STRATEGY | INNOVATION | EXPERTISE

R&Q

Annual Report and Financial Statements
Randall & Quilter Investment Holdings plc

31 December 2011

The Company's registration number is 03671097

Annual Report and Financial Statements

For the year ended 31 December 2011

Index

Directors and Advisers	3	Consolidated Statement of Financial Position	28
Highlights and Summary of Results	4	Consolidated Cash Flow Statement	29
Chairman's Statement and Business Review	5 – 17	Consolidated Statement of Comprehensive Income	30
Report of the Directors	18 – 23	Consolidated Statement of Changes in Equity	30-31
Statement of Directors' Responsibilities	24	Notes to the Consolidated Financial Statements	32 – 74
Independent Auditors' Report	25 – 26	Parent Company Balance Sheet	75
Consolidated Income Statement	27	Notes to the Parent Company Balance Sheet	76 – 79

Directors and Advisers

K E Randall

A K Quilter

M G Smith

J M P Welman

K P McNamara

T A Booth

Secretary
M L Glover

Registered Office
110 Fenchurch Street
London
EC3M 5JT

Bankers
Clydesdale Bank plc
5th Floor
33 Gracechurch Street
London
EC3V 0BT

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

Auditors
Littlejohn LLP
Statutory auditor
1 Westferry Circus
Canary Wharf
London
E14 4HD

Registered Number
03671097

Highlights and Summary of Results

For the year ended 31 December 2011

FINANCIAL HIGHLIGHTS

- Total Group income of £36.8m (2010: £32.8m), an increase of over 12%
- Adjusted* profit before tax of £8.8m (2010: £7.5m)
- Return of cash of 4.9p, through a G and H share scheme** , bringing the total cash distribution to shareholders to 8.1p for the year (2010: 7.35p)
- Upwards rebasing of the Group's progressive distribution policy following the completion of a share repurchase and their subsequent cancellation
- Undiscounted net tangible asset value per share of 107.3p*** (2010: 95.9p), an increase of 11.9%
- Tax credit of £4.2m due to UK tax profits being offset by brought forward tax losses, favourable tax treatment of Seaton & Stonewall legal cost recoveries and a recovery of tax paid in prior years by US subsidiaries.

* Excludes the goodwill impairment previously announced
** Details of which will be announced shortly
*** Assumes completion of share cancellation referred to in note 24

DIVISIONAL PERFORMANCE

- Insurance Investments Division - A very pleasing result with strong contributions from the non US insurance companies and run-off Syndicate 102, producing an operating profit of £8.3m (2010: £7.4m).
- Insurance Services Division - A satisfactory performance following a much stronger second half, with operating profit for the year of £5.6m (2010: £5.8m)
- Captives Division - An operating profit prior to the Nordic Venture write-off of £0.3m (2010: £0.2m) again impacted by on-going investment
- Underwriting Management Division - Good operational progress but performance impacted by the challenging premium rating environment, preparations for Solvency II and weak trading in our Canadian MGA resulting in an operating loss of £1.1m for the year (2010: £(1.0)m)
- An 'Other Corporate' charge, which includes parent company overheads, of £2.1m, (2010: £4.5m), reduced by the inclusion of the one-off legal cost recoveries in respect of the Seaton and Stonewall litigation as well as lower acquisition related costs during the year compared to 2010.

FINANCIAL SUMMARY	2011 £'000	2010 £'000
GROUP RESULTS		
Total income	36,793	32,818
Operating result (before goodwill and interest)	7,851	6,180
Adjusted* Profit on ordinary activities before income taxes	8,801	7,523
* Excludes goodwill impairment		
Goodwill impairment	(13,458)	-
(Loss)/Profit on ordinary activities before income taxes	(4,657)	7,523
Taxation credit/(charge)	4,169	(1,150)
(Loss)/Profit after tax	(488)	6,373
Earnings per share (basic)	(0.9)p	12.2p
Total net tangible assets per share*	107.3p	95.9p

* Assumes completion of share cancellation referred to in note 24

Chairman's Statement and Business Review

For the year ended 31 December 2011

Group income increased by 12% in the year as the full year benefit of acquisitions made during the course of 2010 and organic growth in the operating companies outweighed lower investment income. Operating profit before goodwill on bargain purchase and goodwill impairment rose strongly to £7.9m from £6.2m in the prior year as a result of strong performance in the Insurance Investments Division and a lower 'Other Corporate' charge arising from the one-off Seaton & Stonewall legal cost recovery. Adjusted profit before tax (prior to goodwill impairment) also improved to £8.8m from £7.5m in 2010 despite a higher financing charge following the renewal of the Group's credit facility and a lower contribution from goodwill on bargain purchase.

The Group benefited from a substantial tax credit arising from the fact that the majority of the Group's profits were generated in the UK in the year, where the Group has significant tax losses from prior years as well as favourable treatment of the recovered legal costs from the Seaton & Stonewall litigation. In the USA we have also benefitted from a refund of tax paid in prior periods.

The goodwill impairment, relating to R&Q Re US was commented on in the Group's recent trading update. The impairment arises due to the continued low market yields on high quality fixed income securities and the acceleration in settlement of known claims during 2011 which resulted in much lower than anticipated cash and investment balances by year end. The impairment has not arisen due to any change in expectations of the performance of any of the Group's operating companies and has not impacted the Group's net tangible asset value per share. The Group does not carry any other goodwill attributable to insurance company subsidiaries in its financial statements.

Once again, the Insurance Investments Division performed very well, generating an operating profit of £8.3m (2010: £7.4m), driven by strong net reserve releases in the UK portfolios, especially in R&Q Re (UK), and an excellent first year performance of run-off Syndicate 102, on which we have a 20% economic interest

Once again, the Insurance Investments Division performed very well, generating an operating profit of £8.3m (2010: £7.4m), driven by strong net reserve releases in the UK portfolios, especially in R&Q Re (UK), and an excellent first year performance of run-off Syndicate 102, on which we have a 20% economic interest. Our insurance/reinsurance debt acquisition activities also produced a good profit for the year as sizeable dividends were received and announced on existing positions. We also made several purchases, particularly during the latter part of the year, which should benefit future years.

We commented in the interim results that we had seen some evidence of a pick-up in asbestos related claims in our US portfolios, but this was in fact mostly contained within our reinsurance programme and there was a more limited impact than expected on net reserves. The major impact was the accelerated cash outflows as claims were settled, resulting in lower funds to invest. The relatively modest net reserve deterioration in R&Q Re (US) in the year arose from other parts of the book, including claim settlements on policies which are part of a developing dispute with the ACE group, which relates back to the acquisition of the company.

Whilst investment markets were and remain challenging, percentage returns on funds held by our insurance company subsidiaries remained stable at 3.0% overall (2010: 3.0%), significantly above the Lloyd's market average of 1.9%. Total investment income however fell, reflecting a significant reduction in average balances held.

Chairman's Statement and Business Review

For the year ended 31 December 2011

The performance of the Insurance Services Division ('ISD') during the second half of the year was strong both in absolute terms and compared to the same period in 2010, due to the higher profit commission earned in respect of Syndicate 3330, a natural second half revenue bias in certain of our operating subsidiaries as well as some new business income generation. The divisional operating result for the year as a whole of £5.6m ended up being only modestly down (2010: £5.8m), in spite of significant restructuring costs of £0.9m incurred during 2011 relating to a rationalisation of offices and a number of staff redundancies. These redundancies followed a planned review of staffing levels after the integration of the various service businesses acquired in 2010. The planned diversification into the 'live' market, focused on providing specialist services to the London subscription market such as premium credit control, binding authority management and broker/MGA support services, resulted in 'live' service income becoming a significant portion of our total service revenue during the year. The ability to service both run-off and live market business has also increased our penetration of large insurers who favour an outsourced model for specialist projects. Our legacy broker operations and 'broker wrap' product (which offers market participants a full exit solution from servicing legacy claims) also continue to gain traction.

The Underwriting Management Division's financial performance during 2011 was below initial expectations. Though the division benefited from a good profit commission on run-off Syndicate 102 in the second half, the substantial costs and associated business disruption relating to preparations for Solvency II, together with a persistently poor underwriting rate environment took their toll. Not only did these factors lead to weaker than anticipated MGA commissions but also a lack of new turnkey syndicate opportunities. Furthermore, our Canadian MGA struggled to gain the distribution channels and market penetration required, exacerbating the problems posed by low premium rates. This resulted in an operating loss in that single entity of £1.0m, which accounted for almost the entire divisional loss. Following a thorough review of market conditions, the potential income growth and our cost base, a decision has been reached to consider our options in Canada.

