

Annual Report and Financial Statements
Randall & Quilter Investment Holdings plc

31 December 2010



Annual Report and Financial Statements

For the year ended 31 December 2010



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Annual Report and Financial Statements

For the year ended 31 December 2010

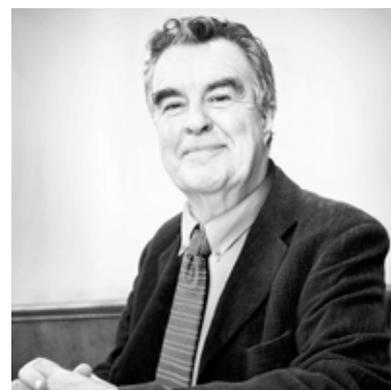
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Highlights and Summary of Results

For the year ended 31 December 2010

FINANCIAL HIGHLIGHTS

- Total Group income increased by 24% to £32.8m (2009: £26.4m)
- Profit before tax rose to £7.52m (2009: £0.26m)
- Return of value of 4.45p, through a C and D share scheme, approved in the General Meeting on 27 April 2011, payable on or around 2 June 2011, bringing the total distributions to shareholders to 7.35p for the year (2009: 7.0p)
- Undiscounted net asset value per share of 144.8p (2009: 140.8p*)
- Earnings per share of 12.2p (2009 (0.3p))
- Net assets of £79.4m (2009: £76.2m)

DIVISIONAL PERFORMANCE

- Strong contribution from the Insurance Services Division with a record Operating Profit of £5.8m (2009: £2.5m**)
- A good performance overall in the Insurance Investments Division with an Operating Profit of £7.4m (2009: £1.3m) despite the anticipated fall in investment income in the second half of the year
- A satisfactory result from the Captives Division with an Operating Profit of £0.2m (2009: £0.7m**); the drop in contribution due entirely to development costs of the Nordic venture
- A loss of nearly £1.0m, as expected, from the new Underwriting Management Division, as a result of continued investment in staff and infrastructure
- Corporate overhead charges of £4.5m remained high (2009: £4.1m) due to exceptional legal costs in respect of the Seaton and Stonewall litigation and the exceptional acquisition costs associated with the Reinsurance Solutions businesses from Guy Carpenter/Marsh

* Following restatement of goodwill

** Excludes profits now reported on in the Captives division for comparative purposes

FINANCIAL RESULTS 2010	2010 £'000	2009 £'000
GROUP RESULTS		Restated
Operating profit	7,881	413
Profit on ordinary activities before income taxes	7,523	259
Profit/(loss) after tax	6,373	(171)
Earnings per share (Basic)	12.2p	(0.3p)
Total net assets attributable to equity shareholders	79,549	76,190

Chairman's Statement and Business Review

For the year ended 31 December 2010

I am pleased not only to report a strong pre-tax result for the Group of £7.5m and a record operating result for our insurance services division of £5.8m, but to be able to confirm that we have also met our key operational goal of continuing our diversification into the 'live' underwriting market whilst maintaining growth of our run-off 'core'.

The continued diversification into the 'live' market has been achieved through the expansion of our service offering (predominantly through bolt-on acquisitions) into niche areas focused on the London subscription market such as coverholder audit, market reporting and premium collection, as well as through the launch of our first turnkey syndicate on behalf of Skuld, a long established Norwegian P&I club manager and the establishment of our first Managing General Agents in the UK and Canada. Given the paucity of new syndicates approved by

performed well in 2010. In spite of the widely anticipated fall in investment income in the second half of the year, the Insurance Investments Division delivered a good overall operating result. This was driven by net reserve releases of c. £9.5m in our insurance company subsidiaries, demonstrating our ability to generate value in our well diversified portfolio through active claims management. We have seen some evidence of a pick up in asbestos related claims in the USA portfolios albeit ameliorated by extensive reinsurance protections and this aspect of our business is receiving particular attention.

On the run-off service side, we won new third party contracts, added an extensive US based third party operation through the acquisitions of Reinsurance Solutions and ETMC from Guy Carpenter/Marsh and continued to develop our legacy broker activities with the launch of



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Lloyd's to start underwriting in 2011, we are particularly delighted with our achievement in launching Syndicate 1897 with capacity of £60m.

Our investment in the newly created Underwriting Management Division has been significant during the past two years, most especially in the latter half of 2010 when the Group was required to recruit significant additional resource ahead of the launch of Syndicate 1897. The divisional loss of £1.0m, though anticipated, still impacted the overall Group result. However, we are now fully established as a turnkey provider and have capacity for future start-ups. Furthermore, this division is expected to move into profit during 2011. Future results will be enhanced by any additional turnkey management opportunities and the new MGA activities once premium builds in 2012 and beyond.

The Group's traditional core of run-off portfolios and services

a 'broker wrap' product offering the market a full exit solution from servicing legacy claims.

In terms of acquisition activity in the year, as well as the purchase of a number of new reinsurance debt positions, dealt with in more detail below, the Group acquired La Licorne from MAAF Assurances in France and won the RITC bid for run-off Syndicate 102, which we had managed for Lloyd's since 2003. The capitalisation of the new RITC syndicate for Syndicate 102 was only completed in February 2011 and followed the new capital partnership model, commented on in more detail below, where the Group provided 20% of the capital and the remaining 80% was provided by a third party. This transaction was an exciting development for the Group and was a natural extension of our management activities in this area, which continue for Advent/Fairfax in respect of run-off Syndicate 3330.

Chairman's Statement and Business Review

For the year ended 31 December 2010

The Captives Division had a satisfactory year in 2010. The division's principal activities are in Randall & Quilter Quest (Bermuda), which produced a stable contribution against last year, a pleasing result given that the marketplace was challenging overall. The acquisition of a Gibraltar based manager, Caledonian, also provided the Group with infrastructure in a low-tax regime with full EEA licences, known for efficient regulatory access.

The overall divisional result in 2010 was however impacted by investment in a start-up joint venture in the Nordic region, the results of which have been disappointing. Difficulties in penetrating the market there have resulted in a new focus on acquiring an existing manager with established local infrastructure to facilitate the conversion of a number of the leads already established. At the same time, ongoing costs of the original joint venture have been addressed.

In summary, 2010 was a good year for the Group and the pre-tax profit of £7.5m is particularly pleasing in light of the diminished investment earnings, the continued investment in the Underwriting Management Division and the high corporate overhead arising from exceptional legal costs.

Outlook

We have built the foundations for our 'live' underwriting platforms and service offering. In 2011 and beyond we should see the Group begin to reap the reward of its diversification strategy with a growing share of future profits emanating from cash generating services and management operations, underpinning the progressive distribution policy to shareholders. At the same time, the reliance on internal contracts is reducing and the Group is using its renewed marketing strength to cross sell its service offerings over an expanded client base.

Investment income will be subdued in the short term as the reduction in real incomes, fiscal restraint and below average economic growth seem to suggest that interest rates will not rise imminently. Ongoing profitability of the Insurance Investments Division will thus remain dependent on our ability to manage actively our claims portfolio, especially where we are exposed to asbestos and environmental losses, and identify net claims releases. However, diversification into investing in Lloyd's (in RITC (run-off) and turnkey syndicates) and more activity in the insurance debt acquisition area is reducing our dependence on the existing insurance company portfolio. We are excited by the positive outlook for acquiring new run-off insurance portfolios and our enhanced ability to participate in these opportunities through development of our capital partnership model, discussed in more detail below.

Insurance Investment Division Acquisition Strategy and Outlook

The increase in run-off portfolio acquisition activity which we hinted at in previous results statements is becoming reality. There are numerous reasons for this, including:-

- The poor premium rating environment which is causing some investors to question their continuing participation in some sectors of the market;
- The continued fall-out from the credit crisis which has led large financial groups as well as governments and central banks to seek to dispose of non-core assets;
- The likely need for insurers to raise additional capital and release trapped capital in legacy portfolios in consequence of the planned implementation of Solvency II in Europe and new "equivalence" regimes outside Europe; and
- The impact of recent catastrophic events in New Zealand, Australia and Japan, which we believe will create new run-off opportunities, even if simply as a result of a refocus of certain groups on a more attractive domestic landscape.

Whilst competition continues for portfolios, there are signs that the demand and supply is becoming better balanced and that attractively priced opportunities are becoming available. Our focus will remain on smaller, niche portfolios, which we believe we will be able to monetise in a relatively short timeframe and where we may have particular expertise or market knowledge through our existing activities.

Geographic focus will be on the US, particularly on those states where we believe we can secure timely capital extractions, Lloyd's where we are well placed with our existing infrastructure and contacts, and Continental Europe, where activity is at last picking up. We have to be mindful however, in the UK especially, of the potential impact on future capital requirements of Solvency II on larger and less mature portfolios which will likely be impacted by the new solvency rules.

A further growth area which we have commented on previously is insurance debt acquisition. As predicted, the number and size of opportunities here have increased markedly in recent times, in part due to the fact that a number of large insolvent estates are winding up and paying long standing creditors. We made a number of debt portfolio acquisitions in 2010 and in recent weeks acquired a larger position in an estate already well known to us from a corporate creditor. We see this activity continuing to gather pace this year and beyond.

Chairman's Statement and Business Review

For the year ended 31 December 2010

To enable Randall & Quilter to benefit fully from this anticipated resurgence in acquisition activity, the Group has made good progress in developing a number of third party capital partners and we hope to formalise such an arrangement with one or a small number of entities in the coming weeks or months. This arrangement will enable the Group to extend its acquisition activities to larger portfolios if the economics are compelling and become more active in its existing niches. It should also enhance return on capital through the generation of profit commissions on third party capital provision.

Business Review

Insurance Investments Division

This division is engaged in the following activities:-

- The acquisition of solvent insurance companies in run-off, typically at a discount to net asset value in the US, Europe, Bermuda and elsewhere;
- The provision of capital (Funds at Lloyd's) to Group managed Reinsurance to Close (RITC) run-off syndicates and new turnkey 'live' syndicates in Lloyd's; and
- The acquisition of insurance debt due to insurance or corporate creditors from insolvent estates.

During 2010 we 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, which have now increased to €5.3m as at 31 December 2010.

In December we also successfully bid for the RITC of Syndicate 102, which we had managed for Lloyd's since 2003. The Group provided 20% of the required capital (Funds at Lloyd's) on closing in February this year and secured the remainder from a third party, on which we will earn profit commission subject to the level of syndicate profits. We believe that the risk premium received above our estimate of net liabilities and run-off costs should deliver a good profit over what we expect to be a relatively short run-off.

In addition, the Group provided capital to support an 8.33% line on its new turnkey syndicate for Skuld to enable the Group to share directly in the underwriting profits expected to be generated by the syndicate.

This participation has also given the Group rights to the ongoing capacity of the syndicate for future underwriting years, save only if Skuld exercises certain buy-out rights at the pre-agreed price. In time, we believe that this "participation" right may itself become a valuable asset.

An added benefit of the decision to provide capital to both of the above Lloyd's syndicates is that we have achieved capital efficiency in our underwriting vehicle (corporate name) through capital diversification credits. This enhances our return on capital on these current participations and also enables us to be more competitive on future RITC bids given the lower level of required capital outlay.

2010 also saw us add a number of additional reinsurance receivables from insolvent estates which together with previous acquisitions brought the total face value of reinsurance debt acquired by the Group to approximately \$34m as at year end, 31 December 2010. To date these investments have yielded high returns on capital. The financial climate has warranted a focused approach to provide liquidity to global creditors. Some of these creditors are now becoming more willing sellers as their need for immediate and certain liquidity takes preference over their perception of uncertain, future dividends from insolvent estates. From a Group perspective we especially target portfolios where our market intelligence, knowledge, existing exposures and prior participation suggest early opportunities for realisation.

In recent weeks, we completed the purchase of a receivable where the consideration was almost equal to that paid for all of our existing positions in aggregate. This is illustrative of the larger size and greater number of such assets which are becoming available. In the interests of cementing our capital partnership arrangements, dealt with in more detail below, we may however sell on a participation in this latest acquisition to enable the Group to increase its ongoing capacity in an investment activity which has generated good returns to date.

As commented on above, the outlook for our investment activities is encouraging and the pipeline of opportunities is strong. The Group's proposal to further its capital partnerships will enhance its ability to take advantage of this improved climate and should generate higher returns on capital on future investments through profit commissions on third party capital provision.

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At 31 December 2010, the portfolio of acquired insurance companies under ownership was as follows:-

	Vendor	Country of Incorporation	Acquisition Date	NAV* £m (as at 31/12/10)	NAV* £m (as at 31/12/09)
La Metropole SA ("La Met")	Travelers Group	Belgium	29 Nov 2000	0.3	0.2
Transport Insurance Company ("Transport")	American Financial Group	USA	30 Nov 2004	9.2	8.1
R&Q Reinsurance Company (UK) Limited ("R&Q Re (UK)")	Ace Group	UK	3 July 2006	3.4	4.2
R&Q Reinsurance Company (Belgium) ("R&Q Re (Belgium)")	Ace Group	Belgium	3 July 2006	3.0	2.6
R&Q Reinsurance Company ("R&Q Re (US)")	Ace Group	USA	3 July 2006	15.7	15.1
Chevanstell Limited ("Chevanstell")	Trygg Forsikring	UK	10 Nov 2006	31.0	28.2
R&Q Insurance (Guernsey) Limited ("R&Q Guernsey")	Deloitte LLP Administrators for Woolworths Group plc	Guernsey	9 June 2009	1.8	1.6
Goldstreet Insurance Company ("Goldstreet")	Sequa Corporation & Columbia Insurance Company	US	14 Dec 2009	4.1	6.1
La Licorne S.A. ("La Licorne")	MAAF Assurances	France	22 April 2010	4.5	-
TOTAL				73.0	66.1

* IFRS basis for Group consolidation purposes

In addition, the Group provides: (i) 8.33% of the underwriting capacity for Syndicate 1897 (which it manages under a turnkey basis) with capacity of £60m for 2011; and (ii) a 20% line on RITC Syndicate 102 (which it also manages) with net reserves of c. £55m.

