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R&Q

Annual Report and Financial Statements
Randall & Quilter Investment Holdings plc

31 December 2009

The Company's registration number is 03671097

Financial Statements

For the year ended 31 December 2009

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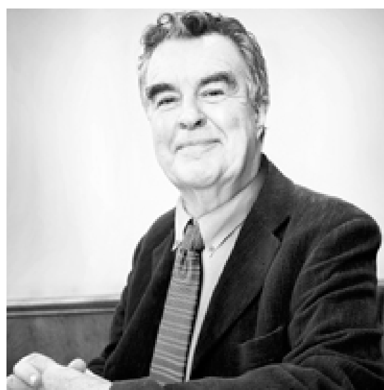
Financial Statements

For the year ended 31 December 2009

Directors and Advisers



Directors, clockwise from top left

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

Secretary
M L Glover

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Registered Number
03671097

Highlights and Summary of Results

For the year ended 31 December 2009

Financial

- Total group income up 17% at £26.4m (2008: £22.5m)
- Profit before tax of £0.26m (2008: £8.76m)
- Second interim dividend of 4.2p, paid on 19 March 2010, bringing total to 7.0p for 2009 (2008: 7.0p)
- Undiscounted net asset value per share of 133.8p (2008: 144.6p)
- Net assets of £74.8m (2008: £80.9m) compared with the position as at 30 June 2009 (£75.6m)
- Total group net investment income of £11.4m (2008: £12.0m), a return of 4.1%, despite the volatile financial markets and very low interest rates prevailing through the period
- Net insurance provisions released of £1.6m (2008: £8.3m), a satisfactory outcome given the substantial settlement with Equitas from R&Q Re (UK)

Operational

- Launch of new Underwriting Management Division
- Acquisition of the Woolworths Captive and Goldstreet Insurance Company
- Successful transfer of the assets and liabilities of Arran Insurance Company into Chevanstell to maximise the Group's capital efficiency and accelerate further potential capital releases
- Acquisition of R K Carvill Legacy portfolio, the first broker run-off acquired by the Group
- Full integration of the Quest Group of companies, a leading independent captive manager in Bermuda, following acquisition in December 2008
- First Lloyd's Reinsurance to Close transaction with a profit sharing management contract for Syndicate 3330

Since year end

- 'In principle' approval from Lloyd's to act as 'Turnkey' managing agent and agreement to assist a major European insurer with its application to form a new syndicate to commence underwriting in the last quarter of 2010
- Acquisition of JMD Specialist Insurance Services, a provider of premium collection, binding authority and broker reporting services to the Lloyd's market, broadening the Group's service offering to the 'live' insurance market
- Completion of the Group's first acquisition of a French run off company, La Licorne, demonstrating the benefits of our strategic partnership with GLOBAL Re
- New joint venture captive management company in the Nordic region
- Acquisition of Callidus, a specialist provider of company secretarial and compliance services to the London insurance market
- Agreement of a further broker run-off servicing contract
- New operational structure created under four divisions:

Insurance Investments | Insurance Services | Underwriting Management | Captives

Financial Results 2009

GROUP RESULTS	2009 £'000	2008 £'000
Operating profit	413	8,847
Profit on ordinary activities before income taxes	259	8,763
(Loss)/Profit after tax	(171)	6,017
Earnings per share (Basic)	(0.3p)	10.8
Total net assets	74,814	80,858

Chairman's Statement and Business Review

For the year ended 31 December 2009

I am pleased to report that Randall & Quilter achieved a small profit overall for 2009 of £0.26m before tax (2008: £8.76m) in spite of the disappointing outcome of the dispute with Equitas and our subsequent decision to reach a settlement to end the uncertainty facing the Group.

I am pleased to report that Randall & Quilter achieved a small profit overall for 2009 of £0.26m before tax (2008: £8.76m) in spite of the disappointing outcome of the dispute with Equitas and our subsequent decision to reach a settlement to end the uncertainty facing the Group.

Each of our three operating divisions once again traded profitably during the year.

The Group's net assets at year-end were £74.8m (2008: £80.9m), the reduction primarily due to dividend payments of £2.8m and the impact of foreign exchange movements of £2.7m.

In addition to the impact of the settlement with Equitas and the associated legal costs, unprecedented low global interest rates during the year also reduced the investment earnings on funds held by our owned insurance companies.

A second interim dividend of 4.2p per share was paid on 19 March 2010, bringing the total dividend in respect of 2009 to 7.0p per share. In light of this second interim, no final dividend has been recommended for the year. The fact we were able to maintain our dividend proves the strength of our diversified business model.

As a reflection of our confidence in the future and in order to increase the predictability of the Group's payout, our objective is to increase total distributions to shareholders by at least 5 per cent per annum from the current base of 7.0p per share, absent unforeseen circumstances. The Company may also pay additional distributions to shareholders in the event that there is a significant capital extraction from the owned insurance company portfolio and there are no value enhancing acquisition opportunities to which the capital can be redeployed in the foreseeable future.

The Group will maintain the approximate 40%/60% split between interim and final dividend payments and is currently examining certain alternative methods for making distributions to shareholders.

During 2009 we responded to a number of invitations to bid for US, Bermudian, UK and European domiciled insurers in run-off. Many of these transactions were completed at prices which did not fit our investment criteria, especially where the portfolios were larger in size and attracted interest from a number of less discerning, capital rich run-off industry participants. Having said that, we are pleased to have completed three acquisitions since June 2009; Woolworths Insurance (Guernsey) Limited, Goldstreet Insurance Company in New York and La Licorne in France. These transactions all bring strong strategic benefits to the Group and we continue to pursue other similar opportunities.

Chairman’s Statement and Business Review

For the year ended 31 December 2009

We also executed the transfer of the business of Arran Insurance Company into Chevanstell, which is an important step in our ongoing efforts to maximise the capital efficiency of the Group and accelerate potential further capital releases.

We continue to see a number of niche opportunities in the run-off acquisition market and I am pleased to report that there are tentative signs of increasing levels of activity at the smaller end of the market where we are focused, perhaps in response to the continuing refocus of corporates on core operations and the disposal of peripheral assets. We are also being presented with captive acquisition opportunities and this is an added source of deals for the Group following the recent expansion into this area through the Quest and Woolworths acquisitions. Our recently enlarged deal team ensures that we act ever more responsively to vendor requests and our expertise, good regulatory relationships and structural innovation, positions us well for the future.

In March, we announced our first involvement in an RITC transaction, having assumed the management of syndicate 3330, financially backed by the Advent Group. There are other similar opportunities which the Group is looking to pursue which would involve assuming ownership and management of dedicated syndicates providing finality to open years of account of Lloyd’s syndicates.

There are also a number of exciting and sizeable opportunities for purchasing portfolios of reinsurance debt which we are examining, a reflection of the growing activity in this area of the market.

Both the RITC and reinsurance debt purchase activities will in future form part of the newly named Insurance Investments division, which will also house our owned insurance company portfolio (formerly the Insurance Company Division).

Our focus in 2009 has also been on developing new areas for growth in Underwriting Management and Captives and establishing the foundations for expansion of our service offering, especially in the ‘live’ market. The latter has been achieved through making some complementary acquisitions as well as implementing an internal reorganisation and establishing cross-selling initiatives.

Turning first to Underwriting Management, we are delighted to have received ‘in principle’ approval from Lloyd’s to act as a ‘Turnkey’ managing agent and particularly to be already assisting a major European insurer in its application to set up a new syndicate with a proposed launch date of Q4 2010. The new Underwriting Management division is an exciting development for the Group and we look forward to providing further updates on our progress in due course. As well as expansion of our turnkey operations, we hope to develop delegated underwriting facilities under the R&Q banner and provide underwriting capital support not just from our own balance sheet but also from established third party sources.

Our medium term aim is for Randall & Quilter to become the platform of choice for high quality underwriting teams starting up at Lloyd’s with a full offering of capital support and back office services as well as ‘Turnkey’ management.

Our Captive operations were accelerated by the acquisition of the Quest Group of Companies in Bermuda in late 2008 and the purchase of the Woolworths captive in June. During the first part of 2010 we established a joint venture company in the Nordic region which aims to provide regulatory, accounting, consulting and other management services to local captive clients and should give the Group enhanced access to captive acquisition opportunities.

We believe that there are numerous consolidation opportunities in the highly fragmented captive management marketplace and our focus will be as much on-shore as off-shore. It is apparent that there is a demand for a quality independent captive management provider of scale in many jurisdictions across North America and Europe and R&Q is well placed to meet this need. We hope that this area of our operations will be a significant contributor to top and bottom line growth in the future and its relative importance is the reason why we have now created a separate division for our Captive management operations, formerly part of the Insurance Services Division. Any captive acquisition such as Woolworths will form part of the new Insurance Investments Division.

Whilst a significant part of the Group’s revenue in the Insurance Services Division (”ISD”) is derived from our owned insurance company portfolio and a number of our external contracts are multi-year in duration, we were affected by somewhat tougher trading conditions in the run-off servicing market during 2009. These conditions were brought about by few new available mandates, which resulted in a disappointing contribution from new business and competitive pressures on certain of the Group’s existing third party contracts which came up for renewal during the year.

To counter these more competitive external market conditions and increase market recognition of the scale and breadth of our offering, we have redoubled our marketing efforts and rebranded our extensive service operations under the R&Q banner. The success of these measures is already being felt and we have made pleasing progress during the early part of 2010 with some new contract wins. We have also implemented various cost cutting measures to help restore the margin on some of the third party business which has renewed at lower rates.

These measures led to a number of redundancy costs, which together with the investment required to launch the Underwriting Management division and grow the broker replacement services operations impacted further on the ISD profits for the year. We will however reap the benefits of these actions in the current financial year and beyond.

During the year we also put the foundations in place to expand our services offering. The recent acquisitions and internal reorganisation and rebranding are proof of our progress, especially in the 'live' market arena, where we hope to drive much of our future organic growth. We also continue to pursue a number of complementary service businesses to fuel our growth in the UK, US and beyond in both the 'run-off' and 'live' markets.

The acquisition of JMD Specialist Insurance Services in January 2010, a provider of premium collection, binding authority and broker reporting services to the Lloyd's market, extends our capabilities in the growing credit control and coverholder audit areas. The acquisition of the R K Carvill legacy portfolio in December 2009, our first broker run-off, now augmented by another broker run-off servicing contract serves increases our presence in broker replacement services.

We believe that the Group is well placed to continue growing its run-off service operations despite the recent competitive pressures and to harness the significant growth potential of the 'live' service market.