Despite a disappointing divisional financial result, we made good progress in developing the Underwriting Management business. 2011 saw the launch of our first turnkey Syndicate on behalf of Skuld, a long established Norwegian P&I club manager. During the early part of 2012, we also added two other UK based Managing General Agents for nominal cost, with significant renewal books of business. Our UK based MGA operations have thus gained necessary scale. Though the pipeline for new 'turnkey' syndicates remains subdued, we are exploring other ways to expand upon our live syndicate management activities.

The Captives Division operating result of £0.3m, prior to the Nordic Venture write-off (2010: £0.2m) was below budget in 2011 as a result of the costs of developing the onshore US platform and on-going investment elsewhere. Once again however, R&Q Quest (Bermuda), the division's principal operating company made a good contribution. Strong foundations were also laid for future profit generation, especially in the latter part of 2011 and in the first quarter of this year. We were pleased to complete the acquisition of Triton, Norway's leading captive manager in the summer and to establish R&Q Quest (USA) to which 11 contracts were novated from Camelback, a manager ceasing operations in the US market. We have also recently broadened our activities to include the formation of risk retention groups and captives for specialist industry groups and have been leveraging our contacts and infrastructure to offer full exit solutions to late stage captives or those already in run off. 2012 has begun promisingly as a result and we are confident that with the additional benefit of recent cost reductions, the division will begin to make a more significant contribution to the Group's operating profit.

The 'Other Corporate' charge of £2.1m for the year (2010: £4.5m) benefited from a significant one-off recovery in legal costs following the successful resolution of the Seaton & Stonewall litigation as well as lower acquisition related expenses.

Since late 2011 we have become increasingly active in the acquisition of legacy insurance assets. In December we acquired Principle Insurance, followed in February by the RITC of former Equity managed Syndicate 1208 on which we have a 50% economic interest, in March by the acquisition of Northern Foods Insurance and by the agreement to acquire Trimac Exit Insurance in Barbados, announced recently. Our insurance debt acquisition activities have also grown in scale with five new receivables purchased since December, for an aggregate consideration of $3.5m.

In summary, 2011 was generally a good year for the Group with a pleasing underlying performance in the Insurance Investments and Insurance Services Divisions, especially against a background of lower investment income and higher restructuring costs. Whilst the Captives and Underwriting divisions underperformed against initial financial expectations, their operational achievements have been significant, especially during the latter part of 2011 and early 2012. We therefore look forward to these improvements translating into stronger financial contributions in the current year and beyond.

The Group completed a share repurchase during 2011. As well as proving our commitment to active capital management, the share buyback enabled the Group to eliminate a share overhang from certain of the original external shareholders. Directors and family members

also participated in the buyback to maintain the free float and liquidity of the shares, resulting in their percentage holding rising only slightly. Furthermore, to provide a benefit to all shareholders, the Group rebased its per share progressive distribution policy to reflect the reduced number of shares in issue. The Group proposes to pay out 4.9p per share in cash to all shareholders through a G/H share scheme bringing the total distributions in respect of the 2011 financial year to 8.1p per share an increase of over 10% compared to 2010. Further details will be announced in due course. The Group has internal resources to take advantage of the current pipeline of legacy insurance acquisition opportunities. The Group is however looking at further asset based borrowing facilities to ensure that it is able to remain active should the current attractive market conditions continue.

Outlook

Though the underwriting rating and investment markets remain challenging, which inevitably affect parts of our business, the overall outlook for the Group is positive. We are seeing good deal flow on the legacy insurance asset side with opportunities both completed and being worked on in Lloyd's, the insurance company, discontinued captives and insurance debt markets. There are also signs that competition is reducing in the smaller end of the market where we focus. Realisation of the operational and capital benefits we can potentially bring to bear on such acquisitions through portfolio transfers, novations and mergers, has led us to concentrate on funding new deals directly through our own balance sheet but we cannot discount the possibility of partnering with others on larger sized deals through the 'sidecar' structures previously commented on. Such co-investment would be dependent upon the generation of satisfactory overrider fees for the Group.

We continue to identify key areas of focus in order to crystallise further reserve savings in our owned insurance company portfolios but US asbestos still poses a risk. Disagreements with Ace relating back to the acquisition of R&Q Re (US) are on-going and may result in further litigation between Ace and Group companies. Our initial view of the recent House of Lord's so-called 'EL Trigger judgement' relating to UK asbestos is that its potential impact on the Group will be limited. Diversification into investing in Lloyd's (in RITC (run-off) and turnkey Syndicates), discontinued captives and the growing importance of the insurance debt acquisition activities is also reducing our dependency on finding reserve redundancy in the existing company portfolios. To counteract the challenges of the investment markets, we have repositioned our investment portfolios to insulate our investments from the potential impact of rising interest rates and have focussed on areas of the market that we believe are undervalued, whilst maintaining high credit quality.

The costs and uncertainty of Solvency II will continue into 2012 and beyond. We have already seen evidence of the FSA requiring an additional capital buffer beyond the ICA/QIS 5 result to reflect uncertainty over the final solvency rules. As the Solvency II standard model currently stands however, there appears to be no material additional capital requirements compared to the prevailing ICA regime on the portfolios we own. Of more concern is the potential impact on holding company capital obligations, commented on recently by the Prudential Group. The proposed regulations may penalise groups with US subsidiaries and we are still unclear as to whether the FSA will recognise the special circumstances of run-off specialists. We are therefore considering alternative holding company structures to mitigate this risk.

On the service side of the business, the diversification into more external contracts and 'live market' niche services is proving successful. The cross-selling of our extensive live and run-off service offering is beginning to gain traction and the development of full exit solutions to the legacy broking market is generating new business opportunities. The benefits of the recent restructuring programme within ISD should also improve operating margins.

As has already been mentioned, the outlook for the Captives division is positive with investment in the US onshore platform, the acquisition of Triton, the leading Norwegian captive manager and some cost reduction measures now complete. The plan to broaden out our activities into the establishment of risk retention groups and captives is progressing well and we are also leveraging our infrastructure and contacts successfully to make acquisitions of late stage captives or those already in run-off.

Finally, the Underwriting Management Division should benefit during 2012 from profit commission on both run–off Syndicates 102 and 3330 (formerly 1208). Consolidation of the MGAs we have launched or acquired, especially R&Q Marine Services, should also result in the emergence of profitable trading, though the cost of certain options we might pursue in respect of our Canadian MGA and persistent soft underwriting rates are likely to hold back performance. The Lloyd's 'turnkey' pipeline remains relatively inactive due to Solvency II preparations and the poor premium rating environment but we are exploring other expansion routes at Lloyd's and, in any case, believe that prospects will improve in 2013 and beyond. Turnkey capacity in Lloyd's remains a rare commodity and valuations achieved for agencies subject to recent M&A activity show the inherent value of Lloyd's platforms.

Chairman's Statement and Business Review

For the year ended 31 December 2011

Business Review

Insurance Investments Division

This division is engaged in the following activities:

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

At 31 December 2011, the portfolio of acquired insurance companies was as follows:-

	Vendor	Country of Incorporation	Acquisition Date	NAV* £m (as at 31/12/11)	NAV* £m (as at 31/12/10)
La Metropole SA (' La Met ')	Travelers Group	Belgium	29 Nov 2000	0.3	0.3
Transport Insurance Company ('Transport')	American Financial Group	USA	30 Nov 2004	8.1	9.2
R&Q Reinsurance Company (UK) Limited ('R&Q Re (UK)')	Ace Group	UK	3 July 2006	11.9	3.4
R&Q Reinsurance Company (Belgium) ('R&Q Re (Belgium)')	Ace Group	Belgium	3 July 2006	2.9	3.0
R&Q Reinsurance Company ('R&Q Re (US)')	Ace Group	USA	3 July 2006	16.8	15.7
Chevanstell Limited ('Chevanstell')	Trygg Forsikring	UK	10 Nov 2006	30.7	31.0
R&Q Insurance (Guernsey) Limited ('R&Q Guernsey")	Deloitte LLP Administrators for Woolworths Group plc	Guernsey	9 June 2009	1.9	1.8
Goldstreet Insurance Company ('Goldstreet')	Sequa Corporation & Columbia Insurance Company	US	14 Dec 2009	4.1	4.1
La Licorne S.A. ('La Licorne')	MAAF Assurances	France	22 April 2010	2.9**	4.5
Principle Insurance Company Ltd ('Principle')	Principle Insurance Company Holdings Ltd	UK	29 December 2011	5.9	-
TOTAL				**85.5**	**73.0**

*IFRS basis for Group consolidation purposes

** After £2m capital extraction during the year

The Group's strategy in the owned insurance company portfolios is to manage actively the claims, reinsurance and investment assets. Part of the claims strategy includes seeking mutually beneficial commutations. This is consistent with our aim of managing down the liabilities to progress the run-off and realise cash profit through capital reductions and dividends. Our recent focus on shorter tail run-off portfolios from which we can extract cash relatively quickly after acquisition was further illustrated in the year by a £2m capital release from La Licorne, purchased only in April 2010. We have also recently received approval from the FSA for an extraction of a further £3m from Chevanstell and a capital extraction of at least another £1m from La Licorne is imminent.