Investment Policy and Returns

The investment return on funds held by our insurance companies is a key component of the performance of the Insurance Investments Division and despite the low level of interest rates throughout the year, the overall investment return for the year was 3.0% generating £8.5m (2009: 4.1%, generating £11.2m).

For investment management purposes, the assets in our owned company portfolio are broadly divided into two; a US Dollar portfolio, comprising of the assets of R&Q Re (US), Goldstreet, Transport and the US trust funds of Chevanstell; and a mixed currency portfolio (split between Sterling and US Dollars) comprising of the assets of the Group's European insurance companies.

As at 31 December 2010, the total investments in the US Dollar portfolio amounted to \$262.2m and in the mixed currency portfolio to an equivalent of £76.8m (comprising £28.5m of Sterling assets and £48.3m worth of predominately Dollar assets). The investment returns for 2010 were 2.6% and 4.5% for the two portfolios respectively.

At 31 December 2010 the average duration of the US Dollar portfolio was 2.8 years whilst the average duration for the Sterling and Dollars parts of the mixed currency portfolio were 1.0 years and 0.5 years respectively.

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

Credit Rating:-

	Portfolio	Mixed Currency Portfolio
As at 31 December 2010	USD	GBP
Government & Govt Guaranteed Bonds	22.0%	19.0%
AAA	22.2%	1.7%
AA	25.6%	9.4%
A	27.9%	13.6%
BBB	-	13.4%
BB	-	9.3%
P-1	-	33.6%
Non Rated	2.3%	-
	100%	100%

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

Asset Classes:-

	Portfolio	Mixed Currency Portfolio
As at 31 December 2010	USD	GBP
Government/Agency Bonds	22.9%	19.0%
Municipal	37.7%	-
Corporates (ex financials)	7.0%	0.9%
Corporates (financials)	24.4%	46.6%
Cash	8.0%	11.4%
CDs	-	22.1%
	100.0%	100.0%

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 2010 was £9.4m. For the year as a whole, the Group generated an unrealised profit of £1.3m in relation to these investments. Since the year end, a portion of these step-up perpetuals were transferred out of Chevanstell and R&Q Re (UK) to non-regulated entities of the Group to de-risk the portfolios and in the case of Chevanstell, to counteract the potential higher future capital charges under Solvency II on such securities. Our current intention is to hold these investments, which as at 31 March 2011 have an aggregate running yield of over 7% until their anticipated call dates. However, further transfers out of the regulated entities may occur if the risk-reward balance looks unfavourable and their admissibility is reduced through changes heralded by Solvency II.

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A small portion of the Group's funds, amounting to £2.7m as at 31 December 2010 were held in equities, which performed excellently in the period, generating a return of 18.6%. The principal holdings were in high yielding specialist equities with strong asset backing, which the Group acquired through initial public offerings during the year; part of its more active and diversified investment strategy.

The Group outsourced investment management responsibilities for the US Dollar portfolio to BNY Mellon in the US, and to EPIC Asset Management for the mixed currency portfolio. Since the year end, the management of the majority of the mixed currency portfolio has been transferred to HSBC Global Asset Management. The Group's syndicate funds are managed by Amundi (formerly known as Credit Agricole).

The Group's overall investment objectives include:-

- Optimising return whilst maintaining the principal value of the investments held;
- Keeping average duration relatively short in order to provide funds to pay claims as we manage down liabilities through claims settlements;
- Broadly matching insurance liabilities in original currencies; and
- 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 continued paucity of returns available on short dated, high quality fixed income investments is 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 2010 appears to have run its course. During 2010, duration was kept within the one to two year range and often at the lower end of that. Until December, reducing interest rate expectations brought some capital gains to the portfolio, but the year had a nasty sting in its tail and December witnessed a sharp and unprecedented parallel shift in the yield curve which reversed out those gains and brought the year end performance close to initial expectations which had been significantly surpassed in earlier months. With some of the risk taken out by this shift in the yield curve, whilst maintaining duration relatively short, we have since begun to selectively increase exposure to other parts of the yield curve where we believe there is good value, particularly

where rates are closer to long term averages. Given the shape of the yield curve, this has of course also served to increase running yields but we are still cautious of intermediates (securities with medium term durations) where the uncertainty over the timing and speed of interest rate rises still poses a risk of short term capital loss.

In the mixed currency portfolio, the high running yield of the step-up perpetuals and the small amount of equities helped overall returns in the year, which we expect to be repeated this year. Moreover, yields on corporate bonds in the UK are higher than those in the US and we are pleased to be working with HSBC to identify securities and parts of the yield curve which provide the opportunity for outperformance.

We commented in last year's report that we were examining alternative strategies to underpin investment returns and were 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").

Our conclusion is that the former is probably unsuitable given the limited protection such funds seem to offer in down cycles and the underperformance commonplace in up cycles. We are however minded to progress the latter option, believing that the floating rate qualities of these securities and the persistent supply-demand imbalance, particularly of European USD denominated securities mean they remain an attractive proposition.

Claims Reserving

The Group 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. There was an aggregate net claims release of £9.5m from our insurance companies during the year, driven once again by the strong performance of Chevanstell. The recently acquired Goldstreet also delivered good net releases. We witnessed a pick up in activity in relation to US asbestos and environmental claims which impacted gross claims carried by R&Q Re and Transport although the impact was ameliorated by their comprehensive reinsurance protections, including additional sources of recovery which were identified during the year. These portfolios will continue to receive a lot of attention with increased efforts to identify opportunities to settle the volatile participations.

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Our internal actuarial team continues to work closely with our external actuaries to enhance and refine our knowledge of the profiles of our insurance company liabilities with the aim of identifying areas where reserves may be appropriately reduced.

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

Chevanstell

Claims development continues in line with expectation with some good settlements and few surprises. Since the year end we have satisfactorily settled two of our largest remaining claims.

R&Q Re US

This reinsurance company was acquired from the ACE Group in 2006. We have seen some development of asbestos losses which to date have been largely contained within IBNR provisions. The company has the benefit of an extensive reinsurance programme and during the year we have identified additional sources of recovery.

A number of disputes with ACE have arisen concerning liability for certain claims and ownership of certain recoveries. These disputes date back to the separation of R&Q Re from Ace at the time of acquisition. Whilst our investigations are ongoing, we do not believe that ACE has any legitimate case or will succeed in its claims.

R&Q Re UK

Following the adverse settlement with Equitas at the end of 2009, we have made good progress in negotiating closure of our residual reinsurance exposures relating to the Exxon Valdez oil spill and the first Gulf War with other reinsurance market participants. Emphasis going forward is to negotiate commutations in order to bring early closure on a sound economic basis where possible.

Transport Insurance Company

Despite some activity relating to asbestos and environmental claims, development has been within the reinsurance protection purchased from a Berkshire Hathaway subsidiary at the time of acquisition. We have yet to receive a response from the California Court of Appeals regarding the Aerojet case. Whilst our claim seeks recovery of more than \$13m from two reinsurers, the group accounts include a full provision for non-recovery.

Other Insurance Subsidiaries

Our other insurance subsidiaries continue to run-off in line or better than planned.

Insurance Services Division

This Division recorded an operating profit for the year of £5.8m (2009: £2.5m) from total revenue of £32.6m (2009: £23.3m). This is in line with our guidance earlier in the year that we would restore profitability in the division and at least match the operating profit of £5.3m achieved in 2008.

The strong result for the year was due to a number of factors, including:

- The significant profit commission received in respect of the management of specialist RITC Syndicate 3330, which registered large net reserve releases as a consequence of favourable developments in connection with World Trade Center related claims;
- A restoration of the profit margin on some renegotiated third party contracts through resource streamlining;
- The winning of a number of new third party contracts in both legacy and 'live' servicing;
- Good progress on our legacy broking activities in particular in respect of our new 'broker wrap'; a comprehensive facility for servicing legacy broking accounts; and
- Our profitable expansion into new niche 'live' services, aimed principally at the subscription market, such as coverholder audit, premium collection and market reporting.

Services are provided to both the Group's owned insurance companies and third party insurers. Excluding intra divisional recharges, service revenue from Group owned companies amounted to £7.8m and services to third party entities, £19.6m (2009: £9.2m and £13.2m respectively). This equates to a 29%/71% split versus 41%/59% a year earlier and demonstrates our reducing reliance on income from the owned portfolio.

In addition to benefiting from the revenue from the JMD, John Heath, A M Associates, Callidus and Reinsurance Solutions acquisitions, the Group has generated good organic growth through winning new third party contracts. On the legacy side this includes a contract for a large UK insurance group to provide reinsurance recovery and other similar services. On the 'live' side, JMD has been successful in winning new mandates in coverholder audit, broker reporting and premium collection

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with recent inroads into industry associations outside of its traditional Lloyd's client base. The audit and inspection activities, spearheaded by John Heath and Allison Murray are also developing well with a good pipeline of new opportunities and expanded services to existing clients. Callidus, our company secretarial and compliance provider, also had a decent year with its services in demand in an increasingly regulated environment.

We will continue to develop these niche services and seek others which are aimed at addressing the issues faced by the subscription market, where centralised service provision is a cost effective solution.

The acquisitions of Reinsurance Solutions and ETMC from Guy Carpenter/Marsh last autumn have provided the Group with an extensive third party legacy servicing business in the US. Whilst, as anticipated there has been a significant amount of restructuring required, Reinsurance Solutions has delivered a number of new contracts in recent months and we are confident that we can move to a near break-even position in our US operations this year before generating profits in 2012 and beyond. As a result of acquiring ETMC, we have also inherited the management of a large US run-off pool, providing us with potential for additional revenue generating business. The deep claims experience of the senior ETMC and Reinsurance Solutions staff is a valuable addition to the Group.

The Group's underwriting management activities are also generating another source of revenue opportunities through the provision of services ranging from broking to claims management to our turnkey syndicates and MCAs.

On the broker legacy side, the Carvill run-off continues to progress well and we have developed both scale and efficiency here, helped by the acquisition of the sizeable operations of Reinsurance Solutions (UK), which we acquired from Guy Carpenter/Marsh last year. The new 'broker wrap' product is also being well received with a new contract now signed with Gallagher and further significant market interest in this unique product offering finality to broker legacy accounts for which brokers have ongoing cost and no future revenue. For the Group, it is a cash generating activity and we are well placed to accurately judge the ultimate cost of run-off given our expertise.

Last but by no means least, the Group generated a significant profit commission in 2010 from its management of Syndicate 3330 for Advent/Fairfax, which had an excellent year following reserve releases arising from settlement of World Trade Center ('WTC') claims. Further syndicate profits are anticipated in the current year generating

contingent revenue for the Group. We do not see such revenue as one-off; rather it is a vindication of our desire (where possible) to agree a contingent element to our service fees; so we can benefit directly from the profits we generate for our clients through superior service and management.

As highlighted in our last set of full year results, as well as diversifying and growing our service business, we have focused on costs and operational efficiencies. Since the year end we have made a decision to close or reduce the size of some of our offices both in the US and the UK. We seek to redeploy and re-train staff wherever possible, but some redundancy is a regrettable consequence.

We believe that the 'live' market and broker legacy activities will drive a significant amount of the division's future organic growth. It is a fact that run-off "runs off" whereas 'live' business normally has a natural growth trajectory. The Group's strengthened marketing function is also beginning to pay dividends with some successful cross-selling of our extensive service offering on both sides of the Atlantic in both run-off and 'live' market servicing.

Following a particularly acquisitive year in 2010, it is likely that 2011 will be a year characterised by consolidation in which we strive to deliver on the exciting organic growth opportunities that lie ahead. Having said that, we will not forego interesting expansion opportunities which are complementary to our existing business and where the price of acquisition is attractive and the growth prospects good.

Underwriting Management Division

This new division had a successful year in 2010 in operational terms with the successful launch of one of only two new syndicate start-ups in Lloyd's for the 2011 underwriting year. Following final approvals by the Lloyd's Franchise Board in the autumn, Syndicate 1897, managed by the Group's wholly owned managing agency RQMA on a turnkey basis for Norwegian marine insurer Skuld, began preparing for accepting risk in the 1 January 2011 renewals. Capacity for the current underwriting year is £60m and capital has been provided by Skuld and its management, Scor and the Group itself. The syndicate has started satisfactorily albeit slowly and we look forward to assisting and managing its growth in years to come.

As highlighted in previous announcements, the turnkey model involves charging a management fee (typically a percentage of capacity) and a profit commission on future syndicate profits. In addition, the Group's extensive service offering is available to clients and provides other revenue generating opportunities.

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Whilst the current environment of relatively weak underwriting rates and the Society's drive to concentrate on compliance with Solvency II amongst its existing syndicates and members is not particularly conducive to launching new Lloyd's syndicates, our pipeline for future turnkey clients remains active.

Lloyd's itself is going from strength to strength and its attractions which range from a strong umbrella financial rating through to capital efficiency, global licences and strong distribution have made it a platform of choice for smart underwriting capital.

Together with a potential hardening of premium rates, led by recent catastrophic events, we are greatly encouraged by our future potential to create a useful source of infrastructure, management and expertise to recycle and bring in new underwriting talent to the market. To that end, we look forward to engaging with a further turnkey client for a launch at some point in 2012 and to add further clients in the following years. The Group turnkey operation is scalable and we have built strong foundations for future growth.