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

Business Review

Until the rebranding and internal reorganisation completed in March, the Group comprised three operating divisions; the Insurance Company Division ("ICD"), the Insurance Services Division ("ISD") and the Liquidity Management Division ("LMD"). For consistency, this review will follow the old divisional structure which was in place throughout 2009.

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.

During December 2009, we announced the successful completion of the transfer of all the outstanding assets and liabilities of Arran Insurance Company into Chevanstell Limited. This is an important step in the Group's drive to maximise the capital efficiency of its portfolio by extracting the substantial diversification and solvency benefits arising from consolidating its insurance company portfolio. As a result of this transfer, the surplus of Chevanstell has increased and we are currently investigating the possibility of a further release of capital.

Two new insurance companies were acquired during 2009: Woolworths Insurance (Guernsey) Limited (now R&Q Insurance (Guernsey) Limited) and Goldstreet Insurance Company in New York.

At 31 December 2009, the portfolio of acquired insurance companies under ownership was as follows:-

	Vendor	Country of Incorporation	Acquisition Date	NAV* £m (as at 31/12/09)	NAV* £m (as at 31/12/08)
La Metropole SA ("La Met")	Travelers Group	Belgium	29 Nov 2000	0.2	0.2
Transport Insurance Company ("Transport")	American Financial Group	USA	30 Nov 2004	8.1	9.6
R&Q Reinsurance Company (UK) Limited ("R&Q Re (UK)")	Ace Group	UK	3 July 2006	4.2	12.2
R&Q Reinsurance Company (Belgium) ("R&Q Re (Belgium)")	Ace Group	Belgium	3 July 2006	2.6	3.5
R&Q Reinsurance Company ("R&Q Re (US)")	Ace Group	USA	3 July 2006	15.1	9.7
Chevanstell Limited ("Chevanstell")	Trygg Forsikring	UK	10 Nov 2006	28.2	26.0
R&Q Insurance (Guernsey) Limited ("R&Q Guernsey")	Deloitte LLP Administrators for Woolworths Group plc	Guernsey	9 June 2009	1.6	-
Goldstreet Insurance Company ("Goldstreet")	Sequa Corporation & Columbia Insurance Company	US	16 Nov 2009	6.1	-
TOTAL				**66.1**	**61.2**

* IFRS basis for Group consolidation purposes

Chairman's Statement and Business Review

For the year ended 31 December 2009

Insurance Company Division (Continued)

Further to the announcement on April 23, we have also now acquired La Licorne S.A ("La Licorne") in France from MAAF Assurances SA for €3.2m. La Licorne had audited net assets of €4.2m as at 31 December 2009, up from the €3.7m as at 31 December 2008 reported on in the recent acquisition announcement.

Investment Policy and Returns

The investment return on funds held by our insurance companies is a key component of the performance of the ICD and despite the unprecedented low level of interest rates throughout the period, I am pleased to report that the Group investment return for the year was 4.1% generating £11.4m (2008: 4.1% generating £12.0m).

Our assets are divided into two fixed income portfolios; a US Dollar portfolio, comprising of the assets of R&Q Re (US) and Goldstreet; and a mixed currency portfolio (split between Sterling and US Dollars) comprising of the assets of the remainder of the Group's owned insurance companies.

As at 31 December 2009, the total investments in the US Dollar portfolio amounted to $256.7m and in the mixed currency portfolio to an equivalent of £75.2m (split between £33.0m of Sterling assets and $60.8m of Dollar assets). The investment returns for 2009 were 3.88% and 4.5% for the two portfolios respectively.

At 31 December 2009 the average duration of the US Dollar portfolio was 1.6 years whilst the average duration for the Sterling and Dollars parts of the mixed currency portfolio were 1.9 years and 1.0 years respectively.

The fixed income portfolio breakdowns by credit rating and asset class were as follows:-

Credit Rating:-

	US Portfolio	Mixed Currency Portfolio	
As at 31 December 2009		**USD**	**GBP**
Government Bonds & Govt Guaranteed	60.4%	0.9%	0.0%
AAA	0.0%	3.5%	5.1%
AA	9.8%	30.6%	23.5%
A	26.5%	45.6%	28.0%
BBB	3.3%	4.4%	24.5%
BB	0.0%	0.0%	18.6%
P-1	0.0%	15.0%	0.3%
	100.0%	100.0%	100.0%

comprises the step-up perpetuals discussed in more detail below.

As previously reported, within the mixed currency portfolio, the Group has invested in subordinated bank debt known as step-up perpetuals. The total market value of these assets as at 31 December 2009 was £8.16m. For the year as a whole, the Group incurred an unrealised loss of £1.58m in relation to these investments which, though disappointing, is a considerable improvement on the positions reported on in last year's results statement and in the Group's 2009 interim results. In the first 3 months of 2010 there has also been a further increase in value of these securities of £0.8m. Our current intention is to hold these investments (which as at 31 March 2010 have an aggregate running yield of 8.4%) until their anticipated call dates. A very small portion of Group funds, amounting to £0.3m as at 31 December 2009 were held in equities.

The Group outsources investment management responsibilities for the US Dollar portfolio to BNY Mellon in the US , and for the mixed currency portfolio to Halbis Capital Management (UK) Limited ("Halbis"), part of HSBC Global Asset Management. Halbis is to be newly appointed after a thorough performance review process and an analysis of the Group's ongoing investment objectives, details of which are discussed below.

The Group's overall investment objectives include:

- optimising return whilst maintaining the principal value of the investments held
- keeping average duration short in order to provide funds to pay claims as we manage down liabilities through claims settlements
- broadly matching Insurance liabilities in original currencies
- limiting exposure to any particular sector or counterparty

Each of the owned insurance companies invests its funds within guidelines established by its board of directors having regard to recommendations of the Group Investment Committee, 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 dramatic reduction in market returns is obviously a cause for concern, particularly in the US, where the majority of the Group's assets are held. The boost to investment performance which arose from corporate spread tightening in 2009 appears to have largely run its course and our predominantly short duration assets are now suffering from the persistently low/near zero interest rate environment at the short end of the yield curve.

Though there is a lack of consensus over the timing and speed of interest rate rises, rates will eventually rise and when they do, we will quickly enjoy the yield pick-up as we roll over our short dated portfolio.

We have also worked very closely with our investment advisers over the last few months to examine alternative strategies to underpin investment returns and are considering introducing further asset diversification through investing a portion of our funds in:

- a 'LIBOR plus' absolute return fund; and
- a short dated and diversified pool of highly rated Asset Backed Securities ("ABS").

Reserving

The Group, unlike some of its major competitors, holds insurance provisions undiscounted, that is we do not reduce the carrying value of future insurance claim liabilities to reflect future 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.

With the exception of R&Q Re (UK) which was adversely affected by the Equitas settlement, our claims reserves have generally held up well during 2009. External actuaries have confirmed that our held reserves are within their range of reasonable estimates. Despite the settlement there was a small aggregate net provisions release from our insurance companies during the year of £1.6m driven principally by the strong performance of R&Q Re (US) and Chevanstell.

Our internal actuarial team continues to work closely with our external actuaries to enhance further 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

Following the commutation settlement with Equitas in respect of the Exxon and Kuwait claims and the litigation expenses, there was a significant loss for the year. A number of other commutations involving Exxon and Kuwait cedants have however been achieved within reserves held and we have identified a number of future commutation targets where we hope to achieve settlements in 2010.

R&Q Reinsurance Company (US)

2009 was a good year for R&Q Re (US) with a surplus increase during the year due to better than anticipated investment returns and favourable claims settlements net of ceded reinsurance.

Our actuarial team concluded an analysis of the potential change in IBNR allocation (assumed and ceded) based on an in depth review by major exposure, likely average payout and precautionary claims. This more detailed analysis gives us greater understanding of the data, enables us to take a proactive position in discussions with our external actuaries and provides a significant benefit in commutation assessments.

We continue to adjust and enhance our procedures in respect of outwards reinsurance in order to improve the billing presentations to reinsurers and shorten our collection turnaround time. In recent months we have made good progress in reducing the overdue component of our reinsurer balances.

A significant amount of cash was for example received in December, following an agreement with our largest reinsurer to settle a large cluster of overdue billings.

Since the year end, we have also settled within held provisions several large asbestos claims relating to some of our most active assumed accounts.

Chairman's Statement and Business Review

For the year ended 31 December 2009

Transport Insurance Company

Transport continues to collect aggressively its reinsurance receivables through a combination of collection activities, offset, arbitration and litigation. By far the largest outstanding balance of $12.3m still 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. In mid 2008, the case went to trial and the jury returned a verdict in favour of the reinsurers based upon a procedural ruling.

Transport appealed this decision alleging, inter alia, judicial error in the jury instructions. Transport's brief to the appeal court has been filed with the court. We anticipate oral argument will be heard by the appeal court before Summer 2010.

If our appeal is successful, the case will then be re-heard on its own merits before another jury. The full financial impact of the adverse June 2008 jury decision has been recognised in the Group accounts at 31 December 2009 so that any success on a retrial will be for the benefit of future results.

Chevanstell Limited

Pleasing progress continues to be made with this run-off and the technical result for 2009 was well above expectations. Whilst investment income remains weak, reduced unrealised investment losses during the latter part of the year helped the result overall.

The technical result benefited from the release of some redundant claims reserves and the negotiated settlement of certain claims.

Current priorities are the identification of further commutation opportunities, particularly where there is no outward reinsurer involvement, and optimising reinsurance collections.

The Part VII transfer of Arran's assets and liabilities into Chevanstell in December contributed to an increase in the company surplus and we are currently investigating a possible further release of capital.

Remaining Insurance Companies

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

We are particularly pleased with the progress we have made with R&Q Insurance (Guernsey), the former Woolworths captive, where in the short time since acquisition, open claims have dropped by 45% and the number of new claims filed has been lower than expected. The overall improvement in claims is significant by reference to the modest cost of investment.

Following the acquisition of Goldstreet Insurance in November, we agreed a substantial commutation in respect of assumed inwards reinsurance business, the result of which has been a significant reduction in the net reserves of the company with a negligible impact on the surplus. This has left Goldstreet with a surplus of over $9m and net reserves of approximately $3m and we will therefore look at potential ways of releasing capital from this company over time, subject to the permissions of the New York State Insurance Department.

Insurance Services Division

The ISD recorded an operating profit for the year of £3.2m (2008: £5.2m) from total revenue of £26.0m (2008: £23.5m).

The lower profit for the year was due to continued investment in the development of our broker replacement services, establishment of our underwriting management operations, the costs of redundancies made to restore our ongoing profit margin on certain renegotiated third party contracts and lower investment income.