There was an aggregate net claims release of £13.4m from our owned insurance companies and syndicate participations during the year (2010: £9.5m), driven once again by the strong performance of the UK portfolios, especially R&Q Re (UK). Only R&Q Re (US) suffered any material net claims strengthening; and this was more modest than feared as the pick-up in asbestos related claims, which we warned about at the interim results stage, was mostly contained within our reinsurance programme.

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 Net Asset Values of the owned companies reflect not just net claims releases but also any surplus/deficit of investment income over operating expenses. The US portfolios' Net Asset Values are also affected by exchange rate movements as their assets (and liabilities) are all dollar denominated and are translated into Sterling for Group reporting purposes. In the non-US companies, liabilities and assets are matched by currency and surpluses kept in Sterling.

The acquisition of Principle Insurance, a takaful motor insurer in run-off at the end of 2011 for £4.35m resulted in goodwill on bargain purchase of c.£1.5m (2010: £1.7m, relating principally to the acquisition of La Licorne).

On a like for like basis, the aggregate Net Asset Values of the owned insurance companies rose strongly during the year to £81.6m from £73.0m at the end of 2010.

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

Chevanstell

There was a significant net reserve release again in Chevanstell during 2011 of £3.3m (2010: £4.9m) emanating primarily from the Marine, Aviation and reinsurance accounts.

Due to the poor performance of the bank perpetual securities and prevailing low interest rate environment, the Net Asset Value of the company however remained broadly stable during the year. As is covered in detail below, steps have now been taken to restructure the investment portfolio and we expect investment income and expenses to be much more balanced during the current year and beyond.

Work continues to identify further assumed claims accounts where there is reserve redundancy. We are also progressing a number of commutations to further reduce the net insurance liabilities, which were under £14m at year end, resulting in a large surplus over capital requirements under the prevailing Solvency I and ICA regime as well as under QIS 5 (the latest 'prototype' capital model for Solvency II). As a result, we have been successful in gaining approval from the FSA for a capital extraction of £3m but the FSA's additional prudence ahead of the finalisation of the Solvency II regulations has temporarily limited our scope to get approval for the level of capital extractions which we would ordinarily expect.

R&Q Re (US)

A number of significant claims settlements were negotiated during the year, especially in the last quarter, with gross claims paid of $75m, a significant part of which has been billed to reinsurers. As a result of this activity, outstanding reinsurance debt rose substantially to over $40m from $17m a year earlier. The affect of this accelerated claims settlement activity has been to reduce investment balances, contributing to the goodwill write-off referred to above.

Whilst there was an overall net reserve deterioration of £3.7m in the year, the majority of this was attributable to the non-asbestos accounts. Though the anticipated pick up in asbestos claims materialised, this largely fell to our reinsurers. We have a comprehensive reinsurance programme which provides very effective protection from large losses, which is our current experience. There remains a continued risk from asbestos related claims if we were to experience the unexpected development of a large number of smaller losses across the book. This risk is further ameliorated however by additional (so far unused) reinsurance of up to $35m provided by the Ace group as part of the 2006 acquisition agreement.

As has already been commented on above, we have unresolved disputes with Ace arising out of the 2006 acquisition.

In spite of the net reserve deterioration, the net assets of R&Q Re (US) rose slightly in the year as a result of a surplus of investment income over expenses and a tax credit.

Chairman's Statement and Business Review

For the year ended 31 December 2011

R&Q Re (UK)

R&Q Re (UK)'s external actuaries completed a detailed review of the net reserve position during the year and significant reserve reductions were identified in both the gross and net estimates for Marine and Non-Marine reinsurance exposures. A net reserve release of over £11m was identified overall. This was offset in part by a deficit of investment income against expenses, again primarily due to the decline in value of the perpetual securities but net assets rose sharply by £8.5m to £11.9m during the year.

A number of commutations were agreed and settled, especially during the latter part of 2011. As a result of these commutations, we have now eliminated the vast majority of residual exposures to reinsurance claims arising out of the Exxon Valdez and Kuwait Airways losses.

Transport Insurance Company

There were significant gross claim settlements in Transport in 2011 but these were recoverable from the NICO (Berkshire) retroactive reinsurance agreement. The 2011 external actuarial report showed over $5.5m of reserve redundancy but this simply increased the surplus cover available under the NICO policy and had no impact on the balance sheet. It does however have a positive impact on the regulatory Risk Based Capital test.

Disappointingly, we lost the Aerojet litigation in early 2012 but we had already provided fully for this on consolidation in the Group accounts. This write down in the company's own accounts reduced the capital surplus for regulatory capital purposes. Because the state insurance regulations do not allow Transport to take credit for the NICO Retroactive Reinsurance Treaty, we are working with the Ohio Insurance Department to take Transport back above the Authorised Control Level and have provisionally agreed to make Goldstreet Insurance Company its wholly owned subsidiary, thereby increasing Transport's surplus.

The Net Asset Value of Transport on an IFRS basis fell by c.£1m during 2011 primarily as a result of a deficiency of investment income to operating expenses.

Other Insurance Subsidiaries

Our other insurance subsidiaries continue to run-off in line or better than planned with particularly good results from La Licorne following a series of commutations. This allowed a further capital extraction in the year of £2m and a potential for a further release during the current year. R&Q Guernsey also had a good year with a net reserve release and a reduction in required collateral to the fronting companies allowing a repayment of the intragroup loans and positive 'free' cash balances to start generating investment income.

Lloyd's Participations

For the 2011 underwriting year the Group provided 8.33% of the underwriting capacity for Syndicate 1897 (which it manages under a turnkey basis for Skuld) with capacity of £60m and 20% of the underwriting capacity on RITC (run-off) Syndicate 102.

Syndicate 1897 as a whole produced a loss for the year of c.£6m as a result of both the customary expense drag on syndicates during their first year of operation and the significant loss suffered on the KS Endeavour rig explosion. R&Q's 8.33% share of the Syndicate 1897 loss was c. £0.5m.

Run-off Syndicate 102 however produced an excellent profit for the year of c.£11.0m and our share, was £2.2m. The aggregate contribution of £1.7m from our Lloyd's participations during 2011 was therefore significant and represented over a 20% return on the £8.3m of Funds-at-Lloyd's ('FAL') we put up as 'regulatory capital' from our wholly owned corporate member, R&Q Capital No.1.

For the 2012 underwriting year, we continue to provide the same level of capacity on Syndicate 1897 and Syndicate 102. However, due to the slightly reduced ICA (Capital Requirement) of Syndicate 1897 and the lower reserve level of run-off Syndicate 102, we had a lower total FAL requirement for the year in respect of these syndicates of c. £6.5m. As has already been mentioned, we also wrote the RITC of former run-off Syndicate 1208 during the early part of 2012 and have a 50% net economic interest in this syndicate, having put up additional FAL of just under £3m at the end of February. We are optimistic therefore that our Lloyd's participations will make an even stronger contribution to the divisional result during 2012.

Investment Policy and Returns

The investment return on funds held by our insurance companies is a key component of the performance of the IID and despite the persistently low level of interest rates during the year and the poor performance of the bank perpetuals following market turmoil in August and September, the overall percentage investment return for the year remained stable at 3.0% and significantly above a benchmark of the Lloyd's market average of 1.9%. Total investment income however fell to £6.3m (2010: £8.5m) as a result of lower average fund balances held, especially in R&Q Re (US) following accelerated claims settlements.