In addition to the turnkey activities, we have established two managing general agents in the year, R&Q Commercial Risk Services Ltd and R&Q Canada Ltd. The former has underwriting capacity provided by European insurers and provides Commercial Combined, Liability, Property Owners and Package Insurance products to a select regional and London broker base. The business is being led by James Wheddon who was previously responsible for the creation of the Commercial Division at HSBC Insurance Brokers Intermediary Marketing Practice.

The capacity for R&Q Canada is provided by a number of Lloyd's syndicates and this MGA provides Professional Liability and Management Liability coverage, including companion Commercial General Liability, focusing on both individual accounts and schemes/programmes. The business is headed up by Scott Saddington, who has had extensive underwriting and management experience with major underwriting groups in Canada, the United States and Asia-Pacific.

Our MGA business model is generating strong interest from high quality teams of underwriters who are looking for a platform prepared to make ground-up investment, provide strong infrastructure and service support and offer attractive profit sharing arrangements.

Since the year end, we have advanced our plans for launching further MGA facilities.

In aggregate, the MGA activities are likely to make a loss in the current year, as would be expected from start-up operations but the future contribution may be substantial as written premiums increase (on which we get a percentage fee) and as profit commissions are earned. The pipeline is particularly strong and we are very pleased to welcome Phil Sloan, who has moved to the Group from Lloyd's, to assist our efforts in this area, as well as in our turnkey activities. The Group has not to date, nor does it currently intend, to provide its own capital to support the underwriting of the MGAs established.

Though anticipated, whilst the division was an operational success, it generated a loss for the year of £1.0m. The reason for this was continued investment in infrastructure, mostly related to the fact that the recruitment of highly experienced underwriting, operational and risk management staff significantly outweighed the consultancy income generated from Skuld, our first turnkey client.

2011 will however mark a watershed in the division's impact on the Group results with overheads being allocated directly to the syndicate and a profit being generated from the management and service fees and consultancy income from new prospects. In time, the MGA activity should also boost profits and new management fees should be earned on future turnkeys. In future years, (potentially significant) profit commissions should be earned on both the MGA and turnkey activities, as earned premiums increase and underwriting accounts mature.

Chairman's Statement and Business Review

For the year ended 31 December 2010

Captives Division

In 2010, the captive operations generated nearly £3.0m of revenue and £0.2m of operating profit (2009: £2.7m of revenue and operating profits of £0.7m). This fall in profit was due to the establishment costs of the Nordic joint venture, which were anticipated, and the failure to generate the revenue expected in the second half of the year. A number of local captive management prospects were identified, especially in Sweden and Denmark, but our lack of local infrastructure meant we failed to convert these prospects into clients.

Whilst our activities in the region confirmed our belief that the market was in need of an independent manager committed to high service levels, our penetration strategy was wrong. We have therefore decided to focus on acquiring one of the few high quality existing independent managers in the region, to which we will build up with our numerous new leads. We will provide an update on our progress in due course. Our marketing activities to date have also revealed that there is a significant opportunity to sell claims management and other services to local captives, especially ahead of Solvency II implementation.

The division's principal activities are located in Bermuda in the now renamed R&Q Quest. We are pleased to report that this company has successfully secured a number of new captive contracts during the year and currently has 80 captive clients of which 12 are segregated cell companies with a combined 119 cells therein, 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.

R&Q Quest itself performed in line with last year which was a pleasing outcome given that the market in Bermuda suffered from subdued economic activity in its key US market, competitive rates in the third party insurance market and a continued shift to new captive formation in onshore US jurisdictions. 2011 has however seen new tax treaties signed between Bermuda and Canada and Mexico. This has resulted in a resurgence of new enquiries which bodes well for the future but it is likely that the geographic focus will change and we are ensuring we are well equipped for that. In part, this has been helped by our existing operations in Canada, where we have extensive local industry contacts.

In terms of onshore US expansion, it is clear that a local base is necessary to be able to capture the increasing number of companies who are deciding to establish captives in states such as Vermont, Delaware, Utah and Arizona rather than in offshore jurisdictions such as Bermuda. The US market place is competitive however, and we will only consider expansion here if it is controlled and based around an existing manager with infrastructure and clients, and where our entry cost is limited and the downside risk contained.

During 2010 we acquired Caledonian, an insurance and captive manager in Gibraltar, which has an established client base, annual revenue of c. £0.7m and a good profit margin. We view this acquisition as strategic in that Gibraltar is a highly attractive jurisdiction, which bodes well for future growth. Insurers and captives located in Gibraltar benefit from a 10% corporate tax rate, no tax on investment income and easy access to the regulator, as well as access to full EEA licences.

Whilst expanding our third party services, we hope that in time, we can use some of the financial and operational efficiencies that Gibraltar offers for our own investment activities. In acquiring Caledonian, we also acquire the experience of Penny Hudson, its manager. Penny will be a key resource for the Group and will help us identify other opportunities in Europe, such as in the Channel Islands, where a low or zero tax regime and exemption from Solvency II may provide an attractive future landscape for captives.

The Captives division continues to benefit from the fallout from market consolidation by the large insurance brokers. In addition, we are successfully expanding our reach and increasing market awareness of the Group offering by our renewed marketing efforts with fronting companies, brokers and other intermediaries.

It is apparent that there is a demand for a quality independent captive management provider of scale across North America and Europe; and Randall & Quilter is well placed to meet this need. Our activities in this area also enable us to have first hand insight into the attractiveness of different regulatory and fiscal regimes for our increasingly global business. In the longer term, it will provide a potential flow of

Chairman's Statement and Business Review

For the year ended 31 December 2010

acquisition opportunities from captives or insurance companies placed into run-off. This will come either as a result of a decision to cease self-insurance, M&A activity or the threat of higher capital requirements from solvency changes.

Litigation

The long running dispute between R&Q USA (formerly Cavell US) and Seaton and Stonewall continues and we remain confident that we will make a substantial recovery in damages.

In March 2010 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.

We 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 court in August 2007.

The allegations made in the counterclaim by Seaton and Stonewall have and will continue to be defended vigorously. The nature of the allegations being made is similar in substance to those which Seaton and Stonewall advanced in the New York court.

A Defence to the counterclaim has been filed and document disclosure has taken place. Our lawyers' review of documents has to date resulted in not a single document being found to support the allegations being made, on the contrary a number of documents disclosed by the investors in Seaton and Stonewall appear inconsistent with the allegations. The counterclaim also appears to our lawyers to ignore entirely the content of substantial reporting on the affairs of Seaton and Stonewall that the investors received.

The Board believes the rationale for the making of these allegations by Seaton and Stonewall remains a desire to avoid the impact of a release given 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.

The Board believes that the counterclaim is entirely without merit and

simply represents a vexatious attempt to keep these allegations alive against R&Q USA and me.

We expect to make a recovery of the damages incurred as a result of the wrongly filed New York proceedings and a substantial proportion of the costs incurred in defending the counterclaim by Seaton and Stonewall in the English proceedings.

Staffing

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.

We were pleased to welcome Tom Booth on to the main Board as Executive Director following his appointment in early 2011. Tom joined the Group in October 2009 as Corporate Finance Director and has headed up our Investor Relations and M&A activities. Following Tom's proposed appointment to Chief Financial Officer at the forthcoming AGM, Alan Quilter will become Group Chief Operating Officer and will remain a full-time Executive of the Company.

During the past year, we were also pleased to welcome Phil Sloan, who joins the turnkey team, as Deputy Underwriting Director, Scott Saddington and James Wheddon as heads of our new MGAs in Canada and London respectively, Susan Young as Group Risk Manager, all the staff in Reinsurance Solutions (US and UK) and ETMC, headed up by Brian Johnston, Steve Goate, Theresa Zlotnik and Anna Wszalek, and those staff in John Heath, AM Associates and Caledonian, headed up by John Heath, Allison Murray and Penny Hudson respectively.

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 reward staff and management based on the Group's financial performance and where appropriate will formalise incentive structures to retain and attract the best industry talent.

Chairman's Statement and Business Review

For the year ended 31 December 2010

Key Performance Indicators

Last year we announced that in order to focus our delivery to shareholders and facilitate analysis of our progress, we had decided to establish the following key performance indicators, which we would report on from 2010:-

- Revenue growth and Operating Profit 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

The tables below show the results:-

Insurance Services		
	Revenue Growth	Operating Profit Margin
2010	25.2%	17.7%
2009	10.4%	13.0%

Captives		
	Revenue Growth	Operating Profit Margin
2010	6.2%	7.8%
2009	-	26.2%

Operating Profit		
	Insurance Investments	Underwriting Management
2010	7.4	(1.0)
2009	1.3	-

Key per share indicators			
	Diluted EPS	Distributions p/s	Book Value p/s
2010	12.0	7.35	144.8
2009	(0.3)	7.00	140.8*

* Following restatement of goodwill

Chairman's Statement and Business Review

For the year ended 31 December 2010

Market and Outlook

It is pleasing to report a positive outlook across the business as a whole and to confirm that we are well positioned to take advantage of the anticipated increase in acquisition activity in our traditional 'core' run-off area.

As has been commented on above, the Group is set to reap the rewards of its investment into the new areas of underwriting management and 'live servicing' and we are genuinely excited by prospects in 2011 and beyond. The launch of turnkey Syndicate 1897 on behalf of Skuld in a year which saw so few Lloyd's start-ups is a tremendous achievement and puts the Group firmly on the map as a valuable source of future management capacity in Lloyd's, which is itself increasingly viewed as the global underwriting platform of choice.

Whilst compliance with impending solvency change at Lloyd's and a hitherto weak underwriting rating environment may have provided a less than perfect backcloth for launching new turnkey syndicates, our pipeline is focused on specialist and profitable classes of business and we anticipate working with a new client for a syndicate launch at some point in 2012.

Recent catastrophic events such as the Australian floods, New Zealand earthquakes and the Japanese earthquake and tsunami have also brought about the potential for rising rates, led by the reinsurance market. Losses have been substantial and a significant amount of capital has been taken out of the market. Opportunities to make good profits in certain parts of the mainstream market may thus return and this bodes well for our ability to be part of the vital regeneration of market talent either through new turnkey syndicates or managing general agents.

I am particularly encouraged by our MGA activities and 2011 has already seen further development here. Whilst initial investment ahead of the build-up of premium will mean that this activity is likely to generate a loss in the current year, the potential for 2012 and beyond is encouraging and our entrepreneurial platform is attracting significant interest from quality underwriting teams.

On the Insurance Investments side, 2010 saw a good net reserve release from our owned portfolio and prospects for the current year again look promising. However at some point, the task will become more challenging, especially in some of the more mature portfolios and those in which our 'project' work has already been very active. As I have already mentioned above, we are giving particular attention to the management of our asbestos exposures in our USA subsidiaries where we have seen an up-tick in asbestos claims presented.

The prospect of the restoration of 'normal' investment returns also seems unlikely in the short term and will inevitably mean that profit generation

in the owned portfolios will remain dependent on our ability to generate net reserve savings. We are hopeful that the recent diversification of our investment strategies and more pro-active management approach should help generate investment outperformance but absolute returns will likely remain weak nevertheless.

Our investment activities have however become less dependent on the investment income of the existing owned portfolios as the reinsurance debt activity has become more significant and as returns on new investments in ventures such as RITC Syndicate 102 and turnkey Syndicate 1897 are modelled on the basis of lower asset returns and shorter investment periods. The higher levels of future acquisition activity we anticipate should also help reduce this dependence further, especially given the fact that the proposed capital partnership structure will provide financial gearing to future investments.

As I have commented above, I believe we are seeing an exciting turning point in the run-off industry with a compelling cocktail of solvency change, a continued weak economic outlook and recent depletion of industry capital leading to a likely surge in deal flow. Our industry expertise and contacts, strong infrastructure and reputation, multiple platforms and regulatory/jurisdictional knowledge mean we should be well placed to benefit from this higher level of activity. In addition, our plans to increase the size of our bank debt facility (which we are hoping to renegotiate shortly, well ahead of the existing facility maturity) and the financial strength of our capital partners mean that we will have the financial resources to capitalise on our strong competitive position.

Future investment activity will likely be increasingly deployed on assets which we will be able to monetise over relatively short periods, thus adding to the growing cash generation from the service and underwriting management activities which support our progressive distribution policy.

We are also exploring ways in which we can operate more efficiently both from a capital and fiscal perspective. We place a lot of emphasis on maximising shareholder value and will return additional capital to shareholders through mechanisms such as share repurchases if that is the most compelling use of our capital. At the same time, we recognise the need to maintain sufficient free float and liquidity in our shares, the latter having improved significantly in recent months as our marketing efforts have greatly increased the shareholder base.

K E Randall



Chairman and Chief Executive Officer

27 April 2011

Report of the Directors

For the year ended 31 December 2010

The Directors present their report together with the audited Financial Statements of the Company and its subsidiaries for the year ended 31 December 2010.

Principal Activities

The Company is a holding and investment company.

Group companies carry on business in the UK, Europe, United States, Canada and Bermuda as owners and managers of insurance companies in run off, as underwriting managers for active insurers, as purchasers of insurance receivables, as managers of insurance 'captives' and as consultants to the non-life insurance market.

The Group owns nine insurance companies in run-off in the UK, US and Europe.

Results and Distributions

The results for the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 24.

The Directors declared and paid dividends in the year of 4.2 pence per share on the ordinary shares amounting to £2,324,413 (2009: £2,795,650).

A distribution through the issue of B shares of 2.9 pence per share amounted to £1,613,651.

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

Directors

The present Directors are shown on page 3. Mr T A Booth was appointed to the Board on 12 January 2011.