Services are provided to both Group owned insurance companies and third party insurers. Excluding intra divisional recharges, service revenue from Group owned companies amounted to £9.2m and services to third party entities, £13.2m (2008: £9.4m and £9.0m respectively). This equates to a 41%/59% split between internal and external income (2008: 51%/49%); the increase in external revenue largely attributable to a full year's contribution of Quest and KMS, operations focused exclusively on third party contracts.

Absent growth arising from acquisitions of additional run-off portfolios, internal income tends to decline gradually in line with the aggregate reserves of the owned insurance companies. During 2009 this was however largely offset by an enhanced contribution from our broker replacement operations which took over the broking of reinsurance recoveries for R&Q Re (UK), Chevanstell and Arran.

Stripping out the additional revenue from Quest and KMS, external revenue was broadly unchanged from 2008. Higher third party revenue from the broker services operations, resulting largely from the R K Carvill acquisition was offset by the renewal of certain significant third party contracts at a lower rate and the loss of other smaller accounts.

Whilst our new business growth in 2009 was disappointing as a result of the lack of new mandates, I am pleased to report that we have taken a number of steps to enhance our market position, including implementing a significant internal reorganisation, particularly at management level, and a rebranding exercise designed to maximise the considerable cross-selling opportunities which exist for our extensive offering to both the 'run-off' and 'live' markets.

In the early part of 2009 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 (financed wholly by the Advent Group). We were

pleased to announce in March 2009 that Cavell Managing Agency Limited (now R&Q Managing Agency Limited) was appointed as managing agent to the new RITC syndicate with the day-to-day management of the Syndicate outsourced to the ISD.

In December there was an agreed settlement for the direct insurers of American Airlines and United Airlines in respect of claims arising from the World Trade Centre attacks at a level significantly below their held reserves. Negotiation continues with the leaders of the original negotiated settlement, which are in turn reinsured by Syndicate 3330. Whilst there is no guarantee of a favourable outcome, we remain hopeful that the settlement will give rise to a significant profit in the syndicate and in turn produce a profit commission for the Group. We expect that this matter will be resolved during the coming months and will update on the position in due course.

The last year also saw expansion of our 'live' market services offering both through acquisition and internal reorganisation with the establishment of a dedicated marketing and business development unit. The acquisition of JMD Specialist Insurance Services in January 2010, a provider of premium collection, binding authority and broker reporting services to the Lloyd's market extends our capabilities in the growing credit control and coverholder audit areas and is evidence of our ambitions to be as well known for our 'live' market service offering as for our run-off one. Since acquisition of JMD, we have received a number of enquiries from other Lloyd's market participants who are interested in our expanded service offering. We hope to convert these enquiries over the coming months into additional contracts and this demonstrates how we can drive growth in the service businesses that we acquire.

There are a number of highly complementary service businesses in both the 'live' and 'run-off' markets, which we continue to pursue to continue our growth in the UK, US and beyond. Although small in size, we recently completed the acquisition of Callidus, a specialist provider of company secretarial and compliance services to the London insurance market. We believe that this is a potentially significant growth area as the burden of regulatory compliance becomes ever more onerous, particularly on smaller companies, who cannot justify or afford employing a full time member of staff for this role. Our captive management and underwriting management operations should also be fertile ground for the marketing of such services, which are all part of the Group's drive to offer a fully integrated service to clients and business partners.

We hope that the 'live' market will drive a significant amount of our future organic growth in the ISD, particularly as this business has a natural growth rather than decline trajectory. We however continue our active pursuit of new service opportunities on the run-off side and I am pleased to say that we have made some progress in this regard in the first part of the year but continue to be conscious of competitive pressures.

Captive Management

Since the acquisition of the Quest Group of Companies at the beginning of 2009, the Group's captive operations have flourished and to reflect their growing importance in the Group, we have decided to set up a dedicated Captives division within R&Q, which will mean that this will be the last time that the Quest results and commentary will fall under the ISD. In 2009, the captive operations generated $4.2m of revenue and pre tax profits of $1.1m.

The Quest Group is ranked third in Bermuda in terms of number of companies under management.

We are pleased to report that Quest has successfully secured a number of new captive contracts since acquisition and currently has 82 captive clients and 32 segregated account cells to which it provides valuable accounting, regulatory and consulting services. The reliability of the revenue stream is enhanced by the retainer fee structure and predictable number of billable hours. The current year has begun well with two new significant accounts being added and a promising pipeline as we benefit from fallout from further market consolidation by the large brokers. In addition, we are actively working with fronting companies, brokers and other intermediaries to expand our reach.

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 also a continuation of the expansion of our activities in the Bermudian insurance market and provides excellent opportunities for growth and staff development.

As commented on above, we have recently established a joint venture initiative in the Nordic region, Nordic Insurance Management A/S with partners Magnus Lindgren and Nikolaj Boysen. Bringing further expertise to the local board, we are delighted to welcome Jens Erik Christensen, former CEO of Codan A/S (RSA's Scandinavian operation) and Jesper Rasmussen, ex Managing Director of Codan Forsikring A/S and previously a Group Director at Trygg Baltica A/S as non-executive directors. We hope to develop local management operations as well as access further acquisition opportunities for our Investments Division in the region. The company will also act as a platform from which the wider range of R&Q services will be offered.

We are also in the process of launching another ground up initiative in the US onshore market, and are targeting a number of acquisition opportunities both offshore and onshore in this highly fragmented marketplace.

It is apparent that there is a demand for a quality independent captive management provider of scale in many jurisdictions across North America and Europe; R&Q is well placed to meet this need. We hope that this area of our operations will be a significant contributor to our future top and bottom line growth.

Chairman's Statement and Business Review

For the year ended 31 December 2009

Broker Replacement Services

The R K Carvill legacy portfolio was our first broker run-off acquisition and this has now been augmented by a new servicing contract. As well as securing service fee income from these legacy portfolios, we anticipate that these acquisitions will expand the counter party relationships of the Group. We have now begun the integration of the Carvill business into our Broker Services Division and are seeking to maintain the high standards of client service for which Carvill was renowned.

More generally, the focus for the development of the claims broking replacement services switched during 2009 from taking over the broking of reinsurance recoveries for the Group's owned company portfolio to winning third party contracts.

As well as the boost provided by the acquisition of the R K Carvill broker run-off and the new servicing contract, I am pleased to say that we have successfully secured a number of other outside service contracts during the year and look forward to continued progress during the course of 2010.

We have however decided to exit the expert fee collection business as a part of our ongoing margin review. An orderly exit will be completed over the coming months but we have already seen some of our fee collection clients signing up to the core broker replacement product.

Liquidity Management Division

R&Q Liquidity Management Limited ("RQLM") made progress in 2009 with further acquisitions of reinsurance debt and the provision of reinsurance collection and commutation services for third party clients.

The financial climate 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, RQLM continues to acquire the agreed claims due to such creditors.

RQLM purchased a number of reinsurance debt portfolios during the year, which though still on a relatively small scale, have yielded high returns on capital. Through the knowledge gained from our existing positions, we are also making offers to other creditors to these estates and pursuing some of the larger opportunities which have recently presented themselves.

On the reinsurance collection and commutation service side, the Group achieved some significant and difficult commutations for our clients which resulted in the payment of profit commissions to RQLM and led to the renewal and expansion of these contracts for 2010. Our activities are not restricted to the London market and we have existing contracts in Europe with further potential new clients, especially in Spain and Italy.

RQLM's presence in the US was also developed further during 2009 and there are a number of significant opportunities there which we are actively pursuing.

Whilst the pace of growth over the last two years has been more modest than hoped for, we believe that our reinsurance debt operations remain a significant potential area of growth; in recent months we have witnessed an increase in the number of opportunities on the acquisition side, where we will concentrate our future efforts and where potential margins are particularly attractive. The decision to incorporate this investment activity into our new Insurance Investments division should not therefore be seen as anything but a logical consolidation of our asset purchase activity and is no reflection on the opportunities we see in growing these operations.

New Divisional Structure

The Group's operations have now been divided into four divisions which will form the basis for reporting going forwards:

- Insurance Investments (the owned insurance company portfolio including any captive acquisitions and portfolios of reinsurance debt);
- Insurance Services (the former ISD excluding Quest together with the Liquidity Management, collection and commutation services for our clients);
- Underwriting Management (the new Lloyd's turnkey operations, delegated underwriting facilities and underwriting capital provision); and
- Captives (the Quest Companies and the Nordic and other future captive management operations).

Litigation

Whilst we were clearly disappointed with the outcome of the dispute with Equitas in respect of the Exxon and Kuwait claims, the end of the associated litigation removes a long-standing and significant source of uncertainty and management distraction for the Group.

The dispute between R&Q USA (formerly Cavell US) and Seaton and Stonewall continues but we still expect to make a recovery of damages (see below).

Recently, the Company received a substantial damages counterclaim from Seaton and Stonewall against its US subsidiary, R&Q USA, and me personally in ongoing English proceedings.

R&Q Re USA and I have already established Seaton and Stonewall as liable for damages incurred in dealing with a similar claim when it was wrongly brought in the New York Federal court in August 2007.

The allegations made in the counterclaim by Seaton and Stonewall will be defended vigorously. The nature of the allegations being made is similar

in substance to those which Seaton & Stonewall tried to advance in the New York court.

The Board believes the rationale for the making of these allegations by Seaton & Stonewall remains a desire to avoid the impact of a release given to the Company and me in a Settlement Agreement reached in early 2006.

Seaton and Stonewall made substantially similar allegations before two US arbitration panels in parallel arbitration proceedings between Seaton, Stonewall and a Berkshire Hathaway subsidiary, National Indemnity Company. Seaton and Stonewall were unsuccessful in both cases.

R&Q USA and I expect to make a recovery of the damages incurred as a result of the wrongly filed New York proceedings and the costs that will be incurred in defending the counterclaim by Seaton & Stonewall in the English proceedings.

Staffing

During 2009, we were pleased to welcome Dennis Purkiss and Mark Butterworth as Director of Underwriting and Director of Operations respectively within the new Underwriting Management Division. They are soon to be joined by Tim Riddell who is to head up our delegated underwriting facility initiatives, also part of the Underwriting Management Division.

We were also pleased to welcome Tom Booth, who joined from Numis Securities in October in a newly created role as Corporate Finance Director. Tom heads up our Investor Relations and M&A activities and is a member of the Group Executive and Investment Committees.

We also welcome the R K Carvill, JMD and Callidus teams following those recent acquisitions.

