)	(33,860)
Strengthening/(release) of reserves	3,153	(9,344)
Net exchange differences	80,534	(3,788)
As at 31 December	297,650	239,681
Net		
Net claims outstanding at 1 January	226,701	256,831
Net claims paid	(19,545)	(27,862)
Release of reserves	(8,257)	(216)
Net exchange differences	74,641	(2,052)
As at 31 December	273,540	226,701

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

22. Insurance contract provisions and reinsurance balances (continued)

Assumptions, changes in assumptions and sensitivity

The assumptions used in the estimation of reserves relating to insurance contracts are intended to result in provisions which are sufficient to settle the net liabilities from insurance contracts.

Provision is made at the balance sheet date for the estimated ultimate cost of settling all claims incurred in respect of events and developments up to that date, whether reported or not. The source of data used as inputs for the assumptions is primarily internal.

As detailed in Note 3 significant uncertainty exists as to the likely outcome of any particular claim and the ultimate costs of completing the run off of the Group's insurance operations.

The reserves carried by the Group insurance companies are calculated using a variety of actuarial techniques. The reserves are calculated and reviewed by the Group's internal actuarial team; in addition the Group periodically commissions independent external actuarial reviews. The use of external advisors provides management with additional comfort that the Groups internally produced statistics and trends are consistent with observable market information and other published data.

As detailed in Note 2 when preparing these consolidated financial statements full provision is made for all costs of running off the business of the insurance subsidiaries to the extent that the provision exceeds the estimated future investment return expected to be earned by those subsidiaries. The quantum of the costs of running off the business and the future investment income has been determined through the preparation of cash flow forecasts over the anticipated period of the run offs using internally prepared budgets and forecasts of expenditure, investment income and actuarially assessed settlement patterns for the gross reserves. The gross costs of running off the business are estimated to be fully covered by investment income.

Provisions for outstanding claims and IBNR are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. Insurance companies within the Group are covered by a variety of treaty, excess of loss and stop loss reinsurance programmes.

The reserves disclosed in the consolidated financial statements are sensitive to a variety of factors including:-

- Settlement and commutation activity of third party lead reinsurers.
- Development in the status of settlement and commutation negotiations being entered into by the Group.
- The financial strength of the Group's reinsurers and the risk that these entities could, in time, become insolvent or could otherwise default on payments.
- Future cost inflation of legal and other advisors who assist the Group with the settlement of claims.
- Changes in statute and legal precedent which could particularly impact reserves for asbestos, pollution and other latent exposures.
- Arbitration awards and other legal precedents which could particularly impact upon the presentation of both inwards and outwards claims on the Group's exposure to major catastrophe losses.

The assumptions that have the greatest effect on the measurement of the insurance contract provisions include those relating to reinsurance recoveries. A 1 percent reduction in reinsurers share of technical provisions would decrease net assets by £2,976,497 (2007: £2,396,840).

23. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 28 percent for the UK (2007: 28.5 percent) and 35 percent for the US (2007: 35 percent).

Deferred tax assets and liabilities

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS12) during the year are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

	Deferred tax assets £000	Deferred tax liabilities £000	Total £000
As at 1 January 2007	3,082	(4,888)	(1,806)
Credit for the year	2,238	545	2,783
As at 31 December 2007	5,320	(4,343)	977
(Charge)/credit for the year	(2,290)	1,757	(533)
As at 31 December 2008	3,030	(2,586)	444

The deferred tax assets are not wholly recoverable within 12 months.
The movement on the deferred tax account is shown below:-

	Accelerated capital allowances £000	Trading losses £000	Pension scheme surplus/ (deficit) £000	Other timing differences £000	Total £000
As at 1 January 2007	48	-	(70)	(1,784)	(1,806)
Movement in year	1	-	70	2,712	2,783
As at 31 December 2007	49	-	-	928	977
Movement in year	4	-	-	(537)	(533)
As at 31 December 2008	53	-	-	391	444

Movements in the provisions for deferred taxation are disclosed in the financial statements as follows:-

	On acquisition of subsidiary £000	Exchange adjustment £000	Deferred tax in income statement £000	Deferred tax in statement of recognised income and expense £000	Total £000
Movement in 2007	-	-	2,579	204	2,783
Movement in 2008	-	(172)	(417)	56	(533)