Directors' Interests in Shares

As at 31 December 2010, the following Directors held ordinary shares as below. The total ordinary shares in issue at 31 December 2010 amounted to 54,923,002.

K E Randall and family

23,879,754

A K Quilter

4,710,218

K P McNamara

39,106

J M Welman

73,000

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 – 17 and the key performance indicators are shown on page 16.

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 companies in 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 Financial Services Authority ("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 receivables are 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 foreign 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 a significant proportion of their income from management contracts, which vary in length up to five years. 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 £20 (2009: £440) for charitable purposes.

Report of the Directors

For the year ended 31 December 2010

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.

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 Company'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 Company'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

27 April 2011

Statement of Directors' Responsibilities

For the year ended 31 December 2010

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law the Directors have elected to prepare 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.

Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that year.

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;
- state whether the Group Financial Statements have been prepared in accordance with IFRS's as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements;
- state whether the Parent Company Financial Statements have been prepared in accordance with UK Accounting Standards, 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 Parent Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Group and Parent 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 2010

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 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Financial Position, the Parent Company Balance Sheet, 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 Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the 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 2010 and of the Group's profit 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.

Independent Auditors' Report

to the Shareholders of Randall & Quilter Investment Holdings plc

For the year ended 31 December 2010

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(a) 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 only 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. Should the going concern basis no longer be appropriate to any insurance company subsidiary this would not necessarily affect the going concern basis for the remaining group. Our opinion is not qualified in this respect.

Opinion on other matter prescribed by the Companies Act 2006

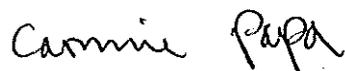
In our opinion the information given in the Report to the Directors for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

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.



Carmine Papa (Senior Statutory Auditor)

Littlejohn LLP

Statutory Auditor

1 Westferry Circus, Canary Wharf, London E14 4HD

27 April 2011

Consolidated Income Statement

For the year ended 31 December 2010

		2010		2009	
	Note	£000	£000	£000	£000
Gross premiums written		948		672	
Reinsurers' share of gross premiums		(230)		(67)	
Earned premium net of reinsurance			718		605
Net investment income	6	8,530		11,422	
Other income	7	23,570		14,360	
			32,100		25,782
Total income			32,818		26,387
Gross claims paid		(43,863)		(57,191)	
Reinsurers' share of gross claims paid		30,048		31,032	
Claims paid, net of reinsurance		(13,815)		(26,159)	
Movement in gross technical provisions		61,898		55,073	
Movement in reinsurers' share of technical provisions		(38,626)		(27,282)	
Net change in provisions for claims		23,272		27,791	
Net insurance provisions released			9,457		1,632
Operating expenses	8		(36,095)		(27,966)
Result of operating activities before goodwill on bargain purchase			6,180		53
Goodwill on bargain purchase	32		1,701		360
Result of operating activities			7,881		413
Finance costs	9		(358)		(154)
Profit on ordinary activities before income taxes	10		7,523		259
Income tax charge	11		(1,150)		(430)
Profit/(Loss) for the year			6,373		(171)
Attributable to equity holders of the parent					
Attributable to ordinary shareholders			6,559		(171)
Non-controlling interests			(186)		-
			6,373		(171)
Earnings per ordinary share for the profit/(loss) attributable to the ordinary shareholders of the Company:					
Basic	12		12.2p		(0.3p)
Diluted	12		12.0p		(0.3p)

The accounting policies and notes on pages 28 to 74 form part of these Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2010
Company number 03671097

	Note	2010 £000	2009 Restated £000
Assets			
Intangible assets	14	26,705	19,514
Property, plant and equipment	15	817	414
Financial assets			
- Investment properties	16a	1,042	1,085
- Investments	16b	223,258	242,971
- Deposits with ceding undertakings		4,017	3,980
Reinsurers' share of insurance liabilities	22	216,607	247,456
Current tax assets	19	1,394	1,513
Deferred tax assets	23	2,707	1,346
Insurance and other receivables	17	43,528	32,057
Cash and cash equivalents	18	60,109	46,809
Total assets		<u>580,184</u>	<u>597,145</u>
Liabilities			
Insurance contract provisions	22	440,095	480,616
Financial liabilities			
- Amounts owed to credit institutions	21	19,627	9,523
- Deposits received from reinsurers		2,736	4,036
Deferred tax liabilities	23	840	1,084
Insurance and other payables	20	34,976	25,107
Current tax liabilities		2,525	589
Total liabilities		<u>500,799</u>	<u>520,955</u>
Equity			
Share capital	24	1,135	1,118
Shares to be issued	25	250	254
Share premium account	25	16,029	17,255
Capital redemption reserve	25	1,614	-
Treasury share reserve	25	(1,334)	(1,586)
Retained earnings	25	61,855	59,149
Attributable to equity holders of the parent		<u>79,549</u>	<u>76,190</u>
Non-controlling interest in subsidiary undertakings		(164)	-
Total equity		<u>79,385</u>	<u>76,190</u>
Total liabilities and equity		<u>580,184</u>	<u>597,145</u>

The Financial Statements were approved by the Board of Directors on 27 April 2011 and were signed on its behalf by:-

K E Randall



A K Quilter



The accounting policies and notes on pages 28 to 74 form part of these Financial Statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 £000	2009 £000 Restated
Cash flows from operating activities			
Profit before income taxes		7,523	259
Finance costs		358	154
Depreciation		232	181
Share based payments	27	83	104
Goodwill on bargain purchase		(1,701)	(360)
Fair value gain on financial assets		(950)	(1,483)
Loss on disposal of property, plant and equipment		-	54
Gain on net assets of pension schemes		(115)	(66)
(Increase)/decrease in receivables		(9,216)	2,171
(increase)/decrease in deposits with ceding undertakings		(37)	832
Decrease in payables		(4,150)	(4,885)
Decrease in net insurance technical provisions		(23,272)	(27,745)
		<u>(31,245)</u>	<u>(30,784)</u>
Sale of financial assets		38,638	12,846
Purchase of financial assets		(1,344)	(3,407)
Cash generated from /(used in) operations		<u>6,049</u>	<u>(21,345)</u>
Income taxes paid		(273)	-
Net cash generated from /(used in) operating activities		<u>5,776</u>	<u>(21,345)</u>
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		-	29
Purchase of property, plant and equipment		(452)	(327)
Acquisition of subsidiary undertakings (net of cash acquired)		2,735	5,413
Proceeds from disposal of investment properties		-	303
Purchase of investment properties		-	(177)
Purchase of minority interest in subsidiary undertakings		-	(3,886)
Cash injection by minority interest in subsidiary		25	-
Net cash from investing activities		<u>2,308</u>	<u>1,355</u>
Cash flows from financing activities			
Repayment of borrowings		(2,800)	(562)
New borrowing arrangements		12,468	5,735
Equity dividends paid	13	(2,652)	(2,796)
Interest and other finance costs paid		(358)	(154)
Receipts from issue of shares		318	-
Redemption of B shares	13	(1,286)	-
Purchase of treasury shares		(983)	(389)
Net cash from financing activities		<u>4,707</u>	<u>1,834</u>
Net increase/(decrease) in cash and cash equivalents		12,791	(18,156)
Cash and cash equivalents at beginning of year		46,809	68,189
Foreign exchange movement on cash and cash equivalents		509	(3,224)
Cash and cash equivalents at end of year	18	<u>60,109</u>	<u>46,809</u>

The accounting policies and notes on pages 28 to 74 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 £000	2009 £000 Restated
Other Comprehensive Income:-			
Exchange gains/(losses) on consolidation		414	(4,407)
Pension scheme actuarial losses		(160)	(92)
Deferred tax on pension scheme actuarial losses		45	26
Other comprehensive income/(expense)		<u>299</u>	<u>(4,473)</u>
Profit/(Loss) for the year		<u>6,373</u>	<u>(171)</u>
Total comprehensive income/(expense) for the year		<u>6,672</u>	<u>(4,644)</u>
Attributable to:-			
Equity holders of the parent	25	6,858	(4,644)
Non-controlling interests		(186)	-
Total recognised in the year		<u>6,672</u>	<u>(4,644)</u>

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Note	2010 £000	2009 £000 Restated
Balance at 1 January		74,814	80,858
Prior year adjustment	2a	1,376	3,057
Balance at 1 January (as restated)		<u>76,190</u>	<u>83,915</u>
Total comprehensive income for the year		6,672	(4,644)
Treasury shares		252	(389)
Loss on treasury shares		(214)	-
Issue of shares/shares to be issued		401	104
Dividends	13	(2,652)	(2,796)
Redemption of shares	13	(1,286)	-
Non-controlling interest		22	-
Balance at year end		<u>79,385</u>	<u>76,190</u>

The accounting policies and notes on pages 28 to 74 form part of these Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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, Canada and Bermuda as owners and managers of insurance companies in run off, as underwriting managers for active insurers, as purchasers of insurance receivables, as managers of insurance 'captives' and as consultants to the non-life insurance market. The Financial Statements were approved by the Board of Directors on 27 April 2011.

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 75 – 81.

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 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.

New and Amended Standards Adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010. Other than as stated below the adoption of these standards do not have a material impact on the Group's Financial Statements.

IFRS 3 (revised) Business combinations, and consequential amendments to IAS 27 Consolidated and separate Financial Statements, IAS 28 Investments in associates, and IAS 31 Interests in joint ventures, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the purchase method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. All acquisition-related costs are expensed.

The revised standard was applied to the acquisitions in the year. Acquisition-related costs of £1.3 million have been recognised in the income statement. These would have been included in the consideration for the business combination previously. See note 32 for further details of the business combinations that occurred in 2010.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses.

IAS 36 (amendment) Impairment of assets (effective 1 January 2010). The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8 Operating segments (that is, before the aggregation of segments with similar economic characteristics).

IFRS 2 (amendments) Group cash-settled share-based payment transactions (effective 1 January 2010). In addition to incorporating IFRIC 8, Scope of IFRS 2 and IFRIC 11 IFRS 2 – Group and treasury share transactions, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

IFRIC 17 Distribution of non-cash assets to owners (effective on or after 1 July 2009).

IFRIC 18 Transfers of assets from customers (effective for transfers of assets received on or after 1 July 2009).

IFRIC 9 Reassessment of embedded derivatives and IAS 39 Financial

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

instruments: Recognition and measurement (effective 1 July 2009).

IFRIC 16 Hedges of a net investment in a foreign operation (effective 1 July 2009).

IAS 38 (amendment) Intangible assets (effective 1 January 2010).

IAS 1 (amendment) Presentation of Financial Statements (effective 1 January 2010).

IFRS 5 (amendment) Non-current assets held for sale and discontinued operations (effective 1 January 2010).

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 9 Financial Instruments
- IAS 24 (Revised) Related Party Disclosures
- IFRS 7 Financial Instruments: Disclosures
- IAS 12 Income Taxes
- IAS 32 Financial Instruments: Presentation
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 14 (Revised) The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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.

Restatement

IAS 21 requires goodwill arising on the acquisition of overseas subsidiaries to be treated as the assets of those subsidiaries, this requires such goodwill to be retranslated at the rate of exchange prevailing at the reporting date. During the period the Group has restated its comparatives in order to comply fully with the requirements of this standard. The implications of this restatement are presented in the Consolidated Statement of Equity on page 34. There is no impact on the profit or loss of the Group shown in the Consolidated Income Statement for the comparative period.

Significant uncertainty in technical provisions

Significant uncertainty exists as to the accuracy of the provisions for claims outstanding and the amounts due from reinsurers established in the insurance company subsidiaries as shown in the Consolidated 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. However, should this occur it will not impact on the going concern basis applicable to the Group.

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.

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 in the insurance company subsidiaries will be realised and used to settle the Group's insurance technical provisions as the business is run off.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. Accounting policies (continued)

b. Selection of accounting policies (continued)

- 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 2010 and 2009. 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 purchase 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. Costs associated with acquisitions are charged to the Consolidated Income Statement in the year in which they are incurred.

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. Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the Consolidated Income Statement and Statement of Comprehensive Income and within equity in the Consolidated Statement of Financial Position, separately from parent shareholders' equity.

Insurance broking debtors and creditors held by subsidiary companies are not included in the group's Consolidated Statement of Financial Position as the subsidiaries act as agents in placing the insurable risks of their clients with insurers and as such are not liable as principals for amounts arising from such transactions.

d. Premiums

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

e. Claims incurred

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

f. Claims provisions and related reinsurance recoveries

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

The approach taken in establishing claims provisions is as follows:-

- Where we have agreed claims they are treated as case reserves
- Where claims are not agreed or are in dispute, the directors of the insurance companies will assess whether their estimate of the liabilities are held as case reserves or as incurred but not reported ("IBNR")

The provisions for claims 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 their liability has been reduced 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. The amount payable to claimants by the third party life insurance companies are also shown in creditors as reducing the Groups liability to nil.

In the opinion of the Directors, this treatment reflects the substance of the transaction on the basis that any remaining liability of group companies under structured settlements will only arise 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, the translation of income and expenses at the average rate, the associated goodwill of the overseas subsidiaries 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. Accounting policies (continued)

k. Financial instruments (assets and liabilities) (continued)

(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 consolidated 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, computer equipment and leasehold improvements 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	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.

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 biannually or 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 per annum

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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

Current service cost, interest cost, the expected return on scheme assets and any curtailments/settlements are charged to other 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 other comprehensive income 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, rental income, 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 interest payable and fees paid for the arrangement of the debt. 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, pre-contract costs and onerous contracts

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.

Onerous contract provisions are provided for in circumstances where a legal commitment exists to provide services for which we will receive no management fee income. The costs of administering such contracts are projected based on management assessment. Investment income on associated funds is taken into account when calculating the level of provision required.

v. Other income

Other income includes the value of management and consultancy fees receivable, profit commission on managed Lloyd's syndicates, 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.