During the year, Jerry McArthur, CEO of the US and Bermuda operations and John O'Neill, COO of the UK Insurance Services Division left the Group.

2009 witnessed a considerable strengthening of our core management team and there were a number of important internal appointments and promotions. Robin McCoy was appointed as CEO of the new Underwriting Management division alongside his current responsibilities for R&Q's US operations, Mark Langridge as Head of R&Q Insurance Services and Paul Corver as Head of the new Captives Division. All are members of the Group's Executive Committee.

The Group continues 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.

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 based on the Group's financial performance.

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.

Advisors

As announced separately, we are pleased to announce that Numis Securities is now appointed Nominated Advisor to the Group in addition to their role as joint broker. Numis is well known for its expertise in the non-life insurance market and we expect that our closer relationship will yield further opportunities for the Group.

We are also pleased to welcome Shore Capital as new joint broker to the Group. Shore Capital is an ideal partner for Randall & Quilter with its strong sector research and complementary distribution capability, in the North English/Scottish institutional markets as well as the retail market across the UK.

In an attempt to widen the market knowledge of Randall & Quilter, we have also engaged Edison both to commence research coverage of the Group and to help us increase our profile with wealth managers in London and the regions through their Investor Access team.

Earlier this year we announced the appointment of Redleaf Communications to handle our corporate and financial PR. Redleaf has shown itself adept at raising the profile of smaller companies amongst the investment and trade communities alike and we look forward to a fruitful relationship with them.

All these appointments and initiatives, together with a strengthening of our in-house Investor Relations team, are part of a concerted attempt to improve the communication of the Group with its shareholders and increase the demand for and liquidity of our shares.

Chairman's Statement and Business Review

For the year ended 31 December 2009

Key Performance Indicators

In order to focus our delivery to shareholders and facilitate analysis of our progress, we have decided to establish the following key performance indicators, which we will report on from the current financial year:

- Revenue growth and EBITDA margins in the:
  Insurance Services Division
  Captive Division
- Operating profit in the:
  Insurance Investments Division
  Underwriting Management Division
- Diluted EPS
- Distributions per share
  (i.e dividends and any other capital return to shareholders)
- Book value per share

Market and Outlook

Last year we commented on the inflated prices paid by some investors for run-off books of business in the UK and the US and our refusal to engage in the bidding frenzy which had emerged. We also laid out a number of reasons why we thought that the market turbulence might both increase the number of portfolios for sale and bring pricing back down to more reasonable levels.

Whilst many of these factors continue, including low interest rates and a lack of available credit, my optimism proved premature and there remains too much capital looking for too few deals. In spite of this, 2009 and the beginning of 2010 have finally seen the re-emergence of R&Q's acquisition activity of run-off books with three new companies added to the Group's portfolio.

As remarked on earlier, the intense competition in the mainstream run-off market does not seem to be presenting itself as acutely in the smaller, niche end of the market which remains our area of focus. We are pleased to report that we are also now seeing signs of a pick-up in the number of attractive legacy opportunities which we continue to pursue.

Our potential for growth has also been helped by the Group's strategic positioning. Through the partnership with GLOBAL Re, we enjoy enhanced access to less mature run-off markets in Continental Europe and through our new captive management operations, we have access to new market areas. The acquisition opportunities in the captive market are potentially numerous and are being driven by a desire by some corporates to exit self-insurance in an attempt to release capital and refocus on their core operations. Softer market conditions (which make third party insurance solutions relatively more attractive) and insolvencies are also contributing to the growth of opportunities in this sector of the market.

Recent activity in the other parts of our newly named Insurance Investments division, namely RITC syndicates of open year Lloyd's syndicates and reinsurance debt purchase, is also encouraging and we believe that our expertise and capital access through the remaining £15m of our multi-currency revolving credit facility with the Royal Bank of Scotland and AIM listing, leave us in a favourable position to address these opportunities.

As well as seeing a greater number of attractive opportunities in our Insurance Investments division than in previous years, the Group has identified new areas of growth during the past year and has already made significant progress in generating additional profit streams not just in the future but also in the current financial year. These new areas of growth are of course Underwriting Management and Captives, both of which now form new divisions for the Group.

Our ambition to build an underwriting management platform with capital support to attract the best of class underwriting teams becomes an ever closer reality and we are particularly delighted to be assisting a major European insurer with its new syndicate application. The number of enquiries we have had since our initial turnkey announcement bodes very well for the future and we hope to provide further updates on our progress in this area in due course. It is worth adding that our plans for this division are not simply limited to turnkey operations and we are currently working on various complementary initiatives including the establishment and acquisition of delegated underwriting facilities and underwriting capital provision and management.

The acquisition of the Quest group and the Woolworths Captive immediately brought us scale and credibility in the captive arena where we see significant opportunity to expand our service offering, geographical coverage and ownership. We will continue to develop ground-up initiatives such as the Nordic joint venture as well as purse acquisition opportunities in what remains a highly fragmented marketplace.

As previously commented, the lack of new mandates in the run-off services arena and the heightened competitive pressures provide challenges for the Insurance Services division, which we will continue to counter through optimisation of our offering, targeted marketing and high levels of service. The rebranding exercise, the launch of cross-selling initiatives and cost cutting are some of the steps we have already taken in this regard and we are pleased to report that 2010 has started well as a result.

Overall growth of the division will also be helped by the acquisition of JMD Specialist Insurance Services and a renewed focus on 'live' market servicing where there is significant potential. We also continue to pursue a number of niche service providers which will further complement and extend our activities.

Achieving a meaningful investment return remains a significant challenge given the protracted period of exceptionally low interest rates, especially in our larger US Dollar portfolio. We have however expended considerable time with our investment advisors and managers in recent months to develop strategies and portfolios which aim to provide some additional return by seeking greater asset diversification. We believe that these measures will strike a more balanced approach to the investment risk-reward matrix.

Overall, despite the temporary set-back brought about by the disappointing outcome of the dispute with Equitas and the subsequent settlement, the business is in good shape and we are very optimistic about the Group's long-term prospects. Notwithstanding the high pricing prevailing in the larger end of the run-off acquisition market, opportunities in our Insurance Investments division look more enticing than they have done for some time. In addition, our new growth areas of Underwriting Management and Captives are already developing fast and we look forward to providing further updates during the course of the year.

Last but not least, we are pleased to have made significant additions to the management and advisory teams of the Group and we believe they will be instrumental in driving this exciting period of growth for Randall & Quilter.

K E Randall

Chairman and Chief Executive Officer

28 April 2010

Report of the Directors

For the year ended 31 December 2009

The Directors present their report together with the audited Financial Statements of the Company and its subsidiaries for the year ended 31 December 2009.

Principal Activities

The Company is a holding and investment company.

The Group owns eight insurance companies in run-off in the UK, US and Europe and acquires reinsurance debt with the objective of short to medium term realisation at a profit.

Group companies carry on business in the UK, Europe, United States and Bermuda, offering a wide range of services to the captive, legacy and actively underwriting segments of the insurance property and casualty industry.

Results and Dividends

The results for the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 22.

The Directors declared and paid dividends in the year of 5.0 pence per share on the ordinary shares amounting to £2,795,650 (2008: £2,683,824). A further interim dividend for 2009 of 4.2 pence per share was paid 19 March 2010. No final dividend will be proposed.

Future dividend intentions are disclosed in the Chairman's Statement and Business Review on page 5.

Directors

The present Directors are shown on page 3.

Directors' Interests in Shares

As at 31 December 2009, the following Directors held shares as below. The total shares in issue amounted to 55,913,000.

K E Randall and family
24,667,000

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 5 – 15 and the key performance indicators are shown on page 4.

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 and solvency requirements 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.

Other than as reported in Note 2a and Note 31, 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 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 provisions 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 the major contracts had in excess of two 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 £440 (2008: £2,575) 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.

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.

Report of the Directors

For the year ended 31 December 2009

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

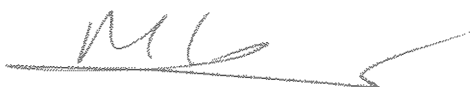
The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are individually aware:-

- 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

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

Statement of Directors' Responsibilities

For the year ended 31 December 2009

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 Company 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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company, 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

For the year ended 31 December 2009

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 2009 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statement of Financial Position, the Consolidated Cash Flow Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the related notes. These Financial Statements have been prepared under the accounting policies set out therein. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective Responsibilities of Directors and Auditors

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

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances, and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2009 and of the Group's result for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

The Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of the above matters.

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.

Carmine Papa (Senior Statutory Auditor)

Littlejohn LLP

Chartered Accountants
1 Westferry Circus
and Registered Auditors
Canary Wharf
London
E14 4HD

28 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Gross premiums written		672		642	
Reinsurers' share of gross premiums		(67)		284	
Earned premium net of reinsurance			605		926
Net investment income	6	11,422		12,036	
Other income	7	14,360		9,560	
			25,782		21,596
Total income			26,387		22,522
Gross claims paid		(57,191)		(45,263)	
Reinsurers' share of gross claims paid		31,032		25,718	
Claims paid, net of reinsurance		(26,159)		(19,545)	
Movement in gross technical provisions		55,073		50,367	
Movement in reinsurers' share of technical provisions		(27,282)		(22,565)	
Net change in provisions for claims		27,791		27,802	
Net insurance provisions released			1,632		8,257
Operating expenses	8		(27,966)		(21,831)
Result of operating activities before negative goodwill and impairment of intangible assets			53		8,948
Negative goodwill	32		360		-
Impairment of intangible assets			-		(101)
Result of operating activities			413		8,847
Finance costs	9		(154)		(84)
Profit on ordinary activities before income taxes	10		259		8,763
Income tax expense	11		(430)		(2,746)
(Loss)/Profit for the year			(171)		6,017
Attributable to equity holders of the parent					
Attributable to ordinary shareholders			(171)		6,017
			(171)		6,017
Earnings per ordinary share for the (loss)/profit attributable to the ordinary shareholders of the Company:					
Basic	12		(0.3p)		10.8p
Diluted	12		(0.3p)		10.5p

The accounting policies and notes on pages 26 to 65 form part of these Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2009
Company number 03671097