24. Share capital

	2008 £	2007 £
Authorised		
63,000,000 Ordinary Shares of 2p each	1,260,000	1,260,000
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,260,002	1,260,002
Allotted, called up and fully paid		
55,913,000 Ordinary Shares of 2p each (2007: 55,902,500 Ordinary shares of 2p each)	1,118,260	1,118,050
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,118,262	1,118,052
Included in:		
Equity		
55,913,000 Ordinary Shares of 2p each (2007: 55,902,500 Ordinary shares of 2p each)	1,118,260	1,118,050
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,118,262	1,118,052

Treasury Shares

The Group's Employee Benefit Trust ("EBT") purchased 921,000 Ordinary shares during the year. The total amount paid was £1,197,000 and deducted from shareholders' equity as shown in note 25.

Cumulative Redeemable Preference Shares

Preference A and B Shares have rights, inter alia, to receive distributions in priority to Ordinary shareholders of distributable profits of the Company derived from certain subsidiaries:-

- Preference A Share, one half of all distributions arising from the Company's investment in R&Q Reinsurance Company up to a maximum of $5m.
- Preference B Share, one half of all distributions arising from the Company's investment in R&Q Reinsurance Company (UK) Ltd up to a maximum of $10m.

The Preference A and Preference B Shares have been classified as equity on the basis that redemption dates are not prescribed in the Memorandum and Articles of Association and as such there is no contractual obligation to deliver cash.

The following options were in place during the year:-

	Brought forward	Exercised	Granted *	Carried forward
Number of options	1,430,000	(10,500)	640,000	2,059,500

* Of the 640,000 options granted during the year, 500,000 were granted to J McArthur, a director of certain subsidiary companies, at an exercise price of 2p.

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25. Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent

	Share capital £000	Shares to be issued £000	Share premium account £000	Capital redemption reserve £000	Treasury share reserve £000	Retained profit £000	Total £000
2008							
As at 1 January	1,118	151	17,250	-	-	56,177	74,696
Issue of shares	-	(1)	5	-	-	-	4
Treasury shares	-	-	-	-	(1,197)	-	(1,197)
Total recognised income and expense	-	-	-	-	-	10,039	10,039
Dividends	-	-	-	-	-	(2,684)	(2,684)
As at 31 December	1,118	150	17,255	-	(1,197)	63,532	80,858
2007							
As at 1 January	-	-	1,022	134	-	50,059	51,215
Redemption of Preference D shares	-	-	-	116	-	(116)	-
Issue of shares	618	-	20,544	-	-	-	21,162
Bonus issue of shares	500	-	(250)	(250)	-	-	-
Expenses of share issue	-	-	(4,066)	-	-	-	(4,066)
Share based payments	-	151	-	-	-	-	151
Total recognised income and expense	-	-	-	-	-	7,634	7,634
Dividends	-	-	-	-	-	(1,400)	(1,400)
As at 31 December	1,118	151	17,250	-	-	56,177	74,696

26. Employee Benefit Trust

	2008 £000	2007 £000
Balance as at 1 January	-	-
Payment to EBT	1,500	40
Allocated to employees	-	(40)
Balance as at 31 December	1,500	-

The EBT has purchased 921,000 Ordinary shares held in Treasury during the year. The value at the year end was £1,197,000. These will be used to meet the future exercise of employee options.

27. Employees and Directors

Employee benefit expense for the Group during the year

	2008 £000	2007 £000
Wages and salaries	9,007	8,386
Social security costs	1,240	1,106
Pension costs	952	956
Share based payment charge	-	748
	11,199	11,196

Pension costs are recognised in operating expenses in the income statement and include £859,000 (2007: £866,000) in respect of payments to defined contribution schemes and £97,000 (2007: £505,000, of which £461,000 relates to past service costs) in respect of defined benefit schemes.