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 initially recorded at cost. Such receivables are included 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.

Profit commission on managed Lloyd's syndicate

Profit commission from managed syndicates is recognised as earned as the related underwriting profits from the managed syndicates are recognised.

Profit commission receivable on open underwriting years may be subject to further adjustment (up or down) as the results are reported prior to closure of the account in accordance with Lloyd's reinsurance to close arrangements. Adjustments to profit commission as a result of such movements are recognised when a reliable estimate of any adjustments can be made.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. Accounting policies (continued)

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 and deferred tax.

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

Distributions payable to the Company's shareholders are recognised as a liability in the Company's Financial Statements in the period in which the distributions are declared and appropriately approved.

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 primarily 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 could 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. Risk management (continued)

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 and regularly review 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:-

	2010 £m	2009 £m
Government and government agencies	106.0	98.6
Corporate bonds	107.9	133.0
Equities	2.7	0.3
Cash based investment funds	6.7	11.1
Cash and cash equivalents	60.1	46.8
	<u>283.4</u>	<u>289.8</u>
	%	%
Government and government agencies	37.4	34.0
Corporate bonds	38.0	45.9
Equities	1.0	-
Cash based investment funds	2.4	3.9
Cash and cash equivalents	21.2	16.2
	<u>100.0</u>	<u>100.0</u>

Corporate bonds include asset backed mortgage obligations totalling £6.5m (2009: £4.3m)

Based on invested assets at external managers of £223.3m as at 31 December 2010 (2009: £243.0m) 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 2010 of £2.2m (2009: £2.4m).

The amendments to IFRS 7 'Financial Instruments' require the disclosure of how we classify our investments. As in excess of 98% (2009: 98%) of all group investments are valued based on quoted prices in active markets, which are classified as level 1 under IFRS 7, there is no need to analyse them further in this regard.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

As at 31 December 2010

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	220.6	65.6	56.9	34.3	50.8	13.0

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	4.5-8.117	1.875-6.2	1.9-5.5	1-9.875

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. Risk management (continued)

b. Credit risk

Credit risk arises where counterparties fail to meet their financial obligations as they fall due. 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 2010

	A rated	B rated	Less than B	Other *	Exposures of less than £0.2m	Total
Deposits with ceding undertakings	857	517	-	282	2,361	4,017
Reinsurers' share of insurance liabilities	87,495	32,359	226	68,671	27,856	216,607
Receivables arising out of reinsurance contracts	8,071	2,979	-	2,780	11,324	25,154

* 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.

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	29.4%	13.3%	13.5%	43.8%

A substantial section of the Group's business consists of acquiring debts or, companies with debts, which are normally past due. The Directors monitor these debts closely and make appropriate provision for impairment.

The directors believe the amounts past due but not impaired, after allowing for any provision made, are recoverable in full.

As at 31 December 2010

	A rated	B rated	Less than B	Other *	Exposures of less than £0.2m	Total
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

* 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.

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%

A substantial section of the Group's business consists of acquiring debts or, companies with debts, which are normally past due. The Directors monitor these debts closely and make appropriate provision for impairment.

The directors believe the amounts past due but not impaired, after allowing for any provision made, are recoverable in full.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 subsidiary 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 2010 were £:US\$ 1.55 (2009: 1.59) and £:Euro 1.17 (2009: 1.11). The sterling equivalent of monetary assets and liabilities held by the Group designated in US dollars at the year end are as follows:-

	2010 £000	2009 £000
US Dollars		
Intangible assets	18,764	17,556
Reinsurance assets	211,039	231,515
Financial investments	186,733	202,090
Insurance receivables	17,992	12,208
Cash and cash equivalents	35,649	26,261
Insurance liabilities including provisions	(409,168)	(436,154)
Other provisions	(838)	(6,025)
Trade and other payables	(15,396)	(1,084)
	<u>44,775</u>	<u>46,367</u>

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 of the Group as at 31 December 2010 of £4.5m (2009: £4.6m).

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

	2010 £000	2009 £000
Euro		
Reinsurance assets	502	164
Financial investments	21,622	12,378
Insurance receivables	997	1,084
Cash and cash equivalents	2,229	5,542
Insurance liabilities including provisions	(21,136)	(19,435)
Trade and other payables	(8,776)	(4,255)
	<u>(4,562)</u>	<u>(4,522)</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. Risk management (continued)

d. Currency risk (continued)

A 10 percent decrease/increase in the value of the Euro against Sterling would result in a decrease/increase in the net asset value of the Group as at 31 December 2010 of £0.5m (2009: decrease/increase of £0.5m).

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 company 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
La Licorne Compagnie de Reassurances SA	1991	22 April 2010

*Arran Insurance Company Limited completed a Part VII transfer of all its insurance liabilities 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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	Entities acquired by the Group during 2010 £000
Gross provisions at:-					
1 January 2004/acquisition	4,914	89,221	499,383	8,150	6,655
First year movement	48	(1,375)	(46,472)	(1,752)	(806)
Second year movement	(2,385)	14,750	(72,066)	(2,484)	-
Third year movement	(2,482)	(12,098)	79,773	-	-
Fourth year movement	(4)	(5,052)	(79,976)	-	-
Fifth year movement	30	25,005	(38,664)	-	-
Sixth year movement	(17)	(17,594)	-	-	-
Seventh year movement	(93)	(4,514)	-	-	-
Gross position at 31 December 2010	<u>11</u>	<u>88,343</u>	<u>341,978</u>	<u>3,914</u>	<u>5,849</u>
Estimated gross ultimate claims at:-					
1 January 2004/acquisition	4,914	89,221	499,383	8,150	6,655
Foreign exchange	(324)	19,502	78,877	132	14
Payments	(4,692)	(33,712)	(197,345)	(2,871)	(480)
Gross position at 31 December 2010	(11)	(88,343)	(341,978)	(3,914)	(5,849)
(Deficit)/surplus to date	<u>(113)</u>	<u>(13,332)</u>	<u>38,937</u>	<u>1,497</u>	<u>340</u>

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	Entities acquired by the Group during 2010 £000
Net provisions at:-					
1 January 2004/acquisition	4,853	3,603	276,958	7,994	6,436
First year movement	109	(38)	(23,490)	(1,757)	(786)
Second year movement	(2,385)	1,751	(30,099)	(2,490)	-
Third year movement	(2,482)	(2,048)	40,924	-	-
Fourth year movement	(4)	(27)	(48,142)	-	-
Fifth year movement	30	5,885	(12,303)	-	-
Sixth year movement	(17)	927	-	-	-
Seventh year movement	(93)	179	-	-	-
Net position at 31 December 2010	<u>11</u>	<u>10,232</u>	<u>203,848</u>	<u>3,747</u>	<u>5,650</u>
Estimated net ultimate claims at:-					
1 January 2004/acquisition	4,853	3,603	276,958	7,994	6,436
Foreign exchange	(323)	2,686	44,387	121	22
Payments	(4,455)	2,547	(94,253)	(2,518)	(506)
Net position at 31 December 2010	(11)	(10,232)	(203,848)	(3,747)	(5,650)
Surplus/(deficit) to date	<u>64</u>	<u>(1,396)</u>	<u>23,244</u>	<u>1,850</u>	<u>302</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. Risk management (continued)

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's segments represent the level at which financial information is reported to the Board, being the chief operating decision maker as defined in IFRS 8. The reportable segments have been identified as follows:-

- Insurance Investments, which acquires legacy portfolios, reinsurance debt and provides capital support to the Group's Lloyd's syndicates
- Insurance Services, which provides insurance related services to both internal and external clients in the insurance market
- Captives, which acquires and manages captive operations
- Underwriting Management, which provides management and capital support to Lloyd's syndicates and other underwriting entities
- 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 2010

Segment result for the year ended 31 December 2010

	Insurance Investments £000	Insurance Services £000	Captives £000	Underwriting Management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	718	-	-	-	-	-	718
Net investment income	8,506	11	-	-	13	-	8,530
External income	312	19,569	2,974	729	(14)	-	23,570
Internal income	-	13,048	-	-	-	(13,048)	-
Total income	9,536	32,628	2,974	729	(1)	(13,048)	32,818
Claims paid, net of reinsurance	(13,815)	-	-	-	-	-	(13,815)
Net change in provision for claims	23,272	-	-	-	-	-	23,272
Net insurance claims released	9,457	-	-	-	-	-	9,457
Operating expenses	(13,331)	(26,848)	(2,743)	(1,693)	(4,528)	13,048	(36,095)
Result of operating activities before goodwill on bargain purchase	5,662	5,780	231	(964)	(4,529)	-	6,180
Goodwill on bargain purchase	1,701	-	-	-	-	-	1,701
Result of operating activities	7,363	5,780	231	(964)	(4,529)	-	7,881
Finance costs	(5)	-	-	-	(353)	-	(358)
Management charges	-	(806)	-	-	806	-	-
Profit/(loss) on ordinary activities before income taxes	7,358	4,974	231	(964)	(4,076)	-	7,523
Income tax (charge)/credit	(926)	(995)	-	73	698	-	(1,150)
Profit/(loss) for the period	6,432	3,979	231	(891)	(3,378)	-	6,373
Segment assets	548,834	46,219	6,591	591	62,421	(84,472)	580,184
Segment liabilities	461,511	29,174	745	925	54,109	(45,665)	500,799

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

Included within the external income of £23.6m is £10.2m in aggregate receivable from two clients, each of which generate more than 10% of the total external income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. Segmental information (continued)

Segment result for the year ended 31 December 2009

	Insurance Investments £000	Insurance Services £000	Captives £000	Underwriting Management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	605	-	-	-	-	-	605
Net investment income	11,172	79	-	-	171	-	11,422
External income	1,177	10,494	2,689	-	-	-	14,360
Internal income	-	12,734	-	-	-	(12,734)	-
Total income	12,954	23,307	2,689	-	171	(12,734)	26,387
Claims paid, net of reinsurance	(26,159)	-	-	-	-	-	(26,159)
Net change in provision for claims	27,791	-	-	-	-	-	27,791
Net insurance claims released	1,632	-	-	-	-	-	1,632
Operating expenses	(13,661)	(20,803)	(1,984)	-	(4,252)	12,734	(27,966)
Result of operating activities before goodwill on bargain purchase	925	2,504	705	-	(4,081)	-	53
Goodwill on bargain purchase	360	-	-	-	-	-	360
Result of operating activities	1,285	2,504	705	-	(4,081)	-	413
Finance costs	-	-	-	-	(154)	-	(154)
Management charges	-	(336)	-	-	336	-	-
Profit/(loss) on ordinary activities before income taxes	1,285	2,168	705	-	(3,899)	-	259
Income tax (charge)/credit	(543)	115	-	-	(2)	-	(430)
Profit/(loss) for the period	742	2,283	705	-	(3,901)	-	(171)
Segment assets	588,648	21,147	5,212	-	41,267	(59,129)	597,145
Segment liabilities	508,002	16,258	177	-	31,063	(34,545)	520,955

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

Included within the external income of £14.4m is £8.3m in aggregate receivable from three clients, each of which generate more than 10% of the total external income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

Geographical analysis

As at 31 December 2010

	UK £000	North America £000	Europe £000	Total £000
Gross assets	229,184	407,659	27,813	665,656
Intercompany eliminations	(64,768)	(6,014)	(13,690)	(84,472)
Segment assets	<u>164,416</u>	<u>401,645</u>	<u>14,123</u>	<u>580,184</u>
Gross liabilities	158,216	367,715	20,452	546,383
Intercompany eliminations	(32,109)	(13,001)	(474)	(45,584)
Segment liabilities	<u>126,107</u>	<u>354,714</u>	<u>19,978</u>	<u>500,799</u>
Segment income	<u>23,371</u>	<u>8,280</u>	<u>1,167</u>	<u>32,818</u>

As at 31 December 2009 Restated

	UK £000	North America £000	Europe £000	Total £000
Gross assets	225,641	410,802	19,831	656,274
Intercompany eliminations	(53,251)	(872)	(5,006)	(59,129)
Segment assets	<u>172,390</u>	<u>409,930</u>	<u>14,825</u>	<u>597,145</u>
Gross liabilities	157,074	380,905	17,521	555,500
Intercompany eliminations	(22,099)	(11,048)	(1,398)	(34,545)
Segment liabilities	<u>134,975</u>	<u>369,857</u>	<u>16,123</u>	<u>520,955</u>
Segment income	<u>17,102</u>	<u>8,961</u>	<u>324</u>	<u>26,387</u>

Other information

As at 31 December 2010

	Insurance companies in run-off	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Capital expenditure	-	452	-	-	452
Depreciation	5	227	-	-	232

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. Segmental information (continued)

Other information (continued)

As at 31 December 2009

	Insurance companies in run-off	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Capital expenditure	<u>1</u>	<u>326</u>	<u>-</u>	<u>-</u>	<u>327</u>
Depreciation	<u>14</u>	<u>167</u>	<u>-</u>	<u>-</u>	<u>181</u>

6. Net investment income

	2010 £000	2009 £000
Investment income	8,119	10,452
Realised gains on financial assets	2,531	1,834
Unrealised losses on financial assets	(1,586)	(351)
Investment management expenses	(534)	(513)
	<u>8,530</u>	<u>11,422</u>

7. Other income

	2010 £000	2009 £000
Administration of third party insurance clients	23,098	13,091
Expected return on pension scheme assets	1,512	1,352
Interest cost on pension scheme liabilities	(1,352)	(1,260)
Purchased reinsurance receivables (including debt collection fees)	312	1,177
	<u>23,570</u>	<u>14,360</u>