For investment management purposes, the assets in our owned company portfolio are divided between the US and UK companies.

As at 31 December 2011, the total investments in the externally managed US companies portfolio amounted to $187.0m and in the UK companies portfolio to an equivalent of £63.9m (comprising of £27.7m of Sterling

assets and $55.8m of Dollar assets). The investment returns for 2011 were c. 4.0% and 1.1% respectively for the two portfolios . The strong return in the US companies portfolio was due to a high weighting in US Municipals, which delivered the best annual return within the fixed income asset classes during the year. Our returns would have been even higher had we not kept a defensive duration stance. The core fixed income performance in the sterling part of the UK companies portfolio was strong at over 3% but the underperformance of the perpetuals dampened overall performance here and the dollar part of the portfolio was also weak due to some spread widening in corporates, especially financials.

At 31 December 2011 the average duration of the US companies portfolio was c. 3.0 years whilst the average duration for UK companies portfolio was c.2.8 years.

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

Credit Rating:-

	US Companies Portfolio	UK Companies Portfolio
As at 31 December 2011	**USD**	**GBP**
Government & Govt Guaranteed Bonds	19.1%	2.7%
AAA	16.6%	14.4%
AA	32.8%	6.0%
A	30.1%	30.3%
BBB	1.0%	22.0%
BB	-	9.5%*
P-1	0.4%	3.4%
NR (Equities)	-	11.7%
	100.0%	100.0%

* Comprises the step-up perpetuals discussed above

Asset Classes:-

	US Companies Portfolio	UK Companies Portfolio
As at 31 December 2011	**USD**	**GBP**
Government/Agency Bonds	18.8%	2.7%
Corporates (ex financials)	5.4%	19.5%
Corporates (financials)	21.2%	52.9%
Cash	3.7%	1.4%
CDs	-	2.2%
Asset backed	-	9.6%
Municipals	50.9%	-
Equities	-	11.7%
	100.0%	100.0%

The Group's overall investment objectives are to:

- Pro-actively manage the asset allocation and credit/interest rate strategies but outsource the investing to specialist managers;
- Optimise risk adjusted returns through the creation of a diversified portfolio of assets and individual securities;
- Maintain the principal value of the investments held;
- Keep average duration/maturities relatively short and focus on liquid securities in order to provide funds to pay claims as we manage down liabilities through claims settlements;
- Match insurance liabilities in original currencies;
- Monitor interest rate risk and use floating rate securities where possible in a rising interest rate environment; and
- Take controlled credit risk by limiting spread duration

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.

Since year end, in line with the Group's investment objectives, some substantial changes have been made to the UK companies portfolio to minimise interest rate risk and optimise risk adjusted returns. A significant portion of the bank perpetuals have therefore been sold, realising a good profit from the year end values as we took advantage of the rally in risk assets during January and February. The remainder of the fixed income portfolios were also sold, realising a further small profit from year end values. A significant portion of the funds have been reinvested in a portfolio of floating rate Residential Mortgage Backed Securities ("RMBS") with primarily AAA and AA ratings and a weighted average life of c. 2.5 years. In addition, smaller parts of the remaining funds have been invested in a senior secured loan portfolio, a UCITS compliant short duration high yield fund and in high yielding equities. The management of the majority of the portfolio has been transferred to 24 Asset Management, a specialist RMBS manager. We believe that the result of these changes has been highly positive as average credit ratings have increased, interest rate risk has been significantly reduced and yields have risen. We have also increased liquidity for expected claims payments during the year through the use of money market funds. We continue to look at ways of implementing similar strategies in our managed syndicate funds and our US companies portfolio, but are unfortunately more restricted in the latter case by local regulation.

The Group's syndicate funds are currently managed by Amundi and investment income reported in the overall syndicate results.

Insurance debt acquisition activity

As at 31 December 2011, the Group had insurance and reinsurance receivables on its balance sheet from its insurance debt acquisition activities with a carrying value of £8.1m (2010: £1.8m). This increase reflects some significantly enhanced acquisition activity during the year, especially in the second half, which should benefit the current year and beyond as we receive distributions from the closing insolvent insurance companies of which we are now creditors.

A good result was generated from this part of the IID activities during 2011 with an operating profit of over £350k (2010: £(157)k), as a result of a significant dividend received during the latter part of Q4 from a US estate, likely to close during 2013.

Since early 2012 we have made 3 further acquisitions with another acquisition now agreed (and awaiting completion), for an aggregate consideration of c. $1m. We have also received further dividends of over $1.5m from the existing portfolio in addition to the £1.2m of accrued income, now paid, which was held on the balance sheet as at 31 December 2011.

Insurance Services Division

The Insurance Services Division performed satisfactorily during 2011 with a much stronger second half resulting from the anticipated additional profit commission on the Syndicate 3330 service contract, some natural second half revenue bias in certain of the operating subsidiaries and new business income. Total revenue rose to £35.2m (2010: £32.6m), primarily as the result of a full year's contribution from the Reinsurance Solutions businesses acquired from Guy Carpenter during late 2010. Operating profit of £5.6m (2010: £5.8m) was satisfactory, especially given the restructuring costs of £0.9m and the significantly lower profit commission on Syndicate 3330 compared to 2010.

The Insurance Services Division's activities include:

- Claims management
- Reinsurance management
- Broker services (eg broker replacement)
- Audit & Inspection (for coverholders etc)
- Accounting Services
- Premium credit control & broker performance
- Compliance & company secretarial services

As well as providing full scale claims and reinsurance management services to the Group's owned company portfolios and managed syndicates, the Group offers a broad range of specialist insurance services to a wide range of clients in both the legacy and 'live' insurance markets.

In 2011, external revenue again exceeded internal revenue (£20.6m compared to £13.6m) and live market income accounted for almost a quarter of the total, demonstrating the growing importance of our live market operations, which helps support the organic growth strategy.

The Group's strength in live market servicing is focused on providing specialist niche services to the London based subscription market and has followed the successful integration of a number of targeted acquisitions during 2010. Furthermore, the ability to service both run-off and live market business has increased our penetration of large insurers who increasingly favour an outsourced model for specialist projects.

The Group has an established reputation and skill base in the London legacy market. R&Q is, for example, one of the leading players in broker replacement, assuming the responsibility for reinsurance collections and claims settlements for legacy insurers. Its unique 'broker wrap' product offers brokers a full exit from servicing legacy accounts for a fixed fee, thereby allowing these businesses to concentrate on repeat income business. 2011 saw the Group add the AJ Gallagher Re run-off to the Carvill run-off acquired during 2010 and there is a further pipeline of further opportunities.

The Group also has significant third party orientated service operations in the US in addition to the staff focused on the management of its own portfolios. This follows the acquisition of Reinsurance Solutions Inc. from Guy Carpenter during late 2010, which has a diverse blue chip client base and an increasingly acknowledged expertise in workers compensation claims. The Group is also the manager for the US based ECRA run-off pool with well over $1bn of outstanding claims on behalf of numerous US insurance groups. This activity may offer future potential for providing commutation and other consultancy services to pool members wishing to seek an exit.

As has been commented on previously, the Group has undertaken a full-scale review of its cost base. This involved a cost-benefit analysis of certain offices and a look at management and staffing levels, especially in light of the numerous acquisitions in 2010 and their subsequent integration. This resulted in the closure and rationalisation of offices in both the UK and US and, unfortunately, a number of redundancies, across all levels. The costs of these measures in 2011 was c.£0.9m. A further round of staff reductions has recently taken place in the US and to a lesser extent in the UK. This is again regrettable, but necessary, to ensure that the business remains lean and competitive. The net impact of this recent programme is however expected to be positive during the current year with savings outweighing associated redundancy costs.

We look forward to the current year and beyond with confidence. With the benefit of a more appropriate cost base and some significant organic growth opportunities from the cross-selling initiatives of our diverse specialist service offering, we expect to increase our operating margins and resume growth in operating profit.

Underwriting Management Division

The Underwriting Management Division is engaged in the following activities:

- Management of RITC (run-off) syndicates
- Management of live 'turnkey' syndicates
- Delegated underwriting through a number of specialist managing general agents ('MGAs') with niche underwriting accounts

The Underwriting Management Division produced significantly higher total revenue of £5.4m during the year (2010: £0.7m) as its operations were successfully expanded. This revenue was generated from income associated with its management of turnkey Syndicate 1897, management fees from both run-off syndicates (S.102 and S.3330), a profit commission on run-off Syndicate 102 and a small amount of commission income from its start-up MGAs. The operating loss of £1.1m (2010: £(1.0) m) was however disappointing; a result of the costs associated with preparations for Solvency II, the weak underwriting rating environment and distribution and capacity issues in our Canadian MGA .