Average number of employees	2008 Number	2007 Number
Group investment activities	12	12
Insurance services	170	154
	182	166

Remuneration of the Directors and key management

	2008 £000	2007 £000
Aggregate Director emoluments	676	488
Aggregate key management emoluments	1,018	923
Share based payments – key management	-	480
Director pension contributions	82	22
Key management pension contributions	95	60
	1,871	1,973

Highest paid Director		
Aggregate emoluments	323	243
	323	243

Two Directors have retirement benefits accruing under money purchase pension schemes (2007: One).
No Director has been granted any share options in respect of qualifying services under a long term incentive plan.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

28. Pension commitments

The defined benefit scheme is fully funded, with assets held in separate trustee administered funds. The pension cost was assessed by an independent qualified actuary. In his valuation the actuary used the projected unit method as the scheme is closed to new employees. A full valuation of the scheme was carried out as at 1 January 2006 by a qualified independent actuary. The next valuation is due in mid 2009; in view of the extreme turbulence in capital markets it is to be expected that these valuations may have an impact on these figures.

On 2 December 2003 the scheme was closed to future accruals although the scheme continues to remain in full force and effect for members at that date.

The assets and liabilities in respect to the group's defined benefit scheme on an IAS19 valuation basis are as follows:-

	2008 £000	2007 £000
Total market value of scheme assets	21,495	25,136
Present value of scheme liabilities	(19,536)	(21,200)
Gross defined benefit asset	1,959	3,936

As required by IAS19, the amount of any pension asset is restricted by reference to any cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits in the form of refunds from the scheme, or reduction in future contributions in the scheme. Therefore no pension asset is recognised in respect of 2008.

All actuarial losses are recognised in full in the statement of recognised income and expense in the period in which they occur.

The main financial assumptions used to calculate the scheme assets and liabilities are:-

	2008	2007
Inflation rate	2.7%	3.4%
Projected return on assets	6.4%	6.8%
Pension increase	2.7%	3.4%
Deferred pension increases	2.7%	3.4%
Discount rate	6.5%	5.9%
Mortality table used:-		
Pre-retirement mortality	PA92(C=2020)-4	PA92(C=2020)-4
Post retirement mortality	PA92(C=2020)-2	PA92(C=2020)-2

The amounts recognised in the income statement in respect of the defined benefit scheme are as follows:-

	2008 £000	2007 £000
Current service cost (operating expense)	(63)	(97)
Past service cost (operating expense)	-	-
Interest cost (other income)	(1,250)	(1,199)
Expected return on plan assets (other income)	1,463	1,581
	150	285

The expected return on assets is calculated using the assets, market conditions and long term expected rate of interest set at the start of the accounting period. This amount is then adjusted to take account of interest on contributions paid up or benefits paid out over the accounting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

28. Pension commitments (continued)

The amounts (charged)/credited directly to equity are:-

	2008 £000	2007 £000
Actual return less expected return on assets	(4,542)	561
Experience losses arising on obligations	(249)	(279)
Changes in assumptions	2,617	2,975
Amount not recognised due to restriction on recovery (as required by IAS19)	1,977	(3,704)
Total actuarial losses charged in the statement of recognised income and expense	(197)	(447)

Movements in the present value of the defined benefit obligation are as follows:-

	2008 £000	2007 £000
Surplus in the scheme as at 1 January	3,936	232
Current service costs	(63)	(97)
Past service costs	-	-
Contributions by employer	47	162
Actuarial (loss)/gain	(2,174)	3,257
Other financial income	213	382
Surplus in the scheme as at 31 December	1,959	3,936

The major categories of assets as a percentage of the total plan assets are as follows:-

	2008	2007
Equity securities	49.3%	50.4%
Debt securities	41.3%	36.4%
Property	5.3%	5.9%
Cash	4.1%	7.3%

29. Related party transactions

- The following Directors received dividends during the year as follows:-

	2008 £	2007 £
K E Randall	1,046,592	911,400
A K Quilter	233,544	350,000
K P McNamara	1,344	-

- Mr and Mrs Randall received £25,000 (2007: £25,000) for rent due for property used by the Group.
- RCP Incubation Services Limited a company of which Mr Randall has an indirect interest, was charged £35,750 for rent, rates and service charges for use of group owned property.
- Jo Welman, a Director, is also a Director of EPIC Investment Partners and its subsidiary EPIC Asset Management Ltd which provides investment management services to various group subsidiaries. In total, fees paid to EPIC by the group amounted to £111,578 (2007: £86,000).
- At the year end the Group held an investment of 1,500,000 (2007: 1,500,000) Capital Shares in the Equity Partnership Investment Company Plc with a current market value of approximately £450,000.