8. Operating expenses

	2010 £000	2009 £000
Costs of insurance company subsidiaries	5,194	3,716
Other operating expenses	30,901	24,250
	<u>36,095</u>	<u>27,966</u>

The costs of insurance company subsidiaries exclude group charges.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

9. Finance costs

	2010 £000	2009 £000
Bank loan, overdraft interest and arrangement fees	<u>358</u>	<u>154</u>

10. Profit on ordinary activities before income taxes

	2010 £000	2009 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):-		
Employee benefits (Note 27)	19,568	16,675
Depreciation of fixed assets	232	181
Acquisition costs (including aborted)	1,307	843
Amortisation of pre contract costs	166	166
Operating lease rental expenditure	590	911
Operating lease rental income	<u>(225)</u>	<u>(266)</u>

Auditor Remuneration

Fees payable to the Company's auditor for the audit of the annual accounts	63	48
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's subsidiaries under legislative requirements:-		
The Company's auditor	236	212
Other auditors	<u>330</u>	<u>316</u>
	566	528
Other services under legislative requirements	70	62
Services relating to corporate finance transactions		
Pre-acquisition due diligence and advice	5	158
All other services		
Non-regulatory reporting on internal controls and corporate governance matters	5	4
Advice on financial and accountancy matters	6	14

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

11. Income tax

	2010 £000	2009 £000
<i>a. Analysis of charge in the year</i>		
Current tax – continuing operations		
Current year	461	-
Adjustments in respect of previous years	(5)	(261)
Foreign tax	<u>2,257</u>	<u>360</u>
	2,713	99
Deferred tax	(1,563)	331
Income tax charge	<u>1,150</u>	<u>430</u>

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:-

	2010 £000	2009 £000
Profit on ordinary activities before taxation	<u>7,523</u>	<u>259</u>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 28% (2009: 28%)	2,106	73
Permanent differences	(359)	(246)
Capital allowances in excess of depreciation	(67)	-
Depreciation in excess of capital allowances	-	3
Utilisation of tax losses	(1,152)	(1,319)
Timing differences – pension schemes	(45)	(26)
Other timing differences	205	(269)
Unrelieved losses	19	2,406
Foreign tax rate differences	448	69
Adjustments to the tax charge in respect of prior years	(5)	(261)
Income tax charge for the year	<u>1,150</u>	<u>430</u>

c. Factors that may affect future tax charges

In addition to the recognised deferred tax asset, the Group has other trading losses of approximately £79.8m (2009: £83.3m) 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 2010

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.

	2010 £000	2009 £000
Profit/(Loss) for the year attributable to ordinary shareholders	<u>6,559</u>	<u>(171)</u>
	No. 000's	No. 000's Restated
Shares in issue throughout the year	54,129	54,129
Weighted average number of shares issued in the year	887	-
Weighted average number of Treasury shares held	(1,286)	(1,259)
Weighted average number of ordinary shares	<u>53,730</u>	<u>52,870</u>
Basic earnings per ordinary share	<u>12.2p</u>	<u>(0.3p)</u>

b. Diluted earning per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares for 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.

	2010 £000	2009 £000 Restated
Profit/(Loss) for the year attributable to ordinary shareholders	<u>6,559</u>	<u>(171)</u>
Weighted average number of ordinary shares in issue in the year	No. 000's	No. 000's
	53,730	52,870
Options	1,093	1,115
	<u>54,823</u>	<u>53,985</u>
Diluted earnings per ordinary share	<u>12.0p</u>	<u>(0.3p)</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

12. Earnings/net assets per share (continued)

c. Net asset value per share

	2010 £000	2009 £000 Restated
Net assets attributable to equity shareholders as at 31 December	<u>79,549</u>	<u>76,190</u>
	No. 000's	No. 000's
Ordinary shares in issue as at 31 December	54,923	54,129
Net asset value per ordinary share	<u>144.8p</u>	<u>140.8p</u>

13. Distributions

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

	2010 £000	2009 £000
Dividend to ordinary shareholders	2,324	2,796
Dividend to B shareholders	328	-
	<u>2,652</u>	<u>2,796</u>
Distribution on redemption of B shares	1,286	-
Distributions to shareholders	<u>3,938</u>	<u>2,796</u>

14. Intangible assets

	Patents £000	Goodwill £000 Restated	Software £000	Total £000 Restated
As at 1 January 2009	1	20,603	10	20,614
Exchange adjustments	-	(1,681)	-	(1,681)
Additions	-	581	-	581
As at 31 December 2009	<u>1</u>	<u>19,503</u>	<u>10</u>	<u>19,514</u>
Exchange adjustments	-	486	-	486
Additions	-	6,705	-	6,705
As at 31 December 2010	<u>1</u>	<u>26,694</u>	<u>10</u>	<u>26,705</u>

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

Goodwill acquired through business combinations have been allocated to cash generating units (which are also operating and reportable segments) for impairment testing as shown in the table below, including the carrying amount for each unit.

The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment.

Cash Generating Units

	2010 £000	2009 £000
Insurance Investments UK ("IID UK")	474	474
Insurance Investments US ("IID US")	13,249	13,219
Insurance Services UK ("ISD UK")	7,747	1,473
Insurance Services US ("ISD US")	759	-
Captives	4,465	4,337
Total	<u>26,694</u>	<u>19,503</u>

Management consider the IID US, ISD UK and Captives units to represent a significant part of the goodwill balance.

IID US cash-generating unit

The Group performed its semi-annual impairment test as at 31 December 2010.

The recoverable amount of the IID US cash generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management. As a result of the analysis, management did not identify any impairment required for this cash-generating unit to which goodwill of £13,249,000 (\$20,498,000) is allocated.

ISD UK and Captives cash-generating units

The recoverable amount of the ISD UK and Captives cash-generating unit is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management. As a result of the analysis, management did not identify any impairment required for the ISD UK and Captives cash-generating units to which goodwill of £7,747,000 and £4,465,000 (\$6,908,000) is allocated respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

14. Intangible assets (continued)

Key assumptions used in value in use calculations

The calculation of value in use for the units is most sensitive to the following assumptions:-

- Discount rates, which represent the current market assessment of the risks specific to each cash generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The pre-tax discount rate applied to the cash flow projections is 10.0% (2009: 10.0%). The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC) with an uplift for expected increases in interest rates. The WACC takes into account both debt and equity. The cost of equity is derived from the expected investment return, which is fundamental to the IID cash flows.
- Reduction in operating expenses, which are linked to management expectation of the run off of the insurance business.
- Growth rate used to extrapolate cash flows beyond the budget period, based on published industry standard. Cash flows beyond the four-year period are extrapolated using a 10.0% growth rate (2009: 10.0%).

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the IID UK, ISD UK, ISD US and Captives units, management believes that no foreseeable change in any of the above key assumptions would require an impairment of the carrying value of goodwill.

For the IID US unit, Management has considered the possible impact of a long term reduction in investment returns. The investment return has been reduced to 2% for 2011 then returning to 4% for the long term projections. If the level of investment return beyond 2011 does not attain the projected level, then the value in use calculation indicates that in such circumstances, impairment of the carrying value of goodwill could be required.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

15. Property, plant and equipment

	Computer equipment £000	Motor vehicles £000	Office equipment £000	Leasehold improvements £000	Total £000
Cost					
As at 1 January 2009	860	55	700	81	1,696
Exchange adjustments	(12)	-	(6)	(1)	(19)
Acquisition of subsidiaries	-	-	-	-	-
Additions	144	-	183	-	327
Disposals	(34)	(55)	(60)	-	(149)
As at 31 December 2009	<u>958</u>	<u>-</u>	<u>817</u>	<u>80</u>	<u>1,855</u>
Exchange adjustments					
	6	-	4	15	25
Acquisition of subsidiaries	24	-	10	142	176
Additions	193	11	246	2	452
Disposals	(152)	-	(1)	-	(153)
As at 31 December 2010	<u>1,029</u>	<u>11</u>	<u>1,076</u>	<u>239</u>	<u>2,355</u>
Depreciation					
As at 1 January 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	<u>758</u>	<u>-</u>	<u>612</u>	<u>71</u>	<u>1,441</u>
Exchange adjustments					
	5	-	1	12	18
Charge for the year	115	1	103	13	232
Disposals	(152)	-	(1)	-	(153)
As at 31 December 2010	<u>726</u>	<u>1</u>	<u>715</u>	<u>96</u>	<u>1,538</u>
Carrying amount					
As at 31 December 2010	<u>303</u>	<u>10</u>	<u>361</u>	<u>143</u>	<u>817</u>
As at 31 December 2009	<u>200</u>	<u>-</u>	<u>205</u>	<u>9</u>	<u>414</u>

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

As at 31 December 2010, the Group had no significant capital commitments (2009: none). The depreciation charge for the year is included in operating expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

16. Financial assets

a. Investment properties

	2010 £000	2009 £000
As at 31 December	<u>1,042</u>	<u>1,085</u>

The movement in the valuation of these properties is due to translation in exchange of £(53,000) (2009: £71,000) and an increase in market value of £10,000 (2009: £nil).

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)

	2010 £000	2009 £000
Equities	2,717	296
Debt securities – fixed interest rate	220,541	242,675
	<u>223,258</u>	<u>242,971</u>

In the normal course of business insurance company subsidiaries have deposited investments in 2010 of £8.4m (2009: £12.1m) in respect of certain contracts in escrow which can only be released or withdrawn with the approval of the appropriate regulatory authority.

Included in the Debt securities – fixed interest rate is £4.8m deposited with the Corporation of Lloyd's to support the Group's underwriting activities at Lloyd's in 2011. Lloyd's has the right to apply these monies in settlement of any claims arising from the Group's underwriting at Lloyd's. These monies are not available to meet the Group's, own working capital requirements and can only be released with Lloyd's express permission.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

c. Shares in subsidiary undertakings and other investments

The Company has interests in the following principal subsidiaries at 31 December 2010, which, except where indicated, are registered in England and Wales:-

% of ordinary shares held by:

<i>Principal activity and name of subsidiaries</i>	<i>Country of incorporation /registration</i>	<i>The Company</i>	<i>Subsidiary undertakings</i>	<i>Overall effective % of share capital held</i>
Insurance Investments Division				
Chevanstell Ltd	England	100	-	100
Goldstreet Insurance Company	USA	-	100	100
La Metropole Compagnie Belge D'Assurance 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
R&Q Liquidity Management Ltd (formerly Reinsurance Finance Management Ltd)	England	100	-	100
R&Q Capital No 1 Ltd	England	100	-	100
La Licorne Compagnie de Reassurances SA	France	100	-	100
Insurance Services Division				
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
JMD Specialist Insurance Services Group Ltd	England	100	-	100
Callidius Solutions Ltd	England	-	100	100
Reinsurance Solutions Ltd	England	100	-	100
RSI Solutions International Inc	USA	-	100	100
Excess and Treaty Management Corp	USA	-	100	100
Requiem Ltd (formerly R K Carvill & Co Ltd)	England	100	-	100
John Heath & Company Inc	USA	-	100	100
A. M. Associates Insurance Services Ltd	Canada	-	100	100
Requiem America Inc	USA	-	100	100
Syndicated Services Company Inc	USA	-	100	100

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

16. Financial assets (continued)

c. Shares in subsidiary undertakings and other investments (continued)

<i>Principal activity and name of subsidiaries</i>	<i>Country of incorporation /registration</i>	<i>% of ordinary shares held by:</i>		<i>Overall effective % of share capital held</i>
		<i>The Company</i>	<i>Subsidiary undertakings</i>	
Captives				
R&Q Quest Management Services Ltd	Bermuda	-	100	100
R&Q Quest (SAC) Ltd	Bermuda	-	100	100
R&Q Intermediaries (Bermuda) Ltd	Bermuda	-	100	100
Nordic Insurance Management A/S	Denmark	-	60	60
Caledonian Insurance Brokers Ltd	Gibraltar	-	75	75
Underwriting Management				
R&Q Managing Agency Ltd	England	100	-	100
R&Q MGA Ltd (formerly Continuum Holdings Ltd)	England	100	-	100
R&Q Risk Services Canada Limited	Canada	-	100	100
R&Q Commercial Risk Services Limited	England	-	100	100
Intermediate holding companies/others				
Randall & Quilter America Holdings Inc	USA	100	-	100
Randall & Quilter Canada Holdings Ltd	Canada	100	-	100
R&Q Secretaries Ltd	England	100	-	100
Callidus Group Ltd	England	100	-	100
Callidus 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
R&Q Bermuda Holdings Ltd	Bermuda	100	-	100
Malling Investments Ltd	England	-	100	100
Oast Holdings Ltd	England	100	-	100
Caledonian Insurance Management Services Ltd	Gibraltar	100	-	100
Randall & Quilter Nordic Holdings APS	Denmark	100	-	100
JMD Specialist Insurance Services Ltd	England	-	100	100
Reinsurance Solutions LLC	USA	-	100	100
Ludgate No. 1 Ltd	England	-	100	100

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

17. Other receivables, including insurance receivables

	2010 £000	2009 £000
Debtors arising from direct insurance operations	-	267
Debtors arising from reinsurance operations	25,154	22,154
Insurance receivables	<u>25,154</u>	<u>22,421</u>
Trade debtors	3,512	2,563
Other debtors/receivables	2,442	1,301
Prepayments and accrued income	12,420	5,772
	18,374	9,636
	<u>43,528</u>	<u>32,057</u>
Due within 12 months	43,528	31,957
Due after 12 months	-	100
	<u>43,528</u>	<u>32,057</u>

Pre-payments and accrued income includes £nil (2009: £99,981) in respect of pre contract costs which will be expensed after more than one year.