	Note	2009 £000	2008 £000
Assets			
Intangible assets	14	18,138	17,557
Property, plant and equipment	15	414	304
Investment properties	16a	1,085	1,336
Financial assets			
- Investments	16b	242,971	261,612
- Deposits with ceding undertakings		3,980	4,812
Reinsurers' share of insurance liabilities	22	247,456	297,650
Current tax assets	19	1,513	2,845
Deferred tax assets	23	1,346	3,030
Insurance and other receivables	17	32,057	34,158
Cash and cash equivalents	18	46,809	68,189
Total assets		595,769	691,493
Liabilities			
Insurance contract provisions	22	480,616	571,190
Financial liabilities			
- Amounts owed to credit institutions	21	9,523	4,613
- Deposits received from reinsurers		4,036	5,752
Deferred tax liabilities	23	1,084	2,586
Insurance and other payables	20	25,107	26,438
Current tax liabilities		589	56
Total liabilities		520,955	610,635
Equity			
Share capital	24	1,118	1,118
Shares to be issued	25	254	150
Share premium account	25	17,255	17,255
Treasury share reserve	25	(1,586)	(1,197)
Retained earnings	25	57,773	63,532
Total equity		74,814	80,858
Total liabilities and equity		595,769	691,493

The Financial Statements were approved by the Board of Directors on 28 April 2010 and were signed on its behalf by:-

K E Randall

A K Quilter

The accounting policies and notes on pages 26 to 65 form part of these Financial Statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 £000	2008 £000
Cash flows from operating activities			
Profit before income taxes		259	8,763
Finance costs		154	84
Depreciation		181	162
Share based payments		104	-
Negative goodwill		(360)	-
Impairment of intangible assets		-	101
Fair value (gain)/loss on financial assets		(1,483)	3,543
Loss on disposal of property, plant and equipment		54	3
Gain on net assets of pension schemes		(66)	(141)
Decrease in receivables		2,171	8,750
Decrease/(increase) in deposits with ceding undertakings		832	(911)
Decrease in payables		(4,885)	(1,565)
Decrease in net insurance technical provisions		(27,745)	(27,860)
		(30,784)	(9,071)
Sale of financial assets		12,846	15,953
Purchase of financial assets		(3,407)	(4,632)
Cash (used in)/generated from operations		(21,345)	2,250
Income taxes paid		-	(50)
Net cash (used in)/from operating activities		(21,345)	2,200
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		29	12
Purchase of property, plant and equipment		(327)	(212)
Acquisition of subsidiary undertakings (net of cash acquired)		5,413	(5,634)
Proceeds from disposal of investment properties		303	-
Purchase of investment properties		(177)	-
Purchase of minority interest in subsidiary undertakings		(3,886)	(33)
Net cash from/(used in) investing activities		1,355	(5,867)
Cash flows from financing activities			
Repayment of borrowings		(562)	-
New borrowing arrangements		5,735	4,613
Equity dividends paid		(2,796)	(2,684)
Interest and other finance costs paid		(154)	(84)
Receipts from issue of shares		-	4
Purchase of treasury shares		(389)	(1,197)
Net cash from financing activities		1,834	652
Net decrease in cash and cash equivalents		(18,156)	(3,015)
Cash and cash equivalents at beginning of year		68,189	57,681
Foreign exchange movement on cash and cash equivalents		(3,224)	13,523
Cash and cash equivalents at year end	18	46,809	68,189

The accounting policies and notes on pages 26 to 65 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 £000	2008 £000
Recognised in the financial year:-			
Exchange (losses)/gains on consolidation		(2,726)	4,163
Pension scheme actuarial losses		(92)	(197)
Deferred tax on pension scheme actuarial losses		26	56
Net (expense)/income recognised directly in equity		(2,792)	4,022
(Loss)/Profit for the year		(171)	6,017
Total comprehensive income for the year		(2,963)	10,039
Attributable to:-			
Equity holders of the parent	25	(2,963)	10,039
Total recognised in the year		(2,963)	10,039

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Note	2009 £000	2008 £000
Balance at 1 January		80,858	74,696
Total comprehensive income for the year		(2,963)	10,039
Treasury shares		(389)	(1,197)
Dividends		(2,796)	(2,684)
Issue of shares/Shares to be issued		104	4
Balance at year end	25	74,814	80,858

The accounting policies and notes on pages 26 to 65 form part of these Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 28 April 2010.

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 2006 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 66 – 70.

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

The Directors have assessed the position of the Company and it is expected to generate positive cash flows. The Directors of the subsidiary companies have confirmed that each will continue in operational existence for the foreseeable future. On this basis the directors have reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future. Accordingly the Financial Statements have been prepared on a going concern basis.

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.

During the year the Group has adopted IFRS 8: 'Operating segments', and the amendments to:-

- IFRS 2: 'Share based payment: Vesting Conditions and Cancellations'
- Improving Disclosures and Financial Instruments (Amendment to IFRS 7)
- IAS 27 'Consolidated and Separate Financial Statements'
- IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation'
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'

The adoption of these standards has had no effect on the consolidated financial statements for the year ended 31 December 2009 except for the disclosure requirement arising from the adoption of IFRS 8 and the amendments to IFRS 7. The effects of IFRS 8 are explained in Note 5 and the additional disclosures required by the amendments to IFRS 7 are included in note 4a.

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:-

- IFRS 3 (Revised) Business Combinations
- IFRS 9 Financial Instruments
- IAS 24 (Revised) Related Party Disclosures
- IAS 27 (Amended) Consolidated and Separate Financial Statements
- IFRIC 9 (Revised) Reassessment of embedded derivatives
- IFRIC 14 (Revised) The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 17 Distributions of Non-Cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers

The impact of IFRS 9 is still being evaluated. The Directors do not anticipate that the adoption of the other standards will have a material impact on the Group financial statements.

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 Statement of Financial Position. Further details of the uncertainties inherent in estimating technical provisions 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.

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 2009 was £26.4m (2008: £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 2009 and 2008. 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 comprehensive income and within equity in the Consolidated Statement of Financial Position, 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.

2. Accounting policies (continued)

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.

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 and IBNR 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 component of an entity that is engaged in providing products or services that are subject to risks and returns that are different from other business segments, whose results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available.

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"). 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 comprehensive income 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 2009

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 and impairment. Amortisation is charged to operating expenses in the income statement on a straight line basis as follows:-

	%
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 comprehensive income. Pension liabilities are recognised and disclosed separately in the statement of financial position. 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 and pre-contract costs

Operating expenses are accounted for on an accruals basis.

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.

v. 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.

w. 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.

x. Income taxes

Tax on the profit or loss for the year comprises current nd 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.

y. 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.

z. Dividends

Dividends payable to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are declared and appropriately approved.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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.

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. Statement of financial position 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:-

	2009 £m	2008 £m
Government and government agencies	98.6	127.7
Corporate bonds	133.0	124.5
Equities	0.3	1.0
Cash based investment funds	11.1	27.8
Cash and cash equivalents	46.8	48.8
	289.8	329.8

	2009 £m %	2008 £m %
Government and government agencies	34.0	38.7
Corporate bonds	45.9	37.8
Equities	-	0.3
Cash based investment funds	3.9	8.4
Cash and cash equivalents	16.2	14.8
	100.0	100.0

Corporate bonds include asset backed mortgage obligations totalling £4.3m (2008: £4.5m)

Based on invested assets at external managers of £242,971,000 as at 31 December 2009 (2008: £280,940,000) 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 2009 of £2,429,710 (2008: £2,809,400).

The amendments to IFRS 7 'Financial Instruments' require the disclosure of how we classify our investments. As in excess of 98% of all investments are valued based quoted prices in active markets there is no need to analyse them further in this regard.

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 2009

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	242.7	75.8	89.8	60.2	8.7	8.2

Interest rate ranges (coupon-rates)

	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	0-8.117	1.125-7.5	0-7	3.375-7.5	3.973-10

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-rates)

	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

b. Credit risk

Credit risk arises on all of 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 2009

	A rated	B rated	Less than B	Other *	Exposures of less than £0.2m	Total
	£000	£000	£000	£000	£000	£000
Deposits with ceding undertakings	1,053	932	-	885	1,110	3,980
Reinsurers' share of insurance liabilities	158,410	17,965	309	49,302	21,470	247,456
Receivables arising out of reinsurance contracts	8,354	2,222	-	3,375	8,203	22,154

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	31.9%	8.2%	6.1%	53.8%

* Other includes reinsurers who currently have no credit rating

As at 31 December 2008

	A rated	B rated	Less than B	Other *	Exposures of less than £0.2m	Total
	£000	£000	£000	£000	£000	£000
Deposits with ceding undertakings	1,905	-	-	407	2,500	4,812
Reinsurers' share of insurance liabilities	145,855	40,759	1,044	83,291	26,701	297,650
Receivables arising out of reinsurance contracts	7,144	2,012	-	2,032	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

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 R&Q Insurance 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 2009 were £:US$ 1.59 (2008: 1.45) and £:Euro 1.11 (2008: 1.03). The sterling equivalent of monetary assets and liabilities held by the Group designated in US dollars at the year end are as follows:-

US Dollars	**2009 £000**	**2008 £000**
Reinsurance assets	231,515	273,463
Financial investments	202,090	224,301
Insurance receivables	12,208	16,026
Cash and cash equivalents	26,261	34,747
Insurance liabilities including provisions	(436,154)	(518,470)
Other provisions	(6,025)	(4,917)
Trade and other (payables)/receivables	(1,084)	(2,586)
	28,811	22,564

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 2009 of £2,881,000 (2008: £2,256,000).

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

Euro	**2009 £000**	**2008 £000**
Reinsurance assets	164	1,975
Financial investments	12,378	12,717
Insurance receivables	1,084	516
Cash and cash equivalents	5,542	2,659
Insurance liabilities including provisions	(19,435)	(20,731)
Trade and other receivables/(payables)	(4,255)	657
	(4,522)	(2,207)

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 2009 of £452,000 (2008: decrease/increase of £221,000).

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
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
R&Q Insurance Guernsey Limited (formerly Woolworths Insurance Guernsey Limited)	2009	9 June 2009
Goldstreet Insurance Company	1987	14 December 2009

*Arran Insurance Company Limited completed a Part VII transfer into Chevanstell Limited on the 8 December 2009.