30. Operating lease commitments

The total future minimum lease payments payable over the remaining terms of non-cancellable operating leases are:-

	2008 £000	2007 £000
Land and buildings		
Expiring within one year	61	-
Expiring within two and five years	1,797	2,422
Expiring after five years	-	-
Other		
Expiring within one year	9	-
Expiring within two and five years	56	100
Expiring after five years	-	-

The Group leases a number of premises under operating leases. The Group has entered into a number of sublease arrangements with third parties. Sublease arrangements in force as at 31 December 2008 are due to expire within one to five years of the balance sheet date.

It is anticipated that sublease income of £599,000 (2007: £1,900,000) will be earned over the lease term.

31. Contingent liabilities

As a condition of the acquisition of R&Q Re (UK), the Company entered into an assignment, assumption and indemnity agreement to counter-indemnify the ACE Group in respect of two guarantees given by ACE in favour of the Institute of London Underwriters for certain policies written by R&Q Re (UK). This counter-indemnity is unlimited in amount.

As a condition of the acquisition of Chevanstell, the Company entered into a deed of indemnity with Tryg Forsikring A/S to counter-indemnify it for four guarantees given in respect of certain policies written by Chevanstell. The aggregate limit of this counter-indemnity is £9,000,000.

The Directors believe that it is very unlikely that either of these counter-indemnities will be called upon.

32. Business Combinations

On 16 September 2008 the Group purchased the entire issued share capital of Continuum Holdings Limited, a company incorporated in England and its wholly owned subsidiaries KMS Insurance Management Limited, KMS Insurance Services Limited, KMS Employment Limited and RedQuince Limited.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £1,298,000. Positive goodwill of £578,000 arose. The reasoning behind this acquisition is detailed in the Chairman's statement.

The following table explains the fair value adjustments made to the book values of the major categories of assets and liabilities included in the consolidated financial statements at the date of acquisition.

	Fair value £000
Other debtors	257
Cash	1,494
Fixed assets	7
Other creditors	(460)
Net assets acquired	1,298
Satisfied by	
Acquisition costs paid	(1,876)
Positive goodwill (see note 14)	(578)

Post acquisition revenue amounted to £1,745,000 and post-acquisition profits before tax amounted to £447,000. If the Group had purchased the company at the start of the year its contribution to the Group revenue would have been £2,647,000 and to profit before tax would have been £431,000.

On 31 December 2008 the Group purchased the entire issued share capital of Quest Management Services Limited, Quest (SAC) Limited and Sentry Intermediaries Limited. These companies are 100% subsidiaries of Randall & Quilter Bermuda Holdings Limited, itself a wholly owned subsidiary of Randall & Quilter Investment Holdings plc.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £506,000. Positive goodwill of £4,764,000 arose. The reasoning behind this acquisition is detailed in the Chairman's statement.

The following table explains the fair value adjustments made to the book values of the major categories of assets and liabilities included in the consolidated financial statements at the date of acquisition.

	Fair value £000
Other debtors	448
Cash	118
Fixed assets	43
Other creditors	(103)
Net assets acquired	506
Satisfied by	
Acquisition costs paid	(4,387)
Contingent consideration	(883)
Positive goodwill (see note 14)	(4,764)

Post acquisition revenue amounted to £nil and post-acquisition profits before tax amounted to £nil. If the Group had purchased the company at the start of the year its contribution to the Group revenue would have been £2,288,000 and to profit before tax would have been £552,000.

33. Inter-company guarantee and debenture

The Company has entered into a guarantee agreement and debenture arrangement with its bankers, along with its subsidiaries, Randall & Quilter Consultants Limited and Cavell Management Services Limited, in respect of the Group overdraft and term loan facilities. The total liability to the bank of these companies at 31 December 2008 is £4,613,932 (2007: £nil).