Included in other debtors/receivables is an amount of £500,000 (2009: nil) is held in escrow in respect of the defined benefit scheme and a further amount of £285,165 (2009: £285,165) is held in escrow in respect of an ongoing dispute

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

18. Cash and cash equivalents

	2010 £000	2009 £000
Cash at bank and in hand	<u>60,109</u>	<u>46,809</u>

Included in cash and cash equivalents is £484,778 (2009: £470,869) being funds held in escrow accounts in respect of guarantees provided to the Institute of London Underwriters ("ILU"). The increase is due to exchange movements. See Note 31.

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

	2010 £000	2009 £000
Current tax assets	<u>1,394</u>	<u>1,513</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

20. Trade and other payables

	2010 £000	2009 £000
Structured liabilities	369,310	368,012
Structured settlements	(369,310)	(368,012)
	<u>-</u>	<u>-</u>
Creditors arising from reinsurance operations	8,428	12,319
Creditors arising from direct insurance operations	2,668	2,407
Insurance payables	<u>11,096</u>	<u>14,726</u>
Trade creditors	2,463	1,343
Other taxation and social security	694	810
Other creditors	15,937	3,771
Accruals and deferred income	4,786	4,457
Due within 12 months	<u>34,976</u>	<u>25,107</u>

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 movement in these structured liabilities during the period is primarily 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 the purchase of annuities have been shown as reducing the insurance companies liability 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

R&Q Quest (SAC) Limited is a segregated cell company in which assets and liabilities are held centrally and separately in segregated cells. The assets and 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 2010 amount to £47,930,000 (2009: £37,042,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

21. Financial liabilities

	2010 £000	2009 £000
Amounts owed to credit institutions	<u>19,627</u>	<u>9,523</u>

Amounts due to credit institutions are payable as follows:-

	2010 £000	2009 £000
Less than one year	3,409	1,326
Between one to five years	16,218	8,197
	<u>19,627</u>	<u>9,523</u>

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	2010 £000	2009 £000
Claims outstanding at 1 January	480,616	571,190
Claims paid	(43,863)	(57,191)
Increase in provisions arising from the acquisition of subsidiary undertakings	6,040	8,765
(Release)/strengthening of provisions	(18,035)	2,118
Net exchange differences	15,337	(44,266)
As at 31 December	<u>440,095</u>	<u>480,616</u>

Reinsurance	2010 £000	2009 £000
Reinsurers share of claims outstanding at 1 January	247,456	297,650
Reinsurers share of gross claims paid	(30,048)	(31,032)
Increase in provisions arising from the acquisition of subsidiary undertakings	219	155
(Release)/strengthening of provisions	(8,578)	3,749
Net exchange differences	7,558	(23,066)
As at 31 December	<u>216,607</u>	<u>247,456</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

22. Insurance contract provisions and reinsurance balances (continued)

Net	2010 £000	2009 £000
Net claims outstanding at 1 January	233,160	273,540
Net claims paid	(13,815)	(26,159)
Increase in provisions arising from the acquisition of subsidiary undertakings	5,821	8,610
Release of provisions	(9,457)	(1,631)
Net exchange differences	7,779	(21,200)
As at 31 December	<u>223,488</u>	<u>233,160</u>

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

A 1 percent reduction in the reinsurance share or technical provisions would decrease net assets by £2.2m (2009: £2.5m).

23. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 27 percent for the UK (2009: 28 percent) and 35 percent for the US (2009: 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 2009	3,030	(2,586)	444
(Charge)/credit for the year	(1,684)	1,502	(182)
As at 31 December 2009	<u>1,346</u>	<u>(1,084)</u>	<u>262</u>
Credit for the year	1,361	244	1,605
As at 31 December 2010	<u><u>2,707</u></u>	<u><u>(840)</u></u>	<u><u>1,867</u></u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

23. Deferred tax (continued)

The deferred tax assets are not wholly recoverable within 12 months.

The movement on the deferred tax account is shown below:-

	Accelerated capital allowances £000	Trading losses £000	Pension scheme surplus/ (deficit) £000	Other timing differences £000	Total £000
As at 1 January 2009	53	-	-	391	444
Movement in year	114	-	-	(296)	(182)
As at 31 December 2009	167	-	-	95	262
Movement in year	(47)	-	-	1,652	1,605
As at 31 December 2010	120	-	-	1,747	1,867

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 comprehensive income £000	Total £000
Movement in 2009	123	(29)	(302)	26	(182)
Movement in 2010	(3)	-	1,563	45	1,605

24. Share capital

	2010 £	2009 £
Authorised		
100,000,000 Ordinary Shares of 2p each* (2009: 63,000,000 Ordinary Shares of 2p each)	2,000,000	1,260,000
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	<u>2,000,002</u>	<u>1,260,002</u>
Allotted, called up and fully paid		
54,923,002 Ordinary Shares of 2 6/91p each (2009: 55,913,000 Ordinary shares of 2p each)	1,134,673	1,118,260
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	<u>1,134,675</u>	<u>1,118,262</u>

*Following share capital consolidation par value increased to 2 6/91 pence per share

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

Included in:	2010 £	2009 £
Equity		
54,923,002 Ordinary Shares of 2 6/91p each (2009: 55,913,000 Ordinary shares of 2p each)	1,134,673	1,118,260
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	<u>1,134,675</u>	<u>1,118,262</u>

Return of Value

At the General Meeting held on 3 September 2010, Shareholders agreed to a Return of Value under which 2.9 pence per Ordinary Share was returned to Shareholders. Under the terms of the Return of Value, Shareholders received 1 B share for each Ordinary share and 91 New Ordinary Shares for 94 then existing Ordinary Shares held. The B Shares had a nominal value of 2.9 pence, were paid up out of the Company's share premium account, were not listed on AIM and had limited rights. Under the Share Capital Consolidation, the New Ordinary shares replaced the existing Ordinary Shares.

As part of the Return of Value, Shareholders were entitled to receive 2.9 pence per B share. The relevant B shares were converted into deferred shares, bought back by the Company and cancelled; where the capital alternative was chosen, the relevant B shares were redeemed for 2.9 pence each and subsequently cancelled. The financial impact of the Return of Value is reported in Note 25.

No B shares or Deferred shares remained in issue as at 31 December 2010.

Treasury Shares

The Group's Employee Benefit Trust ("EBT") purchased 1,082,126 and sold 950,000 (2009: purchased 333,824) ordinary shares during the year. The net proceeds of £252,000 (2009: paid £389,000) are included in shareholders' equity 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

24. Share capital (continued)

Share Options

Share options were granted to directors of subsidiaries and selected employees. The options are exercisable three years from the date of grant and lapse on the tenth anniversary of the date of grant or the holder ceasing to be an employee of the Group. Neither the Company nor the Group has any legal or constructive obligation to settle or repurchase the options in cash.

Movements on number of share options and their related exercise price are as follows:-

	Weighted average exercise price 2010 pence	Number of options 2010	Weighted average exercise price 2009 pence	Number of options 2009
Outstanding at 1 January	42.0	1,704,500	35.6	2,059,500
Exercised/Lapsed	40.0	(814,500)	5.8	(555,000)
Granted	23.1	845,000	25.2	200,000
At 31 December	<u>34.2</u>	<u>1,735,000</u>	<u>42.0</u>	<u>1,704,500</u>

The total number of options in issue during the year have given rise to a charge to the income statement of £46,885 (2009: £5,201) based on the fair values at the time the options were granted.

The fair value of the share options was determined using the Binomial option pricing method. The parameters used are detailed below. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of the daily share price over a 100 day period.

	2010 options	2009 options
Weighted average fair value	34 pence	42 pence
Weighted average share price	102 pence	120 pence
Exercise price	34.2 pence	42.0 pence
Expiry date	10 years after granting	10 years after granting
Vesting period	3 years	3 years
Volatility	30%	30%
Dividend yield	5.3%	5.3%
Expected option life	3 years	3 years
Annual risk free interest rate	2.98%	2.46%

The options outstanding at 31 December 2010 had a weighted average remaining contractual life of 8.1 years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

25. Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent

	Share capital £000	Share premium £000	Shares to be issued £000	Capital redemption reserve £000	Treasury shares £000	Retained profit £000	Total £000
2010							
At 1 January	1,118	17,255	254	-	(1,586)	59,149	76,190
Issue of shares	17	388	(87)	-	-	-	318
Issue of B shares	1,614	(1,614)	-	-	-	-	-
Redemption of B shares	(1,286)	-	-	1,286	-	(1,286)	(1,286)
Cancellation of B shares	(328)	-	-	328	-	-	-
Share based payments	-	-	83	-	-	-	83
Treasury shares	-	-	-	-	252	(214)	38
Total comprehensive income	-	-	-	-	-	6,858	6,858
Dividends	-	-	-	-	-	(2,652)	(2,652)
At 31 December	1,135	16,029	250	1,614	(1,334)	61,855	79,549

	Share capital £000	Share premium £000	Shares to be issued £000	Capital redemption reserve £000	Treasury shares £000	Retained profit £000	Total £000
2009							
At 1 January	1,118	17,255	150	-	(1,197)	66,589	83,915
Share based payments	-	-	104	-	-	-	104
Treasury shares	-	-	-	-	(389)	-	(389)
Total comprehensive income	-	-	-	-	-	(4,644)	(4,644)
Dividends	-	-	-	-	-	(2,796)	(2,796)
At 31 December	1,118	17,255	254	-	(1,586)	59,149	76,190

26. Employee Benefit Trust

The EBT has purchased 1,082,126 and released 950,000 Ordinary shares deemed to be held in Treasury during the year to give a holding at the year end 1,343,338 (2009: before share reorganisation 1,219,824). The value at the year end was £1,334,000 (2009: £1,325,000). These are available to be used to meet the future exercise of employee options or such other purpose as the Trustee in its discretion allows pursuant to the Trust Deed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

27. Employees and Directors

Employee benefit expense for the Group during the year

	2010 £000	2009 £000
Wages and salaries	16,462	13,882
Social security costs	1,444	1,390
Pension costs	1,579	1,299
Share based payment charge	83	104
	<u>19,568</u>	<u>16,675</u>

Pension costs are recognised in operating expenses in the income statement and include £1,533,000 (2009: £1,253,000) in respect of payments to closed defined contribution schemes and £46,000 (2009: £46,000) in respect of defined benefit schemes.

	2010 Number	2009 Number
Average number of employees		
Group investment activities	10	12
Captives	21	17
Insurance services	319	190
	<u>350</u>	<u>219</u>

Remuneration of the Directors and key management

	2010 £000	2009 £000
Aggregate Director emoluments	743	635
Aggregate key management emoluments	787	820
Share based payments – key management	10	117
Director pension contributions	80	82
Key management pension contributions	116	72
	<u>1,736</u>	<u>1,726</u>
Highest paid Director		
Aggregate emoluments	328	332
	<u>328</u>	<u>332</u>

Two Directors have retirement benefits accruing under money purchase pension schemes (2009: Two). In the year, no Director was granted any share options in respect of qualifying services under a long term incentive plan.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 2010 by a qualified independent actuary. The next triennial valuation is due in mid 2013; in view of the turbulence in capital markets it is to be expected that this valuation may have an impact on these figures.

On 2 December 2003 the scheme was closed to future accrual 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:-

	2010 £000	2009 £000
Total market value of scheme assets	26,152	24,226
Present value of defined benefit obligations	(26,110)	(23,475)
Gross defined benefit asset	<u>42</u>	<u>751</u>

The scheme has no unfunded obligations and no unfunded past service costs.

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 the Statement of Financial Position.

All actuarial losses are recognised in full in the Consolidated Statement of Comprehensive Income in the period in which they occur.

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

	2010	2009
Inflation rate	3.6%	3.6%
Projected return on assets	6.2%	6.3%
Pension increase	3.6%	3.6%
Deferred pension increases	3.6%	3.6%
Discount rate	5.3%	5.8%
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

28. Pension commitments (continued)

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

	2010 £000	2009 £000
Current service cost (operating expense)	(46)	(46)
Interest cost (other income)	(1,352)	(1,260)
Expected return on plan assets (other income)	1,512	1,352
	<u>114</u>	<u>46</u>

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

The amounts (charged)/credited directly to other comprehensive income are:-

	2010 £000	2009 £000
Actual return less expected return on assets	1,200	2,179
Experience losses arising on obligations	(48)	349
Changes in assumptions	(2,021)	(3,828)
Amount not recognised due to restriction on recovery (as required by IAS19)	709	1,208
Total actuarial losses charged to other comprehensive income	<u>(160)</u>	<u>(92)</u>

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

	2010 £000	2009 £000
Surplus in the scheme as at 1 January	751	1,959
Current service costs	(46)	(46)
Contributions by employer	46	46
Actuarial loss	(869)	(1,300)
Other financial income	160	92
Surplus in the scheme as at 31 December	<u>42</u>	<u>751</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

Fair value of the pension plan assets:-

	2010 £000	2009 £000
Fair value of plan assets as at 1 January	24,226	21,495
Expected return	1,512	1,352
Actuarial gains	1,200	2,179
Contributions by employer	46	46
Benefits paid	(832)	(846)
Fair value of plan assets as at 31 December	<u>26,152</u>	<u>24,226</u>

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

	2010	2009
Equity securities	51.7%	49.0%
Debt securities	34.3%	35.1%
Property	7.3%	6.4%
Cash	6.7%	9.5%

Fair value of the pension plan obligations:-

	2010 £000	2009 £000
Fair value of plan obligations as at 1 January	23,475	19,536
Current service cost	46	46
Interest cost	1,352	1,260
Actuarial losses	2,069	3,479
Benefits paid	(832)	(846)
Fair value of plan obligations as at 31 December	<u>26,110</u>	<u>23,475</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

29. Related party transactions

The following Officers and connected parties received distributions during the year as follows:-

	2010 £	2009 £
K E Randall and family	1,751,357	1,233,350
A K Quilter	345,450	243,275
K P McNamara	1,988	1,400
M L Glover	8,700	-

- Mr and Mrs K E Randall received £25,000 (2009: £25,000) for rent for property used by the Group.
- RCP Incubation Services Limited a company in which Mr K E Randall has an indirect interest, was charged £nil (2009: £58,500) for rent, rates and service charges for use of group owned property previously occupied.
- Mr J Welman retired as a Director of EPIC Investment Partners and its subsidiary EPIC Asset Management Ltd during 2010. EPIC provides investment management services to various group subsidiaries.
- In total, fees paid to EPIC by the group amounted to £105,522 (2009: £99,734).
- At the year end the Group held an investment of 1,500,000 (2009: 1,500,000) Capital Shares in the Equity Partnership Investment Company Plc with a current market value of approximately £443,000 (2009: £296,000).
- Mr and Mrs M Glover received £932,000 (note 32) as consideration on the acquisition of Callidus Solutions Limited.
- During the year the Group recharged expenses totalling £3,541,000 (2009: £3,273,000) to Lloyd's Syndicates 102 and 3330, which are managed by the Group.