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 provisions 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 2006 £000	Entities acquired by the Group during 2009 £000
Gross provisions at:-				
1 January 2004/acquisition	4,914	89,221	499,383	8,765
First year movement	48	(1,375)	(46,472)	(1,752)
Second year movement	(2,385)	14,750	(72,066)	-
Third year movement	(2,482)	(12,098)	79,773	-
Fourth year movement	(4)	(5,052)	(79,976)	-
Fifth year movement	30	25,005	-	-
Sixth year movement	(17)	(17,594)	-	-
Gross position at 31 December 2009	104	92,857	380,642	7,013
Estimated gross ultimate claims at:-				
1 January 2004/acquisition	4,914	89,221	499,383	8,765
Foreign exchange	(319)	16,755	66,351	86
Payments	(4,691)	(25,811)	(163,448)	(1,286)
Gross position at 31 December 2009	(104)	(92,857)	(380,642)	(7,014)
(Deficit)/surplus to date	(200)	(12,692)	21,644	551

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 2006 £000	Entities acquired by the Group during 2009 £000
Net provisions at:-				
1 January 2004/acquisition	4,853	3,603	276,958	8,609
First year movement	109	(38)	(23,490)	(1,757)
Second year movement	(2,385)	1,751	(30,099)	-
Third year movement	(2,482)	(2,048)	40,924	-
Fourth year movement	(4)	(27)	(48,142)	-
Fifth year movement	30	5,885	-	-
Sixth year movement	(17)	927	-	-
Net position at 31 December 2009	104	10,053	216,151	6,852
Estimated net ultimate claims at:-				
1 January 2004/acquisition	4,853	3,603	276,958	8,609
Foreign exchange	(318)	1,258	38,096	79
Net payments	(4,453)	1,848	(81,489)	(1,277)
Net position at 31 December 2009	(104)	(10,053)	(216,151)	(6,852)
(Deficit)/surplus to date	(22)	(3,344)	17,414	559

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.

5. Segmental information

The Group has adopted International Financial reporting Standard 8 'Operating Segments' ("IFRS 8") in the current year. IFRS 8 requires that segments represent the level at which financial information is reported to the Board, being the chief operating decision maker as defined in IFRS 8. Following adoption of IFRS 8 the reportable segments have been identified as follows:-

- Insurance companies in run-off, which includes the acquired insurance companies of the group
- Insurance services, which provides insurance related services to both internal and external clients in the insurance and captive market
- Liquidity management, which acquires reinsurance debt and provides reinsurance collection and commutation services
- Other corporate activities, which primarily includes the group holding company and other minor subsidiaries which fall outside of the segments above

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. Segmental information (continued)

Segment result for the year ended 31 December 2009

	Insurance companies £000	Insurance services £000	Liquidity management £000	Other corporate £000	Consolidation adjustmants £000	Total £000
Gross premium written	672	-	-	-	-	672
Reinsurers' share of gross premium	(67)	-	-	-	-	(67)
Earned premium net of reinsurance	605	-	-	-	-	605
Net investment income	11,172	79	-	171	-	11,422
Other income external	-	13,183	1,177	-	-	14,360
Other income internal	-	12,734	-	-	(12,734)	-
	11,172	25,996	1,177	171	(12,734)	25,782
Total income	11,777	25,996	1,177	171	(12,734)	26,387
Gross claims paid	(57,191)	-	-	-	-	(57,191)
Reinsurers' share of gross claims paid	31,032	-	-	-	-	31,032
Claims paid, net of reinsurance	(26,159)	-	-	-	-	(26,159)
Movement in gross technical Provisions	55,073	-	-	-	-	55,073
Movement in reinsurers' share of technical provisions	(27,282)	-	-	-	-	(27,282)
Net change in provision for claims	27,791	-	-	-	-	27,791
Net insurance claims released	1,632	-	-	-	-	1,632
Operating expenses	(12,820)	(22,620)	(827)	(4,252)	12,734	(27,785)
Earnings before interest, tax, depreciation and amortisation	589	3,376	350	(4,081)	-	234
Negative goodwill	360	-	-	-	-	360
Depreciation and impairment	(14)	(167)	-	-	-	(181)
Result of operating activities	935	3,209	350	(4,081)	-	413
Finance costs	-	-	-	(154)	-	(154)
Management charges	-	(336)	-	336	-	-
Profit/(loss) on ordinary activities before income taxes	935	2,873	350	(3,899)	-	259
Income tax (expense)/credit	(543)	115	-	(2)	-	(430)
Profit/(loss) for the year	392	2,988	350	(3,901)	-	(171)
Segment assets	573,924	20,793	1,368	58,813	(59,129)	595,769
Segment liabilities	507,193	16,435	809	31,063	(34,545)	520,955

Internal income includes fees payable by the insurance companies to the insurance service division in the year, which are contractually committed on an arms length basis.

Included within the other external income of £14,360,000 is £4,935,000 in aggregate received from two clients, each of which generate more than 10% of the total external income.

Segment result for the year ended 31 December 2008

	Insurance companies £000	Insurance services £000	Liquidity management £000	Other corporate £000	Consolidation adjustmants £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 external	-	8,966	594	-	-	9,560
Other income internal	-	13,969	-	-	(13,969)	-
	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

Internal income includes fees payable by the insurance companies to the insurance service division in the year, which are contractually committed on an arms length basis.

Included within the other external income of £9,560,000 is £6,590,000 in aggregate received from three clients, each of which generate more than 10% of the total external income.

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For the year ended 31 December 2009

5. Segmental information (continued)

Geographical analysis

As at 31 December 2009

	UK £000	United States & Bermuda £000	Europe £000	Total £000
Gross assets	225,641	409,426	19,831	654,898
Intercompany eliminations	(53,251)	(872)	(5,006)	(59,129)
Segment assets	172,390	408,554	14,825	595,769
Gross liabilities	157,074	380,905	17,521	555,500
Intercompany eliminations	(22,099)	(11,048)	(1,398)	(34,545)
Segment liabilities	134,975	369,857	16,123	520,955
Segment income	17,102	8,961	324	26,387

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

Other information

As at 31 December 2009

	Insurance companies in run-off £000	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Assets acquired through business combination	-	-	-	-	-
Capital expenditure	1	326	-	-	327
Depreciation	14	167	-	-	181

As at 31 December 2009

	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

6. Net investment income

	2009 £000	2008 £000
Investment income	10,452	13,514
Realised gains on financial assets	1,834	1,250
Unrealised losses on financial assets	(351)	(2,252)
Investment management expenses	(513)	(476)
	11,422	12,036

7. Other income

	2009 £000	2008 £000
Administration of third party insurance companies	13,091	8,753
Expected return on pension scheme assets	1,352	1,463
Interest on pension scheme liabilities	(1,260)	(1,250)
Purchased reinsurance receivables (including debt collection fees)	1,177	594
	14,360	9,560

8. Operating expenses (including depreciation)

	2009 £000	2008 £000
Costs of insurance company subsidiaries	3,716	3,617
Other operating expenses	24,250	18,214
	27,966	21,831

The costs of insurance company subsidiaries exclude group charges.

Notes to the Consolidated Financial Statements

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9. Finance costs

	2009 £000	2008 £000
Bank loan and overdraft interest	154	84
	154	84

10. Profit on ordinary activities before income taxes

	2009 £000	2008 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):-		
Employee benefits (Note 27)	16,708	11,199
Depreciation of fixed assets	181	162
Impairment of intangible assets	-	101
Amortisation of pre contract costs	166	166
Operating lease rental expenditure	911	876
Operating lease rental income	(266)	(420)
Auditor Remuneration		
Fees payable to the Company's auditor for the audit of the annual accounts	48	55
Fees payable to the Company's auditor and its associates for other services provided to the Company and its subsidiaries:-		
The audit of the Company' subsidiaries under legislative requirements:-		
The Company's auditor	212	155
Other auditors	316	270
	528	425
Other services under legislative requirements	62	30
Services relating to corporate finance transactions		
Pre-acquisition due diligence and advice	158	89
All other services		
Non-regulatory reporting on internal controls and corporate governance matters	4	44
Advice on financial and accountancy matters	14	5

11. Income tax

	2009 £000	2008 £000
a. Analysis of charge in the year		
Current tax – continuing operations		
Current year	-	118
Adjustments in respect of previous years	(261)	(62)
Foreign tax	360	2,101
	99	2,157
Deferred tax	331	589
Income tax charge	430	2,746

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:-

	2009 £000	2008 £000
Profit on ordinary activities before taxation	259	8,763
Profit on ordinary activities at the standard rate of corporation tax in the UK of 28% (2008: 28.5%)	73	2,497
Permanent differences	(246)	(354)
Capital allowances for the year in excess of depreciation	3	(37)
Utilisation of tax losses	(1,319)	(206)
Timing differences – pension schemes	(26)	(56)
Other timing differences	(269)	(102)
Unrelieved losses	2,406	2,526
Movement on deferred insurance company losses	-	(1,845)
Foreign tax rate differences	69	385
Adjustments to the tax charge in respect of prior years	(261)	(62)
Income tax charge for the year	430	2,746

c. Factors that may affect future tax charges

In addition to the recognised deferred tax asset, the Group has other trading losses of approximately £83.3m (2008: £79.5m) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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.

	2009 £000	2008 £000
(Loss)/Profit for the year attributable to ordinary shareholders	(171)	6,017
	No. 000's	**No. 000's**
Shares in issue throughout the year	55,913	55,903
Weighted average number of shares issued in the year	-	8
Weighted average number of Treasury shares held	(1,152)	(18)
Weighted average number of ordinary shares	54,761	55,893
Basic earnings per ordinary share	(0.3p)	10.8p

b. Diluted earning 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.

	2009 £000	2008 £000
(Loss)/Profit for the year attributable to ordinary shareholders	(171)	6,017
	No. 000's	**No. 000's**
Weighted average number of ordinary shares in issue in the year	54,761	55,893
Options	1,115	1,507
	55,876	57,400
Diluted earnings per ordinary share	(0.3p)	10.5p

c. Net asset value per share

	2009 £000	2008 £000
Net assets as at 31 December	74,814	80,858
	No.	**No.**
Ordinary shares in issue as at 31 December	**000's**	**000's**
	55,913	55,913
Net asset value per ordinary share	133.8p	144.6p

13. Dividends

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

	2009 £000	2008 £000
Dividend to ordinary shareholders	2,796	2,684

14. Intangible assets

	Patents £000	Goodwill £000	Software £000	Total £000
As at 1 January 2008	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
Additions	-	581	-	581
Impairments	-	-	-	-
As at 31 December 2009	1	18,127	10	18,138

When testing for impairment of goodwill the recoverable amount of each relevant cash generating unit 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 unit. Management does not believe that a change in any of the key assumptions would cause the carrying value of each relevant cash generating unit to materially exceed its recoverable amount.