Parent Company Balance Sheet

As at 31 December 2008

	Note	2008 £000	2007 £000
Fixed assets			
Intangible assets	3	1	1
Investments	4	29,617	23,628
		29,618	23,629
Current assets			
Debtors	5	1,584	502
Cash at bank and in hand		7,075	3,665
		8,659	4,167
Creditors: amounts falling due within one year	6	(1,998)	(4,591)
Provisions	7	(883)	-
Net current assets/(liabilities)		5,778	(424)
Total assets less current liabilities		35,396	23,205
Creditors: amounts falling due after more than one year	6	(9,168)	(4,400)
		26,228	18,805
Capital and reserves			
Called up share capital	8	1,118	1,118
Share premium account	9	17,255	17,250
Shares to be issued	9	150	151
Treasury share reserve	9	(1,197)	-
Profit and loss account	9	8,902	286
Equity shareholders' funds		26,228	18,805

The financial statements were approved by the Board of Directors on 5 May 2009 and were signed on its behalf by:-

K E Randall

A K Quilter

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2008

1. Accounting policies

a. Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules. No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985 ("the Act"). The balance sheet of the Company has been prepared in accordance with section 226A of, and Schedule 4 to, the Act.

b. Cash flow statements

Under financial reporting standard number 1, cash flow statements, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

c. Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets on a straight-line basis over their estimated useful economic lives as follows:-

Leasehold improvements	Term of lease

d. Taxation

Taxation charged in the profit and loss account is based on the profits of the year as determined in accordance with the relevant tax legislation together with adjustments for prior years.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities have not been discounted.

e. Investments

Investments in company undertakings and associates are stated at cost less provisions for impairment.

f. Investment income

Interest income comprises interest, dividends, realised and unrealised gains and losses on financial assets held at fair value through profit or loss.

The fair value of unrealised gains and losses is calculated as the difference between the current fair value at the balance sheet date and fair value at date of acquisition adjusted for previously recognised unrealised gains and losses of financial assets disposed of in the year.

Realised gains and losses are calculated as the difference between the net sales proceeds and the fair value at the previous balance sheet date or date of acquisition if in the year.

Dividend income is recognised when the right to receive income is established.

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2008

1. Accounting policies (continued)

g. Share based payments

The Company issues equity share based payments to certain of the Group's employees.

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense in the relevant subsidiary on a straight line basis over the vesting period and as an increase in the cost of investment in the company. The fair value is measured using the binomial option pricing method, taking into account the terms and conditions on which the awards were granted.

h. Share premium account

Incremental costs attributable to the issue of equity instrument are shown as a deduction from equity from the proceeds through the share premium account, net of tax.

i. Foreign exchange

Transactions in foreign currencies are initially recorded at the date of the transaction, monetary assets are retranslated at the balance sheet date, resulting exchange gain or loss is recognised in the profit and loss account.

j. Finance costs

Finance costs comprise interest payable to bank and redemption costs on preference shares. Finance costs are recognised in the profit and loss account. Arrangement fees in relation to bank facilities are deducted from the relevant loan and amortised over the period of the facility.

2. Staff costs and Directors' emoluments

No staff were employed by the Company (2007: none).

Directors' emoluments are included within Note 27 of the group financial statements.

3. Intangible assets

	Patents £000	Total £000
Cost and net book value		
As at 1 January and 31 December 2008	1	1

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2008

4. Investments

	Investment in Subsidiary Undertakings	Loans to Subsidiary Undertakings	Total
	£000	£000	£000
Cost			
As at 1 January 2008	20,601	3,277	23,878
Foreign currency exchange	-	1,074	1,074
Additions in the year	7,312	30	7,342
Capital release	(2,427)	-	(2,427)
As at 31 December 2008	25,486	4,381	29,867
Provision for impairment			
As at 1 January 2008	(250)	-	(250)
As at 31 December 2008	(250)	-	(250)
Net book value			
As at 31 December 2008	25,236	4,381	29,617
As at 31 December 2007	20,351	3,277	23,628

Included in the loans to subsidiary undertakings are:-

(a) A subordinated loan of £375,000 provided to Cavell Managing Agency Limited. This loan is non interest bearing and is not repayable before 31 December 2009.