The poor underwriting market impacted our ability to grow premiums in the MGAs as quickly as budgeted. It also reduced the attractiveness of launching new syndicates, but our ability to launch further 'turnkey' syndicates was also impacted by the preparations of the Lloyd's market for Solvency II.

2011 however saw R&Q become an established turnkey provider, having launched and managed one of only two syndicates begun in the year. The lack of turnkey capacity in the market positions the Group well for when underwriting rates improve and preparations for Solvency II are finalised. The Group remains positive that the attractiveness of the Lloyd's market, given its unique distribution, global licences and capital and operational efficiency will bring significant management opportunities in the future. The Group is also exploring other ways of expanding its live syndicate management activities.

In our MGA business, the Canadian operations did not achieve the market penetration we were targeting, given the high cost base. This was exacerbated by a highly competitive marketplace and the operating loss of £1.0m reflected disappointing written premium figures. Whilst the current year has shown some improvement, we are currently considering our options..

The performance of the UK based MGAs was more in line with expectations, (certainly after adjusting for market conditions) and a positive contribution is anticipated for the current year and beyond.

Chairman's Statement and Business Review

For the year ended 31 December 2011

Since the beginning of 2012, we have also added two other UK based MGAs, R&Q Marine Services (to which was transferred a Yacht and Marine Trades portfolio from Underwriting Risk Services Ltd (URSL), a subsidiary of Talbot) and Synergy, an MGA focused on the high net worth market, which we acquired from a private consortium.

A description of all of the owned MGAs is provided in the table below. We currently expect to generate c. £50m in aggregate premium income in the current year.

	Business Scope
R&Q Marine Services (formerly Underwriting Risk Services Ltd	• Yacht and Marine Trade and associated risks account with a focus on super/mega yacht business, with various binding authority facilities • Potential new facilities for Yacht cargo and targeted overseas expansion
R&Q Commercial Risk Services	• Specialises in Commercial Combined, Property Owners, Contracting and Package Business • Established and loyal distribution base of 100 Independent UK Intermediaries
R&Q Just Underwriting	• Specialist wholesale facility focused on liability business produced from specialist brokers • Delegated authorities in niches of leisure market such as Motorsport and Equestrian/ Livestock/ Bloodstock • Additional facilities for Personal Accident and Contingency
Altus Management	• An 'MGA of MGAs' model focused on accessing specialist regional US and international MGA business • Emphasis on SME Property business written under binding authorities
Synergy Insurance Services (UK)	• UK emerging and established wealth private client insurance book, including fine art, jewellery and motor • Distributed largely through regional brokers, but an expanding direct book • The business is currently property led but some motor led business is developing.

The Group's strategy has been to attract underwriting talent to an entrepreneurial platform, where results are well rewarded. The breadth and scale of our MGA operations has changed considerably over the past 12 months and we are pleased with the quality of the underwriting teams that have joined the Group. The Group owns either 100% or a significant majority share of each MGA and encourages minority ownership by key staff to provide a strong alignment of interests. In order to ensure that the MGAs write business for profit rather than volume, to safeguard their longevity and success, the key underwriters are also entitled to a meaningful portion of any profit commissions earned from the third party capital providers. The Group's own economic model is focused on ensuring that the commissions we generate (typically between 10% and 15%) on the business written will produce satisfactory margins over expenses. As we build scale and as the newly formed MGAs mature, this balance should become more favourable. It has also been helped by the purchase in 2012 (at nominal cost) of established books of business, especially in R&Q Marine Services.

An important component of the Underwriting Management Division's activities continues to be the management of run-off syndicates. Indeed, over £20m of profit (before profit commissions) was generated by the run-off syndicates we managed during 2011, primarily for the account of third party capital providers. A significant contribution to the division was made during the year from the profit commission on Syndicate 102, the recovery of costs on both Syndicate 3330 and 102.

At the end of 2011, the open years of Syndicate 3330 which had been managed by R&Q on behalf of the Fairfax group for three years were, as anticipated, reinsured to close into a new syndicate managed by Fairfax's own managing agency. During the early part of 2012 however, R&Q reinsured to close the run-off Syndicate 1208 (formerly managed by Equity Syndicate Management) into the 2012 year of account of Syndicate 3330. As well as the continuing management fees that this transaction brings, it provides the opportunity for the Group to earn profit commissions on a further run-off syndicate, which should help bring the Underwriting Management Division to profit during 2012.

Captives Division

The Captives Division activities include:

- Assisting with the establishment and management of captives and cells for corporates and risk-retention groups. Services include accounting and claims handling, completing regulatory returns and helping with broker relationships and reinsurance coverage
- Providing a full insurance and risk management service to insurance companies in fiscally attractive jurisdictions
- Offering exit solutions to late-stage captives or those already in run-off through novation, amalgamation and portfolio transfer

The R&Q Captives operations are currently run from Bermuda, the USA, Gibraltar and Norway. Overall, the division generated income of £4.7m during 2011 (2010: £3.0m), the increase primarily due to the full year absorption of Caledonian and the acquisition of Triton. Operating profit, prior to the Nordic venture write-off, was £0.3m (2010: £0.2m), once again subdued by the costs of ongoing investment, including in R&Q Quest (USA).

The core of the business still resides in Bermuda where R&Q Quest (Bermuda) is one of the leading independent captive managers. R&Q Quest has over 85 'Equity' Captive clients as well as 40 'Rent-A-Captive' clients who own cells in R&Q Quest SAC, our cell company subsidiary. Clients include major corporations from the US, Europe, Latin America and even the Pacific Rim as well as a number of trade groups and associations. Bermuda remains the most significant captive domicile in the world and whilst the trend to establish onshore captives in the US has begun to make it less dominant, new markets are opening up, especially in Canada and Latin America. We continue to be satisfied with the operating performance of R&Q Quest (Bermuda), which generated income of £2.9m and an operating profit of over £0.5m during the year, broadly similar to the year prior.

Caledonian in Gibraltar, which is predominantly an insurance company manager, performed less well due to delays in new business income and the anticipated fall in revenue from its major insurance company client. Operating profit was very small on turnover of £0.6m. The pipeline for new licence applications and management opportunities however is promising and we remain attracted to the jurisdiction through its attractive tax rate, onshore EEA status and good regulatory access.

Triton in Norway, which we acquired in July, is the country's leading captive and insurance company manager and also has claims handling expertise. The company has performed well since acquisition, generating £0.1m in under 6 months on turnover of £0.6m.

R&Q Quest USA, the Group's onshore US platform, was established during the year. In December, the business assets of Camelback Captive Services Inc were then acquired for a nominal sum. The 11 small client contracts acquired and the success of the recent initiatives to offer our cell infrastructure (for the retention of certain insurance risks) to members of a farming co-operative and dentist and lawyer groups should enable our US operations to make a positive contribution during 2012 and beyond.

The Group's strategy is to build upon these recent initiatives across the division to form other risk retention groups and broaden out the service offering to include programme administration, claims management and other consultancy services. We will, as always, consider profitable expansion into other territories should suitable opportunities arise.

The ability to offer exit solutions to late stage captives or those already in run-off has also helped to differentiate R&Q's operations and we expect some significant revenue from this activity during 2012. The captive management infrastructure, especially the cell company in Bermuda, also enables us to bid competitively for the acquisition of dormant captives seeking a sale to avoid the burden of ongoing operating expenses.

Overall, we remain positive about the outlook in the division, as well as the ability to make a more significant operating profit, having taken steps to reduce the cost base in a number of the subsidiaries and to launch new revenue initiatives.

Litigation

The Group's parent ('RQIH') and R&Q Reinsurance Company ('R&Q Re (US)') is currently in arbitration (which has been stayed) and litigation with Horace Mann Insurance Company ("Horace Mann") and a number of ACE Group subsidiaries in a New York State court.

The lawsuit, initiated by RQIH and R&Q Re (US), seeks a declaration that R&Q Re (US) is not liable under a reinsurance treaty by which R&Q Re (US) allegedly reinsured Horace Mann because, among other things, that treaty was excluded from the contracts and liabilities acquired by the Group in 2006 as part of its purchase of R&Q Re (US). The dispute with Horace Mann and ACE is part of a wider set of disputes related to the purchase of R&Q Re (US). These disputes may lead to further litigation in due course.