The split of the intangible assets above by cash generating unit is £11,416k for insurance companies and £6,722k in respect of insurance services companies. The carrying amounts disclosed above for other intangible assets reasonably approximate their fair values at the balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

15. Property, plant and equipment

	Computer equipment £000	Motor vehicles £000	Office equipment £000	Leasehold improvements £000	Total £000
Cost					
As at 1 January 2008	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
Exchange adjustments	(12)	-	(6)	(1)	(19)
Acquisition of subsidiary	-	-	-	-	-
Additions	144	-	183	-	327
Disposals	(34)	(55)	(60)	-	(149)
As at 31 December 2009	958	-	817	80	1,855
Depreciation					
As at 1 January 2008	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 2009	708	17	597	70	1,392
Exchange adjustments	(9)	-	(3)	-	(12)
Charge for the year	93	9	78	1	181
Disposals	(34)	(26)	(60)	-	(120)
As at 31 December 2009	758	-	612	71	1,441
Carrying amount					
As at 31 December 2009	200	-	205	9	414
As at 31 December 2008	152	38	103	11	304

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

As at 31 December 2009, the Group had no capital commitments (2008: £nil). The depreciation charge for the year is included in administrative expenses.

16. Financial assets

a. Investment properties

	2009 £000	2008 £000
As at 31 December	1,085	1,336

The movement in the valuation of these properties is due to a sale and an acquisition in property £180,000 (2008: £nil) and an exchange adjustment of £71,000 (2008: £228,000).

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)

	2009 £000	2008 £000
Equities	296	827
Debt securities – fixed interest rate	242,675	280,085
	242,971	280,912

In the normal course of business insurance company subsidiaries have deposited investments in 2009 of £12,064,000 (2008: £18,286,000) 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.

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16. Financial assets (continued)

c. Shares in subsidiary undertakings and other investments

The Company has interests in the following principal subsidiaries at 31 December 2009, which, except where indicated, are registered in England and Wales:-

		% of ordinary shares held by:		
Principal activity and name of subsidiaries	**Country of incorporation /registration**	**The Company**	**Subsidiary undertakings**	**Overall effective % of share capital held**
Insurance companies in run-off				
Chevanstell Ltd	England	100	-	100
Goldstreet Insurance Company	USA	-	100	100
La Metropole SA	Belgium	100	-	100
R&Q Insurance (Guernsey) Ltd	Guernsey	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
Insurance Services Division				
R&Q Managing Agency Ltd	England	100	-	100
R&Q Insurance Services Ltd (formerly Cavell Management Services Ltd)	England	100	-	100
R&Q USA Inc (formerly Cavell USA, Inc)	USA	-	100	100
Chevanstell Management Ltd	England	-	100	100
EC3 Solutions Ltd	England	100	-	100
R&Q Audit & Inspection Ltd (formerly Peter Blem Adjusters Ltd)	England	-	100	100
R&Q 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
R&Q Quest Management Services Ltd	Bermuda	-	100	100
R&Q Quest (SAC) Ltd	Bermuda	-	100	100
Sentry Intermediaries Ltd	Bermuda	-	100	100
R K Carvill & Co Ltd	England	100	-	100
Carvill America Inc	USA	-	100	100
Carvill America SSC	USA	-	100	100
Liquidity Management Division				
R&Q Liquidity Management Ltd (formerly Reinsurance Finance Management Ltd)	England	100	-	100

Principal activity and name of subsidiaries	Country of incorporation /registration	% of ordinary shares held by: The Company	Subsidiary undertakings	Overall effective % of share capital held
Investment/Property/Other 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
RedQuince Ltd	England	-	100	100
Intermediate holding companies/others				
Randall & Quilter America Holdings Inc	USA	100	-	100
R&Q Secretaries Ltd	England	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
Arran Insurance Company Ltd *	England	-	100	100
Ludgate No. 1 Ltd * (Formerly Ludgate Insurance Company Ltd)	England	-	100	100

* both companies have now been deregistered as insurance companies.

17. Other receivables, including insurance receivables

	2009 £000	2008 £000
Debtors arising from direct insurance operations	267	1,693
Debtors arising from reinsurance operations	22,154	21,626
Insurance receivables	22,421	23,319
Trade debtors	2,563	2,126
Other debtors/receivables	1,301	1,652
Prepayments and accrued income	5,772	7,061
	9,636	10,839
	32,057	34,158
Due within 12 months	31,957	33,892
Due after 12 months	100	266
	32,057	34,158

Pre-payments and accrued income includes £99,981 (2008: £265,814) 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

	2009 £000	2008 £000
Cash at bank and in hand	46,809	68,189

Included in cash and cash equivalents is £470,869 (2008: £460,331) 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 £285,165 (2008: £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

	2009 £000	2008 £000
Current tax assets	1,513	2,845

20. Trade and other payables

	2009 £000	2008 £000
Structured liabilities	368,012	403,534
Structured settlements	(368,012)	(403,534)
	-	-
Creditors arising from reinsurance operations	12,319	16,083
Creditors arising from direct insurance operations	2,407	1,990
Insurance payables	14,726	18,073
Trade creditors	1,343	1,064
Other taxation and social security	810	406
Other creditors	3,771	3,058
Accruals and deferred income	4,457	3,837
	25,107	26,438
Due within 12 months	25,107	26,438
Due after 12 months	-	-
	25,107	26,438

The carrying values disclosed above reasonably approximate their fair values at the statement of financial position date.

Structured settlements

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

Quest – Segregated cells

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 Quest, nor the Group, and as such these balances are not included in the consolidated statement of financial position. The amounts held on behalf of the segregated cells as at 31 December 2009 amount to £37,042,000 (2008: £44,488,000).

21. Financial liabilities

	2009 £000	2008 £000
Total financial liabilities		
Amounts owed to credit institutions	9,523	4,613

Amounts due to credit institutions are payable as follows:-

	2009 £000	2008 £000
Less than one year	1,326	536
Between one to five years	8,197	4,077
More than five years	-	-
	9,523	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, R&Q Consultants Limited, R&Q Insurance Services Limited, R&Q Liquidity Management Limited and R&Q Quest Management Services Limited.

22. Insurance contract provisions and reinsurance balances

Gross	2009 £000	2008 £000
Claims outstanding at 1 January	571,190	466,382
Claims paid	(57,191)	(45,263)
Increase in provisions arising from the acquisition of subsidiary undertakings	8,765	-
Strengthening/(release) of provisions	2,118	(5,104)
Net exchange differences	(44,266)	155,175
As at 31 December	480,616	571,190

Reinsurance	2009 £000	2008 £000
Reinsurers share of claims outstanding at 1 January	297,650	239,681
Reinsurers share of gross claims paid	(31,032)	(25,718)
Increase in provisions arising from the acquisition of subsidiary undertakings	155	-
Strengthening of provisions	3,749	3,153
Net exchange differences	(23,066)	80,534
As at 31 December	247,456	297,650

Net	2009 £000	2008 £000
Net claims outstanding at 1 January	273,540	226,701
Net claims paid	(26,159)	(19,545)
Increase in provisions arising from the acquisition of subsidiary undertakings	8,610	-
Release of provisions	(1,631)	(8,257)
Net exchange differences	(21,200)	74,641
As at 31 December	233,160	273,540

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

Assumptions, changes in assumptions and sensitivity

The assumptions used in the estimation of provisions 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 provisions carried by the Group insurance companies are calculated using a variety of actuarial techniques. The provisions 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 provisions. 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.

22. Insurance contract provisions and reinsurance balances (continued)

The provisions 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 provisions 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 per cent reduction in reinsurers share of technical provisions would decrease net assets by £2,474,564 (2008: £2,976,497).

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 (2008: 28 percent) and 35 percent for the US (2008: 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 2008	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
(Charge)/credit for the year	(1,684)	1,502	(182)
As at 31 December 2009	1,346	(1,084)	262

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	timing differences £000	Total £000
As at 1 January 2008	49	-	-	928	977
Movement in year	4	-	-	(537)	(533)
As at 31 December 2008	53	-	-	391	444
Movement in year	114	-	-	(296)	(182)
As at 31 December 2009	167	-	-	95	262

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 2008	-	(172)	(417)	56	(533)
Movement in 2009	123	(29)	(302)	26	(182)

24. Share capital

	2009 £	2008 £
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 (2008: 55,913,000 Ordinary shares of 2p each)	1,118,260	1,118,260
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,118,262	1,118,262

Included in:	2009 £	2008 £
Equity		
55,913,000 Ordinary Shares of 2p each (2008: 55,913,000 Ordinary shares of 2p each)	1,118,260	1,118,260
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,118,262	1,118,262

24. Share capital (continued)

Treasury Shares

The Group's Employee Benefit Trust ("EBT") purchased 333,824 (2008: 921,000) ordinary shares during the year. The total amount paid was £389,000 (2008: £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/ Lapsed	Granted	Carried forward
Number of options	2,059,500	(555,000)	200,000	1,704,500

The impact of these options is charged to the income statement over their vesting period and is based on the binomial valuation method. The weighted average exercise price of these options is 42 pence.

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	Treasury share reserve £000	Retained profit £000	Total £000
2009						
As at 1 January	1,118	150	17,255	(1,197)	63,532	80,858
Issue of shares	-	104	-	-	-	104
Treasury shares	-	-	-	(389)	-	(389)
Total comprehensive income	-	-	-	-	(2,963)	(2,963)
Dividends	-	-	-	-	(2,796)	(2,796)
As at 31 December	1,118	254	17,255	(1,586)	57,773	74,814
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 comprehensive income	-	-	-	-	10,039	10,039
Dividends	-	-	-	-	(2,684)	(2,684)
As at 31 December	1,118	150	17,255	(1,197)	63,532	80,858

26. Employee Benefit Trust

The EBT has purchased 333,824 and released 35,000 Ordinary shares held in Treasury during the year to give a holding at the year end 1,219,824 (2008: 921,000). The value at the year end was £1,325,000 (2008: £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

	2009 £000	2008 £000
Wages and salaries	13,882	9,007
Social security costs	1,390	1,240
Pension costs	1,299	952
Share based payment charge	137	-
	16,708	11,199

Pension costs are recognised in operating expenses in the income statement and include £1,253,000 (2008: £889,000) in respect of payments to defined contribution schemes and £46,000 (2008: £63,000) in respect of defined benefit schemes.

Average number of employees

	2009 Number	2008 Number
Group investment activities	12	12
Captives	17	-
Insurance services	190	170
	219	182

Remuneration of the Directors and key management

	2009 £000	2008 £000
Aggregate Director emoluments	635	676
Aggregate key management emoluments	820	1,018
Share based payments – key management	117	-
Director pension contributions	82	82
Key management pension contributions	72	95
	1,726	1,871

Highest paid Director

Aggregate emoluments	332	323
	332	323

Two Directors have retirement benefits accruing under money purchase pension schemes (2008: Two). No Director has been granted any share options in respect of qualifying services under a long term incentive plan.