(b) A loan of $5,664,000 to Cavell America in relation to the acquisition by that Company of R&Q Reinsurance Company. It is non interest bearing and is repayable out of realisations received from R&Q Reinsurance Company. In the event of the non recovery of this loan Cavell America has agreed to surrender all or part of its holding in R&Q Reinsurance Company to the Company.

5. Debtors

	2008	2007
	£000	£000
Amounts due from subsidiaries	1,083	98
Other debtors	105	130
Prepayments and accrued income	396	274
	1,584	502

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2008

6. Creditors

	2008 £000	2007 £000
Bank loans	4,613	-
Other creditors	214	1,135
Amounts due to subsidiaries	5,533	6,672
Accruals and deferred income	807	1,184
	11,167	8,991
These borrowings are repayable as follows:-		
In one year or less, or on demand	1,999	4,591
Between two and five years	9,168	4,400
	11,167	8,991

Included in the amounts due to subsidiaries above is a loan of £5,000,000 from R&Q Reinsurance Company (UK) Limited.

7. Provisions

The purchase of the Quest companies includes a contingent liability of £882,800 payable if certain performance targets are achieved and the fair values of the assets are confirmed.

8. Share capital

	2008 £	2007 £
Authorised		
63,000,000 Ordinary Shares of 2p each	1,260,000	1,260,000
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,260,002	1,260,002
Allotted, called up and fully paid		
55,913,000 Ordinary Shares of 2p each (2007: 55,902,500 Ordinary shares of 2p each)	1,118,260	1,118,050
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,118,262	1,118,052
Included in:		
Equity		
55,913,000 Ordinary Shares of 2p each (2007: 55,902,500 Ordinary shares of 2p each)	1,118,260	1,118,050
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,118,262	1,118,052

Further details of the share capital are included in note 24 of the group financial statements.

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2008

9. Reserves

	Share capital £000	Share premium account £000	Shares to be issued £000	Treasury shares £000	Retained profit £000	Total £000
2008						
At 1 January	1,118	17,250	151	-	286	18,805
Issue of shares	-	5	(1)	-	-	4
Treasury shares	-	-	-	(1,197)	-	(1,197)
Total recognised income and expense	-	-	-	-	11,300	11,300
Dividends	-	-	-	-	(2,684)	(2,684)
At 31 December	1,118	17,255	150	(1,197)	8,902	26,228

	Share capital £000	Share premium account £000	Shares to be issued £000	Capital redemption shares £000	Retained profit £000	Total £000
2007						
At 1 January	-	1,022	-	134	692	1,848
Redemption of Preference D shares	-	-	-	116	(116)	-
Issue of shares	618	20,544	-	-	-	21,162
Bonus issue of shares	500	(250)	-	(250)	-	-
Expenses of share issue	-	(4,066)	-	-	-	(4,066)
Share based payments	-	-	151	-	-	151
Total recognised income and expense	-	-	-	-	1,110	1,110
Dividends	-	-	-	-	(1,400)	(1,400)
At 31 December	1,118	17,250	151	-	286	18,805

10. Related party transactions

Details of the related party transactions are included in Note 29 of the Group financial statements.

Principal Office Locations

Randall & Quilter Investment Holdings Plc
9-13 Fenchurch Buildings, London EC3M 5HR

INSURANCE SERVICES DIVISION

UK Offices

9-13 Fenchurch Buildings
London EC3M 5HR

Rose Lane Business Centre
51-59 Rose Lane
PO Box 62, Norwich
Norfolk NR1 1JY

8th Floor, Kent House
Romney Place
Maidstone
Kent ME15 6LT

America House
2 America Square
London EC3N 2LU

US Offices

2 Central Square
Cambridge MA 02139-3311

United Plaza
30 South 17th Street
Suite 715
Philadelphia PA 19103

1300 Highland Park
Suite 103
Cumberland RI 02864

Bermuda Office

16 Church Street
P.O. Box HM2062
Hamilton
Bermuda

R&Q

9-13 Fenchurch Buildings, London EC3M 5HR
T +44 (0) 20 7481 1010 **F** +44 (0) 20 7780 5851
W www.rqih.co.uk

052481 xactive.co.uk