Staffing

The Group continues to seek high quality individuals to develop existing and new business areas. Whilst Alan Quilter and I still enjoy running the business, we recognise the importance of succession planning and have ensured that the Group has strength and depth in the management team and across the four divisions.

Chairman's Statement and Business Review

For the year ended 31 December 2011

During the past year, we were pleased to welcome Justin Mead, who heads up R&Q Quest (USA) as well as Severin Sirnes, Waldemar Rode and colleagues of Triton Management in Norway.

Following the transfer of the Yacht and Marine Trades portfolio from Underwriting Risk Services Ltd (URSL) to R&Q Marine Services Ltd (RQMS) in January 2012, we are also pleased to welcome Nick Hales, who has been appointed as Head of the Group's MGA operations, as well as Paul Miller and the remaining staff from the former URSL team. Following the acquisition of Synergy, also in January 2012, we welcome Emma Bennett and colleagues. Finally, we are pleased to welcome Henry Colthurst, who has joined to assist on the run-off of new RITC Syndicate 3330 and other Lloyd's legacy opportunities as well as become a director of the Group's managing agency.

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 of course regrettable that at the same time that we are expanding the number of staff in certain areas of the business, we have to contract in others, to manage the cost base. This in no way reflects on staff performance but merely the difficult and uncertain times in which we live. We continue to reward staff and management based on the Group's financial performance and have begun to formalise incentive structures to retain and attract the best industry talent.

Key Performance Indicators

In order to focus our delivery to shareholders and facilitate analysis of our progress, we report the following key performance indicators:

- 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)
- Net Tangible Asset Value per share
- Total Shareholder return

The tables below show the results:

Insurance Services	Revenue Growth	Operating Profit Margin
2011	8.0%	16.0%
2010	40.0%	17.7%

Captives	Revenue Growth	Operating Profit Margin
2011	58.7%	5.9%
2010	10.6%	7.8%

Operating Profit (£m)	Insurance Investments	Underwriting Management	
2011	8.3*	(1.1)	
2010	7.4	(1.0)	-

Key per share indicators	Basic EPS	Distributions p/s	NTA p/s**	Total Shareholder Return***
2011	(0.9p)	8.10	107.3	12.1p
2010	12.2p	7.35	95.9	(12.7)p

* Excludes goodwill impairment

** Assumes completion of share cancellation referred in note 24

*** Includes change in share price between 1 January and 31 December together with distributions per share relating to that accounting period

K E Randall

Chairman and Chief Executive Officer

24 April 2012

Report of the Directors

For the year ended 31 December 2011

The Directors present their report together with the audited Financial Statements of the Company and its subsidiaries for the year ended 31 December 2011.

Principal Activities

The Company is a holding and investment company.

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

The Group owns eleven insurance companies and captives in run-off in the UK, US and Continental Europe and participates in three Syndicates that the Group manages.

Results and Distributions

The results for the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 27.

The Directors declared and paid distributions in the year of 8.1 pence per share on the ordinary shares amounting to £4,032,000 (2010: £3,938,000).

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.

Directors' Interests in Shares

As at 31 December 2011, the following Directors held ordinary shares as below. The total ordinary shares in issue at 31 December 2011 amounted to 54,092,916.

K E Randall and family
22,249,515

A K Quilter
4,346,456

K P McNamara
139,106

J M Welman
17,000

M G Smith
25,000

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 17.

Risk Management

Following on from detailed risk management in the Group's wholly owned Lloyd's managing agency in preparation for Solvency II, the Group has recently created a Group Risk Committee and is compiling detailed risk registers for each division. The committee consists of the Group Chief Financial Officer, the Group Head of Risk Management, the Heads of each of the Group's operating divisions and senior managers of the Group's US operations. The Chairman and one other member of the Committee are independent.

The following risks are deemed to be the principal risks facing the Group. Risks relating specifically to the Group's owned insurance entities and service operations are dealt with separately towards the end of this section.

Risk Management Group:

Group Cash Flow Risk

The Group must actively manage its cash flow to ensure that operating cash flow requirements, debt repayments (together with interest payable) and claims payments can be met and the Group's progressive distribution policy sustained. The Group undergoes a thorough annual budgeting process, which includes a monthly Group cash flow projection, against which actual movements are regularly monitored through, for example, the weekly circulation of the cash balances in each of the Group's entities.

The boards of each of the owned insurance companies also carefully consider and monitor the likely liquidity needs (by currency) to meet anticipated claims settlement and fees during the year. This information is relayed to the Group investment committee and investment managers to ensure that funds are kept sufficiently liquid at all times. A similar process takes place with respect to the Group's managed syndicates. Furthermore, the Group strives to match the duration and currencies of its liabilities and keep asset durations lower where it believes that favourable commutation opportunities are likely.

The Group also has access to a £2m overdraft facility (currently undrawn) with Clydesdale Bank, with which it has its main £30m credit facility. Any commitment of Group funds (in addition to budgeted amounts) or an increase in the Group's indebtedness, for investing in the Group's existing

operations or for the acquisition of a legacy insurance asset or service company is considered in the context of available 'free' cash flow and any available surplus balances in the owned insurance companies.

The Group takes a very conservative approach to the forecasting of cash extractions from the IID and to the payback from any investment or service company related acquisition.

Capital Management

Growth within the Group may be constrained by the availability of capital. As part of the yearly budget process, the Directors work together with the finance team to consider any requirements for capital to expand the Group's existing operations and to fund the likely acquisition pipeline of legacy insurance assets. This is also monitored on an ongoing basis. The visibility of pipeline acquisitions is however limited and the ability to complete transactions on the terms desired uncertain.

The Group has traditionally funded acquisitions through drawing down on its main Group credit facility and using 'free' available Group cash balances. The c.£17m of primary funds raised on the Group's IPO on the London Stock Exchange's AIM during late 2007 was used to repay the Group's external debt at that time and enabled the Group to enter into a new £30m credit facility with RBS. During late 2011, this £30m credit facility was refinanced with the Clydesdale bank with a new 5 year term. The amount drawn down under this facility at the end of 2011 was £23.2m. The Group continues and expects to continue to meet all covenant tests in relation to its credit facility but the ability to draw down the full remaining amount under the facility is dependent on being able to demonstrate that any target acquisition can generate a certain increase in EBITDA. The Group is therefore pursuing asset based financing initiatives in parallel to increase its access to leverage, especially for the acquisition of insurance receivables and portfolios with short run-off profiles.

The majority of the Group's insurance entities are subject to external risk based or minimum capital requirements. The Directors have overall responsibility for managing the Group's overall capital base and for maintaining sufficient capital within the Group's insurance entities to satisfy external regulatory requirements. The Group receives timely information regarding the levels of capital each entity is required to hold and the prevailing surpluses, which facilitates the Group's active capital management strategy. The Directors have complied with external regulation throughout the period, except in the case of Transport Insurance Company, which as explained in the Business Review above, we are liaising with the Ohio Department of Insurance over our plans to restore its regulatory capital position. The Group's overall solvency position as at 31 December 2011 was in excess of £7m above the Group Capital Adequacy Requirement.

A number of the Group's non-US subsidiaries have surpluses available for intra-group lending. The Group regularly monitors these surpluses over all existing and proposed solvency legislation. The Group has previously made use of these surpluses for its investing activities and intends to continue to do so provided that the boards of each entity are satisfied that the loans can be repaid and are on sufficiently attractive terms.

Regulatory Risk

A number of the companies in the Group are regulated. Failure to comply with applicable regulations and solvency requirements, including Solvency II, could result in an impediment of business development and/or a variety of sanctions. Of particular importance to the Group is its ability to gain and maintain a sufficiently high Solvency II rating for its Lloyd's managing agency. The Directors are responsible for ensuring that best practice is applied to ensure regulatory compliance.

There is a risk that compliance with the increased regulations faced by a number of the Group's regulated subsidiaries puts an excessive operational and cost burden on the Group.

The Group also faces the risk of a potential onerous Group solvency test under the proposed Solvency II legislation. Should the logical derogations not be granted by the host regulator in relation to the inclusion of the Group's US subsidiaries in any Group Solvency calculation, the Group may be deemed to be insufficiently capitalised. As a result, the Group is looking at ways to mitigate this risk through a potential restructuring and redomicile.