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 2009 by a qualified independent actuary. The next valuation is due in mid 2012; 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:-

	2009 £000	2008 £000
Total market value of scheme assets	24,226	21,495
Present value of scheme liabilities	(23,475)	(19,536)
Gross defined benefit asset	751	1,959

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 2009.

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:-

	2009	2008
Inflation rate	3.6%	2.7%
Projected return on assets	6.3%	6.4%
Pension increase	3.6%	2.7%
Deferred pension increases	3.6%	2.7%
Discount rate	5.8%	6.5%
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:-

	2009 £000	2008 £000
Current service cost (operating expense)	(46)	(63)
Interest cost (other income)	(1,260)	(1,250)
Expected return on plan assets (other income)	1,352	1,463
	46	150

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.

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

	2009 £000	2008 £000
Actual return less expected return on assets	2,179	(4,542)
Experience losses arising on obligations	349	(249)
Changes in assumptions	(3,828)	2,617
Amount not recognised due to restriction on recovery (as required by IAS19)	1,208	1,977
Total actuarial losses charged in the statement of recognised income and expense	(92)	(197)

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

	2009 £000	2008 £000
Surplus in the scheme as at 1 January	1,959	3,936
Current service costs	(46)	(63)
Past service costs	-	-
Contributions by employer	46	47
Actuarial loss	(1,300)	(2,174)
Other financial income	92	213
Surplus in the scheme as at 31 December	751	1,959

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

	2009	2008
Equity securities	49.0%	49.3%
Debt securities	35.1%	41.3%
Property	6.4%	5.3%
Cash	9.5%	4.1%

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29. Related party transactions

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

	2009 £	2008 £
K E Randall and family	1,233,350	1,184,016
A K Quilter	243,275	233,544
K P McNamara	1,400	1,344

- Mr and Mrs K E Randall received £25,000 (2008: £25,000) for rent due for property used by the Group.
- RCP Incubation Services Limited, a company in which Mr K E Randall has an indirect interest, was charged £58,500 (2008: £35,750) for rent, rates and service charges for use of group owned property.
- Mr J Welman was a Director of EPIC Investment Partners and its subsidiary EPIC Asset Management Ltd during 2009. EPIC provides investment management services to various group subsidiaries. In total, fees paid to EPIC by the group amounted to £99,734 (2008: £111,578).
- At the year end the Group held an investment of 1,500,000 (2008: 1,500,000) Capital Shares in the Equity Partnership Investment Company Plc with a current market value of approximately £296,000 (2008: £450,000).

30. Operating lease commitments

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

	2009 £000	2008 £000
Land and buildings		
Leases expiring within one year	118	61
Leases expiring between two and five years	718	1,797
Leases expiring after five years	222	-
Other		
Leases expiring within one year	-	9
Leases expiring between two and five years	89	56
Leases 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 2009 are due to expire within one to five years of the balance sheet date.

It is anticipated that sublease income of £91,000 (2008: £599,000) 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 unlikely that either of these counter-indemnities will be called upon.

32. Business Combinations

On 9 June 2009 the Group purchased the entire issued share capital of Woolworths Insurance Guernsey Limited a company incorporated in Guernsey.

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 £1,200,940. Negative goodwill of £359,929 arose. The reasoning behind this acquisition is detailed in the Chairman's statement.

The following table shows the fair value of assets and liabilities included in the consolidated financial statements at the date of acquisition.

	Fair value £000
Investments	3,248
Other debtors	7
Cash	4,681
Escrow	
Technical provisions	(81)
	(6,639)
Other creditors	(15)
Net assets acquired	1,201
Satisfied by	
Acquisition costs paid	(841)
Negative goodwill	(360)

Post acquisition profits before tax amounted to £387,000, if the Group had purchased the company at the start of the year its contribution to the Group would have been £460,000.

On 16 November 2009 the Group purchased 70.18% of the issued share capital of Goldstreet Insurance Company incorporated in the US and the remaining 29.82% on 14 December 2009

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 £5,805,824. Goodwill of £336,032 arose. The reasoning behind this acquisition is detailed in the Chairman's statement.

The following table shows the fair value of assets and liabilities included in the consolidated financial statements at the date of acquisition.

32. Business Combinations (continued)

	Fair value £000
Investments	5,764
Other debtors	307
Cash	2,140
Technical provisions	(2,405)
Other creditors	
Net assets acquired	5,806
Satisfied by	
Acquisition costs paid	(6,142)
Goodwill	336

Post acquisition profits before tax amounted to £30,000, if the Group had purchased the company at the start of the year its contribution to the Group would have been £235,000.

On 7 December 2009 the Group purchased the entire issued share capital of R K Carvill & Co Limited a company incorporated in England and its wholly owned subsidiaries Carvill America Incorporated and Syndicated Services Company Incorporated both incorporated in the US.

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 £447,499. Goodwill of £244,828 arose. The reasoning behind this acquisition is detailed in the Chairman's statement.

The following table shows the fair value of assets and liabilities included in the consolidated financial statements at the date of acquisition.

	Fair value £000
Other debtors	166
Cash	2,538
Other creditors	(2,257)
Net assets acquired	447
Satisfied by	
Acquisition costs paid	(692)
Goodwill	245

33. Inter-company guarantee and debenture

The Company has entered into a guarantee agreement and debenture arrangement with its bankers, along with its subsidiaries, R&Q Consultants Limited, R&Q Insurance Services Limited, R&Q Liquidity Management Limited and R&Q Quest 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 2009 is £9,522,822 (2008: £4,613,932).

34. Post balance sheet events

On 20 January 2010 the Group completed the acquisition of the entire share capital of JMD Specialist Insurance Group Services Limited. The fair values of the assets acquired have been provisionally estimated as £91,000 which would derive a value of goodwill of £1,920,000.

On 29 March 2010 the Group completed the acquisition of the entire share capital of Callidus Group Limited. The fair values of the assets acquired have been provisionally estimated as £297,000 which would derive a value of goodwill of £303,000.

On 22 April 2010 the Group completed the acquisition of the entire share capital of La Licorne. The fair values of the assets acquired have been provisionally estimated as £3,800,000 which would derive a value of negative goodwill of £900,000.

Parent Company Balance Sheet

As at 31 December 2009
Company Number 03671097

	Note	2009 £000	2008 £000
Fixed assets			
Intangible assets	3	1	1
Investments	4	37,644	29,617
		37,645	29,618
Current assets			
Debtors	5	1,054	1,584
Cash at bank and in hand		772	7,075
		1,826	8,659
Creditors: amounts falling due within one year	6	(3,605)	(1,998)
Provisions		(235)	(883)
Net current (liabilities)/assets		(2,014)	5,778
Total assets less current liabilities		35,631	35,396
Creditors: amounts falling due after more than one year	6	(13,231)	(9,168)
		22,400	26,228
Capital and reserves			
Called up share capital	7	1,118	1,118
Share premium account	8	17,255	17,255
Shares to be issued	8	254	150
Treasury share reserve	8	(1,586)	(1,197)
Profit and loss account	8	5,359	8,902
Equity shareholders' funds		22,400	26,228

The financial statements were approved by the Board of Directors on 28 April 2010 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 2009

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 408 of the Companies Act 2006 ("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.

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.

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2009

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.

k. Dividends

Dividends payable to the Company's shareholders are recognized as a liability in the Company's financial statements in the period in which the dividends are declared and appropriately approved.

2. Staff costs and Directors' emoluments

No staff were employed by the Company (2008: 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 2009	1	1

4. Investments

	Investment in Subsidiary Undertakings £000	Loans to Subsidiary Undertakings £000	Total £000
Cost			
As at 1 January 2009	25,486	4,381	29,867
Foreign currency exchange	-	(350)	(350)
Additions in the year	1,517	6,860	8,377
As at 31 December 2009	27,003	10,891	37,894
Provision for impairment			
As at 1 January 2009	(250)	-	(250)
As at 31 December 2009	(250)	-	(250)
Net book value			
As at 31 December 2009	26,753	10,891	37,644
As at 31 December 2008	25,236	4,381	29,617

Included in the Loans to Subsidiary Undertakings are:-

(a) A subordinated loan of £375,000 provided to R&Q Managing Agency Limited. This loan is non interest bearing and is not repayable before 31 December 2010.

(b) A loan of $15,969,000 (2008: $5,664,000) to Randall & Quilter America Holdings Inc in relation to the acquisitions by that Company of R&Q Reinsurance Company and Goldstreet Company. The loan is non interest bearing and is repayable out of realisations received from these companies. In the event of the non recovery of this loan Randall & Quilter America Holdings Inc has agreed to surrender all or part of its holdings in these companies to the Company.

5. Debtors

	2009 £000	2008 £000
Amounts due from subsidiaries	684	1,083
Other debtors	129	105
Prepayments and accrued income	241	396
	1,054	1,584

6. Creditors

	2009 £000	2008 £000
Bank loans	9,523	4,613
Other creditors	586	213
Amounts due to subsidiaries	5,485	5,533
Accruals and deferred income	1,242	807
	16,836	11,166
These borrowings are repayable as follows:		
In one year or less, or on demand	3,605	1,998
Between two and five years	13,231	9,168
	16,836	11,166

Included in the amounts due to subsidiaries above is a loan of £5,000,000 from R&Q Reinsurance Company (Belgium) Interest is chargeable at a rate of 2.1% above LIBOR and is payable annually in arrears.

7. Share capital

	2009 £	2008 £
Authorised		
63,000,000 Ordinary Shares of 2p each		
(2008: 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		
(2008: 55,913,000 Ordinary shares of 2p each)	1,118,260	1,118,260
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,118,262	1,118,262
Included in:		
Equity		
55,913,000 Ordinary Shares of 2p each		
(2008: 55,913,000 Ordinary shares of 2p each)	1,118,260	1,118,260
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,118,262	1,118,262

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 2009

8. Reserves

	Share capital £000	Share premium account £000	Shares to be issued £000	Treasury shares £000	Retained profit £000	Total £000
2009						
At 1 January	1,118	17,255	150	(1,197)	8,902	26,228
Share based payments	-	-	104	-	-	104
Treasury shares	-	-	-	(389)	-	(389)
Total recognised income and expense	-	-	-	-	(747)	(747)
Dividends	-	-	-	-	(2,796)	(2,796)
At 31 December	1,118	17,255	254	(1,586)	5,359	22,400

	Share capital £000	Share premium account £000	Shares to be issued £000	Treasury shares £000	Retained profit £000	Total £00
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

9. Related party transactions

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

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