30. Operating lease commitments

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

	2010 £000	2009 £000
Land and buildings		
Leases expiring within one year	152	118
Leases expiring between two and five years	179	718
Leases expiring after five years	<u>2,006</u>	<u>222</u>
Other		
Leases expiring within one year	37	-
Leases expiring between two and five years	-	89
Leases expiring after five years	<u>-</u>	<u>-</u>

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 2010 are due to expire within one to five years of the balance sheet date. It is anticipated that sublease income of £nil (2009: £91,000) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. Business Combinations

JMD Specialist Insurance Group Services Limited

On 20 January 2010 the Group purchased the entire issued share capital of JMD Specialist Insurance Group Services Limited a company incorporated in England and Wales.

The acquisition has been accounted for using the purchase 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 £80,000. Goodwill of £1,932,000 arose.

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
Tangible assets	11
Other debtors	375
Cash	48
Loan	(100)
Other creditors	(254)
Net assets acquired	<u>80</u>
Satisfied by Issue of shares	(699)
Cash paid	(1,313)
Goodwill	<u>(1,932)</u>

Post acquisition loss before tax amounted to £71,000, if the Group had purchased the company at the start of the year its contribution to the Group would have been a loss of £75,000

Callidus Group Limited

On 29 March 2010 the Group purchased the entire issued share capital of Callidus Group Limited a company incorporated in England and Wales.

The acquisition has been accounted for using the purchase 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 £160,000. Goodwill of £772,000 arose.

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
Tangible assets	12
Other debtors	78
Cash	250
Other creditors	(180)
Net assets acquired	<u>160</u>
Satisfied by Issue of shares	(322)
Cash paid	(610)
Goodwill	<u>(772)</u>

Post acquisition profits before tax amounted to £41,000, if the Group had purchased the company at the start of the year its contribution to the Group would have been a profit of £82,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. Business Combinations (continued)

La Licorne Compagnie de Reassurances SA

On 22 April 2010 the Group purchased the entire issued share capital of La Licorne Compagnie de Reassurances SA a company incorporated in France.

The acquisition has been accounted for using the purchase 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 £4,212,000. Goodwill on a bargain purchase of £1,436,000 arose.

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	11,038
Other debtors	634
Technical provisions	(6,436)
Other creditors	<u>(1,024)</u>
Net assets acquired	4,212
Satisfied by	
Cash paid	(2,776)
Goodwill on bargain purchase	<u>1,436</u>

Post acquisition profits before tax amounted to £415,000.

John Heath & Company Inc

On 29 June 2010 the Group purchased the entire issued share capital of John Heath & Company Inc a company incorporated in the US.

The acquisition has been accounted for using the purchase 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 £101,000. Goodwill of £397,000 arose.

Under the terms of the acquisition further amounts of consideration may become payable, based on the average of the three years profits to 30 June 2013. The Directors presently estimate that no further consideration will become payable. There is no limit to the amount of deferred consideration that could become payable.

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
Tangible assets	2
Other debtors	200
Cash	12
Bank loan	<u>(113)</u>
Net assets acquired	101
Satisfied by	
Cash paid	(498)
Goodwill	<u>(397)</u>

Post acquisition loss before tax amounted to £101,000, if the Group had purchased the company at the start of the year its contribution to the Group would have been a profit of £125,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

A. M. Associates Insurance Services Ltd

On 10 August 2010 the Group purchased the entire issued share capital of A. M. Associates Insurance Services Ltd a company incorporated in Canada.

The acquisition has been accounted for using the purchase 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 £115,000. Goodwill of £353,000 arose.

Under the terms of the acquisition further amounts of consideration may become payable, based on the average of the three years profits to 31 July 2013. The Directors presently estimate that no further consideration will become payable. There is no limit to the amount of deferred consideration that could become payable.

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
Tangible assets	6
Other debtors	64
Cash	48
Other creditors	<u>(3)</u>
Net assets acquired	115
Satisfied by	
Cash paid	<u>(468)</u>
Goodwill	<u>(353)</u>

Post acquisition loss before tax amounted to £1,000, if the Group had purchased the company at the start of the year its contribution to the Group would have been a profit of £20,000

Caledonian Insurance Management Services Ltd

On 13 September 2010 the Group purchased the entire issued share capital of Caledonian Insurance Management Services Ltd a company incorporated in Gibraltar.

The acquisition has been accounted for using the purchase 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 £287,000. Goodwill of £913,000 arose.

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
Tangible assets	6
Other debtors	70
Cash	218
Other creditors	<u>(7)</u>
Net assets acquired	287
Satisfied by	
Cash paid	<u>(1,200)</u>
Goodwill	<u>(913)</u>

Post acquisition profits before tax amounted to £3,000, if the Group had purchased the company at the start of the year its contribution to the Group would have been a profit of £175,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. Business Combinations (continued)

Reinsurance Solutions

On 1 November 2010 the Group purchased the entire issued share capital of the Reinsurance Solutions companies and Excess and Treaty Management Corp incorporated in England and Wales and US.

The acquisition has been accounted for using the purchase 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 £3,636,000. Goodwill of £2,688,000 arose.

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
Tangible assets	145
Investments	2
Other debtors	1,606
Cash	15,348
Other creditors	<u>(13,465)</u>
Net assets acquired	3,636
Satisfied by Cash paid	(6,324)
Goodwill	<u>(2,688)</u>

Post acquisition profits before tax amounted to £283,000, if the Group had purchased these companies at the start of the year its contribution to the Group would have been a profit of £1,446,000

Previous acquisitions

Following review of the goodwill arising on companies acquired in 2009 the fair values of the assets and liabilities of those companies have been adjusted in 2010. The result of this is goodwill on a bargain purchase of £265,000 has been generated. This amount is included within total of goodwill on bargain purchase of £1,701,000

33. Inter-company guarantee and debenture

The Company has entered into a guarantee agreement and debenture arrangement with its bankers, along with its subsidiaries, 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 2010 is £19,160,938 (2009: £9,522,822).

Parent Company Balance Sheet

As at 31 December 2010
Company Number 03671097

	Note	2010 £000	2009 £000
Fixed assets			
Intangible assets	3	1	1
Investments	4	50,375	37,644
		<u>50,376</u>	<u>37,645</u>
Current assets			
Debtors	5	7,690	1,054
Cash at bank and in hand		2,890	772
		<u>10,580</u>	<u>1,826</u>
Creditors: amounts falling due within one year	6	(7,476)	(3,605)
Net current assets/(liabilities)		<u>3,104</u>	<u>(1,779)</u>
Total assets less current liabilities		53,480	35,866
Creditors: amounts falling due after more than one year	6	(34,520)	(13,231)
Provisions		-	(235)
		<u>18,960</u>	<u>22,400</u>
Capital and reserves			
Called up share capital	7	1,135	1,118
Share premium account	8	16,029	17,255
Shares to be issued	8	250	254
Capital redemption reserve	8	1,614	-
Treasury share reserve	8	(1,334)	(1,586)
Profit and loss account	8	1,266	5,359
Equity shareholders' funds		<u>18,960</u>	<u>22,400</u>

The Financial Statements were approved by the Board of Directors on 27 April 2011 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 2010

1. Accounting policies

a. Basis of preparation

The Financial Statements have been prepared in accordance with applicable United Kingdom 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 as a parent undertaking the Company publishes consolidated Financial Statements which include a cashflow statement.

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 subsidiary undertakings and associates are stated at cost less provisions for impairment.

f. Investment income

Investment income comprises interest and dividends.

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

Interest income is recognised on an accruals basis.

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 instruments are deducted from equity as a charges to the share premium account against proceeds of the issue, 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, any 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 2010

j. Finance costs

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

k. Distributions

Distributions payable to the Company's shareholders are recognised as a liability in the Company's Financial Statements in the period in which the distributions are declared and appropriately approved.

2. Staff costs and Directors' emoluments

No staff were employed by the Company (2009: 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 2010	<u>1</u>	<u>1</u>

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2010

4. Investments

	Investment in Subsidiary Undertakings £000	Loans to Subsidiary Undertakings £000	Total £000
Cost			
As at 1 January 2010	27,003	10,891	37,894
Foreign currency exchange	-	297	297
Additions in the year	12,814	2,854	15,668
Repayments during year	-	(3,234)	(3,234)
As at 31 December 2010	<u>39,817</u>	<u>10,808</u>	<u>50,625</u>
Provision for impairment			
As at 1 January 2010	(250)	-	(250)
As at 31 December 2010	<u>(250)</u>	<u>-</u>	<u>(250)</u>
Net book value			
As at 31 December 2010	<u>39,567</u>	<u>10,808</u>	<u>50,375</u>
As at 31 December 2009	<u>26,753</u>	<u>10,891</u>	<u>37,644</u>

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 2011.
- (b) A loan of \$14,603,000 (£9,439,000) (2009: \$15,969,000 (£10,043,000)) to Randall & Quilter America Holdings Inc to fund the acquisitions by that Company. The loan is 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.

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2010

5. Debtors

	2010 £000	2009 £000
Amounts due from subsidiaries	5,573	684
Other debtors	242	129
Prepayments and accrued income	1,875	241
	<u>7,690</u>	<u>1,054</u>

6. Creditors

	2010 £000	2009 £000
Bank loans	19,161	9,523
Other creditors	595	586
Amounts due to subsidiaries	21,123	5,485
Accruals and deferred income	1,117	1,242
	<u>41,996</u>	<u>16,836</u>
These borrowings are repayable as follows:		
In one year or less, or on demand	7,476	3,605
Between two and five years	34,520	13,231
	<u>41,996</u>	<u>16,836</u>

Included in the amounts due to subsidiaries above are loans of £18.7m from group companies. Interest is chargeable at a rate of 2.1% above LIBOR and is payable annually in arrears.

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2010

7. Share capital

	2010 £	2009 £
Authorised		
100,000,000 Ordinary Shares of 2p each*		
(2009: 63,000,000 Ordinary shares of 2p each)	2,000,000	1,260,000
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	<u>2,000,002</u>	<u>1,260,002</u>
Allotted, called up and fully paid		
54,923,002 Ordinary Shares of 2 6/91p each		
(2009: 55,913,000 Ordinary shares of 2p each)	1,134,673	1,118,260
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	<u>1,134,675</u>	<u>1,118,262</u>
Included in:		
Equity		
54,923,002 Ordinary Shares of 2 6/91p each		
(2009: 55,913,000 Ordinary shares of 2p each)	1,134,67	1,118,260
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	<u>1,134,673</u>	<u>1,118,262</u>

*Following share capital consolidation par value increased to 2 6/91 pence per share

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 2010

8. Reserves

	Share capital	Share premium	Shares to be issued	Capital redemption reserve	Treasury shares	Retained profit	Total
	£000	£000	£000	£000	£000	£000	£000
2010							
At 1 January	1,118	17,255	254	-	(1,586)	5,359	22,400
Issue of shares	17	388	(87)	-	-	-	318
Issue of B shares	1,614	(1,614)	-	-	-	-	-
Redemption of B shares	(1,286)	-	-	1,286	-	(1,286)	(1,286)
Cancellation of B shares	(328)	-	-	328	-	-	-
Share based payments	-	-	83	-	-	-	83
Treasury shares	-	-	-	-	252	(214)	38
Total recognised gains and losses	-	-	-	-	-	59	59
Dividends	-	-	-	-	-	(2,652)	(2,652)
At 31 December	1,135	16,029	250	1,614	(1,334)	1,266	18,960

	Share capital	Share premium	Shares to be issued	Capital redemption reserve	Treasury shares	Retained profit	Total
	£000	£000	£000	£000	£000	£000	£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 gains and losses	-	-	-	-	-	(747)	(747)
Dividends	-	-	-	-	-	(2,796)	(2,796)
At 31 December	1,118	17,255	254	-	(1,586)	5,359	22,400

9. Related party transactions

Details of the related party transactions are included in Note 29 of the Group Financial Statements.

10. Contingent Liabilities

The Company has agreed to indemnify Chevanstell Limited, a subsidiary undertaking, in respect of any losses, shortfall or diminution in value in respect of the £4.8m of funds deposited by Chevanstell Limited with the Corporation of Lloyd's in order to support the Group's underwriting at Lloyd's in 2011.

The Company is a party to the inter-company guarantee and debenture disclosed in Note 33 to the Group Financial Statements.

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