Business Growth and Integration Risk

The Group's operations have grown significantly in recent years both organically and through acquisition. Where growth occurs without requisite management controls in place there is an increased risk that business objectives may not be aligned, new business targets not met and costs not adequately managed. The Directors seek to mitigate this risk through detailed budgeting, a regular flow of management information, including the preparation and analysis of monthly management accounts, and regular communication within the divisions. In addition to the operation of divisional executive committees, the Group has recently established intermediate holding companies, on which at least two Executive Board members sit to review management information. The Group also has a twice monthly Executive Committee (comprising of the Executive Board members and main divisional Heads) to which full operational and financial updates are given across the Group's activities.

The management of the Group's various overseas operations presents additional challenges given the physical distance to the Group's executive management and the different business and regulatory contexts. The Directors seek to mitigate this risk through frequent communication and regular visits to the Group's operations in the US by the Group's CEO and COO especially. The Head of Captives performs a similar role in relation to the Group's Bermudian and European operations.

Report of the Directors

For the year ended 31 December 2011

Failure to Deliver Strategic Objectives

All operations within the Group are expected to work together to meet strategic divisional and Group objectives. Where there is a lack of understanding, cooperation or potentially even conflict across divisions, there is a risk that these objectives will not be met. The Directors seek to mitigate this risk through regular reporting in the various divisional and Group committees outlined above and through a clearly communicated strategy disseminated across the Group. The group's PR representatives also help ensure that the full breadth of the business is understood both internally and externally.

Key Man Dependency

Appropriate succession planning arrangements are considered by the Directors to ensure that business operations are not disrupted by the loss of key staff. The Group has developed strength and depth across its management structures and believes its Human Resource policies are appropriate to retain such staff and recruit any appropriately skilled people required. However, the Group's reputation and standing is still significantly linked to the involvement of its founding directors, Ken Randall and Alan Quilter. A significant amount of knowledge, especially with regard to the terms of acquisition and detail of certain of the insurance company subsidiaries also lies with Ken Randall especially and is not easily replaceable.

The Group has however developed strength and breadth across its management structures and believes its Human Resources policies are appropriate to retain such staff and recruit any appropriately skilled people required.

Reliance on Group I.T. and Communications

The Group may be unable to operate efficiently or in a timely manner in the event of a partial or complete failure of the IT infrastructure and/or telephone systems. This is particularly important for the Group's live underwriting operations. The Group is currently reviewing whether the robustness and performance of its IT and telephone systems is adequate and whether an outsourced support service model might bring advantages in terms of cost and efficiency. The Group has also recently recruited a Business Continuity manager to ensure the Group is adequately geared up to deal with potential business disruption.

Litigation Risk

The extent and complexity of the legal and regulatory environment in which the Group operates and the products and services the Group offers, mean that many aspects of the business involve substantial risks of liability. Any litigation brought against the Group in the future could have a material adverse effect on the Group and litigation brought against specific Group Insurance Companies may have a material adverse effect on those specific companies. The Group's insurance and/or the insurances of specific companies within the Insurance Investments Division may not necessarily cover any of the claims that policyholders, clients or others may bring against the Group or specific company, or may not be adequate to protect them against all the liability that may be imposed.

In addition, litigation may have a material adverse effect upon the Group's business in that legal decisions between third parties may expand the apparent scope of legal liabilities, which in turn could increase the amount of claims which have to be paid by the Group, thereby reducing profits.

The Group's owned insurance companies are also exposed to potential tort claims including claims for punitive or exemplary damages that could have a materially adverse effect on profitability.

The Group is pursuing litigation against third parties and is subject to litigation by third parties in the normal course of business. The probable outcome of all such litigation is taken into account in compiling the Group's liabilities. However, if the outcome or costs (including potential accrued interest costs) of such litigation is incorrectly estimated, the Group's results could be negatively affected.

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 3, the Company and its other subsidiaries bear no financial responsibility for any liabilities or obligations of individual insurance companies. Should any of the insurance companies cease to be able to continue as a going concern, any loss to the Parent company and its other subsidiaries is restricted to the book value of their investment in that individual insurance company and any intra group balances due by them.

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 potentially exposed to currency risk in respect of liabilities generated through regular trading activity which are 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. However, in certain asset classes, much better priced investment opportunities exist in Sterling and Euros rather than US Dollar denominated investments due to an aversion to non-US risk by US investors following the recent credit crisis. In certain of the Group's insurance company portfolios we have therefore put in place rolling foreign exchange hedges to mitigate any FX mismatch between the investments held and the underlying liabilities, rather than directly hold assets and liabilities in the same currency.

Reliance on Investment Income

The Group's accounting policy in its consolidated financial statements, in relation to the insurance company subsidiaries is not to discount insurance reserves and only to take a provision for future run-off operating expenses if estimated investment income is insufficient over the Group as a whole to cover future anticipated operating expenses. Each insurance company is modeled in detail to ascertain the quantum of any provision required, taking into account estimated investment returns, average funds held and operating costs over the expected life of the run-off.

The investments held in the insurance company subsidiaries are however subject to market risks, which include interest rate and credit risk, dealt with in detail below. Returns may not therefore meet expectations or losses may materialise. To mitigate these risks the Group has an Investment Committee, formed of all the Executive Directors and one of the Non-Executive Directors which advises the boards of the insurance companies on asset allocation and manager selection. The Investment Committee is also assisted by an independent investment advisor. Timely and accurate performance information is regularly made available to both the Group Investment Committee and insurance company boards to assist active management, which the Group believes is vital in this prolonged period of low interest rates and economic uncertainty.

The level of funds held in the insurance company subsidiaries may also decrease faster than anticipated due to accelerated claims payments and this may have an impact on the sufficiency of investment income to meet operating expenses, provided the latter does not reduce proportionately.

Interest rate/Credit risk

The Group's main exposure to fluctuation in interest rates arises in its effect on the value of funds invested in bonds. In order to mitigate this risk, the Group investment committee and insurance company boards, 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. Recently, for example, the Group has switched into a number of floating rate securities to protect against likely interest rate rises. The Group is also exposed to credit risk through holding corporate bonds, mortgage backed securities and loans, depending on actual default rate and/or changes in the perceived default rates, which may fluctuate over time. The Group is therefore exposed to absolute loss and mark to market movements in the valuations of these securities. In order to mitigate this risk the vast majority of securities held by the Group are investment grade and credit spread duration is kept low.

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 money market funds or 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.

The cash position of each subsidiary is monitored weekly to ensure that sufficient funds are available to meet liabilities as they fall due.

Reserving/Actuarial Risk

Failure to adopt the correct reserving techniques exposes the Group to reserving risk and may present liquidity issues. The Directors actively manage this risk through the appointment of both internal and external actuaries to perform all reserve calculations.

Litigation Risk

This risk as it relates to the insurance companies is dealt with above under Group Risks.

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 the companies' exposures 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 by up to five years. Failure to retain key clients on renewal will have an adverse impact on income. The Group enjoys a diverse client base with no single contract accounting for more than 10% of service income.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when 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.

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 £559 (2010: £20) for charitable purposes.

Employee Involvement

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

Employment of Disabled Persons

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

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.

Events after the reporting period end

Events after the reporting period end are disclosed in note 34 to the Consolidated Financial Statements.

Purchase of own shares

The Group acquired a number of its own ordinary shares in the year. Details of this are disclosed in note 24 to the Consolidated Financial Statements.

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

24 April 2012

Statement of Directors' Responsibilities

For the year ended 31 December 2011

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 United Kingdom Generally Accepted Accounting Practice.

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 IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements; and
- 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.

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 2011

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 2011 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's loss 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 2011

Emphasis of matter to the Consolidated Financial Statements - 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.

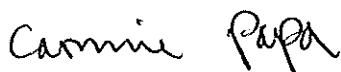
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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



Carmine Papa (Senior Statutory Auditor)

Littlejohn LLP

Statutory Auditor
1 Westferry Circus
Canary Wharf
London
E14 4HD

24 April 2012

Consolidated Income Statement

For the year ended 31 December 2011
Company number 03671097

	Note	2011 £000	2011 £000	2010 £000	2010 £000
Gross premiums written		2,290		948	
Reinsurers' share of gross premiums		(1,080)		(230)	
Net written premiums		1,210		718	
Change in gross provision for unearned premiums		(871)		-	
Change in provision for unearned premiums, reinsurers' share		-		-	
Net change in provision for unearned premiums		(871)		-	
Earned premium, net of reinsurance			339		718
Net investment income	6	6,358		8,530	
Other income	7	30,096		23,570	
			36,454		32,100
Total income			36,793		32,818
Gross claims paid		(80,777)		(43,863)	
Reinsurers' share of gross claims paid		51,278		30,048	
Claims paid, net of reinsurance		(29,499)		(13,815)	
Movement in gross technical provisions		94,000		61,898	
Movement in reinsurers' share of technical provisions		(51,135)		(38,626)	
Net change in provisions for claims		42,865		23,272	
Net insurance provisions released			13,366		9,457
Operating expenses	8		(42,308)		(36,095)
Result of operating activities before goodwill on bargain purchase			7,851		6,180
Goodwill on bargain purchase	32		1,541		1,701
Impairment of intangible assets			(13,458)		-
Result of operating activities before finance costs			(4,066)		7,881
Finance costs	9		(591)		(358)
(Loss)/Profit on ordinary activities before income taxes	10		(4,657)		7,523
Income tax credit/(charge)	11		4,169		(1,150)
(Loss)/Profit for the year			(488)		6,373
Attributable to equity holders of the parent					
Attributable to ordinary shareholders			(488)		6,559
Non-controlling interests			-		(186)
			(488)		6,373
Earnings per ordinary share for the (loss)/profit attributable to the ordinary shareholders of the Company:					
Basic	12		(0.9p)		12.2p
Diluted	12		(0.9p)		12.0p

The accounting policies and notes on pages 32 to 74 form part of these Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2011
Company number 03671097

	Note	2011 £000	2010 £000
Assets			
Intangible assets	14	14,510	26,705
Property, plant and equipment	15	1,717	817
Financial instruments			
- Investment properties	16a	1,022	1,042
- Investments (fair value through profit or loss)	16b	198,012	223,258
- Deposits with ceding undertakings		3,766	4,017
Reinsurers' share of insurance liabilities	22	166,745	216,607
Current tax assets	19	2,769	1,394
Deferred tax assets	23	5,358	2,707
Insurance and other receivables	17	76,198	43,528
Cash and cash equivalents	18	37,183	60,109
Total assets		507,280	580,184
Liabilities			
Insurance contract provisions	22	362,229	440,095
Financial liabilities			
- Amounts owed to credit institutions	21	23,224	19,627
- Deposits received from reinsurers		2,291	2,736
Deferred tax liabilities	23	470	840
Insurance and other payables	20	43,392	34,976
Current tax liabilities		601	2,525
Pension scheme obligations	28	2,641	-
Total liabilities		434,848	500,799
Equity			
Share capital	24	1,118	1,135
Shares to be issued	25	254	250
Share premium account	25	12,096	16,029
Capital redemption reserve	25	1,636	1,614
Treasury share reserve	25	(704)	(1,334)
Retained earnings	25	58,032	61,855
Attributable to equity holders of the parent		72,432	79,549
Non-controlling interest in subsidiary undertakings		-	(164)
Total equity		72,432	79,385
Total liabilities and equity		507,280	580,184

The Financial Statements were approved by the Board of Directors on 24 April 2012 and were signed on its behalf by:-

K E Randall **T A Booth**

The accounting policies and notes on pages 32 to 74 form part of these Financial Statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 £000	2010 £000
Cash flows from operating activities			
(Loss)/Profit before income taxes		(4,657)	7,523
Finance costs		591	358
Depreciation		513	232
Share based payments	27	51	83
Goodwill on bargain purchase		(1,541)	(1,701)
Impairment of intangible assets		13,458	-
Fair value loss/(gain) on financial assets		679	(950)
Gain on net assets of pension schemes		(157)	(115)
Increase in receivables		(20,011)	(9,216)
Decrease/(increase) in deposits with ceding undertakings		251	(37)
Increase/(decrease) in payables		5,188	(4,150)
Decrease in net insurance technical provisions		(42,865)	(23,272)
		(48,500)	(31,245)
Sale of financial assets		40,063	38,638
Purchase of financial assets		(3,568)	(1,344)
Cash (used in)/generated from operations		(12,005)	6,049
Income taxes paid		(739)	(273)
Net cash (used in)/generated from operating activities		(12,744)	5,776
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,405)	(452)
Acquisition of subsidiary undertakings (net of cash acquired)		(2,379)	2,735
Cash injection by minority interest in subsidiary		-	25
Net cash (used in)/generated from investing activities		(3,784)	2,308
Cash flows from financing activities			
Repayment of borrowings		(23,362)	(2,800)
New borrowing arrangements		26,940	12,468
Equity dividends paid	13	(1,172)	(2,652)
Interest and other finance costs paid		(591)	(358)
Receipts from issue of shares		33	318
Cancellation of C and E shares	13	(2,816)	(1,286)
Payment to purchase own shares	24	(6,166)	(983)
Sale of treasury shares		686	-
Net cash (to)/from financing activities		(6,448)	4,707
Net (decrease)/increase in cash and cash equivalents		(22,976)	12,791
Cash and cash equivalents at beginning of year		60,109	46,809
Foreign exchange movement on cash and cash equivalents		50	509
Cash and cash equivalents at end of year	18	37,183	60,109

The accounting policies and notes on pages 32 to 74 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 £000	2010 £000
Other Comprehensive Income:-			
Other Comprehensive Income:-			
Exchange (losses)/gains on consolidation		(31)	414
Pension scheme actuarial losses		(2,851)	(160)
Deferred tax on pension scheme actuarial losses		713	45
Other comprehensive income		(2,169)	299
(Loss)/Profit for the year		(488)	6,373
Total comprehensive income for the year		(2,657)	6,672
Attributable to:-			
Equity holders of the parent	25	(2,657)	6,858
Non-controlling interests		-	(186)
Total recognised in the year		(2,657)	6,672

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
Attributable to equity holders of the parent

	Share capital	Shares to be issued	Share premium	Capital redemption reserve	Treasury shares	Retained profit	Total	Non-controlling interest	Total
Year ended 31 December 2011									
At beginning of year	1,135	250	16,029	1,614	(1,334)	61,855	79,549	(164)	79,385
Total comprehensive income for the year									
(Loss)/Profit for the year	-	-	-	-	-	(488)	(488)	171	(317)
Other comprehensive income									
Exchange losses on consolidation	-	-	-	-	-	(31)	(31)	(7)	(38)
Pension scheme actuarial losses	-	-	-	-	-	(2,851)	(2,851)	-	(2,851)
Deferred tax on pension scheme actuarial losses	-	-	-	-	-	713	713	-	713
Total other comprehensive income for the year	-	-	-	-	-	(2,169)	(2,169)	(7)	(2,176)
Total comprehensive income for the year	-	-	-	-	-	(2,657)	(2,657)	164	(2,493)
Transactions with owners									
Issues of shares	5	(20)	99	-	-	-	84	-	84
Issue of C-F shares	4,032	-	(4,032)	-	-	-	-	-	-
Redemption of ordinary shares	(22)	-	-	22	-	(1,266)	(1,266)	-	(1,266)
Cancellation of C&E Shares	(2,816)	-	-	-	-	-	(2,816)	-	(2,816)
Cancellation of D&F shares	(1,216)	-	-	-	-	1,216	-	-	-
Share based payments	-	51	-	-	-	-	51	-	51
Treasury shares	-	(27)	-	-	630	56	659	-	659
Dividends	-	-	-	-	-	(1,172)	(1,172)	-	(1,172)
At end of year	1,118	254	12,096	1,636	(704)	58,032	72,432	-	72,432

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

Attributable to equity holders of the parent

	Share capital	Shares to be issued	Share premium	Capital redemption reserve	Treasury shares	Retained profit	Total	Non-controlling interest	Total
Year ended 31 December 2010									
At beginning of year	1,118	254	17,255	-	(1,586)	59,149	76,190	-	76,190
Total comprehensive income for the year									
Profit/(Loss) for the year	-	-	-	-	-	6,559	6,559	(186)	6,373
Other comprehensive income									
Exchange gains on consolidation	-	-	-	-	-	414	414	22	436
Pension scheme actuarial losses	-	-	-	-	-	(160)	(160)	-	(160)
Deferred tax on pension scheme actuarial losses	-	-	-	-	-	45	45	-	45
Total other comprehensive income for the year	-	-	-	-	-	299	299	22	321
Total comprehensive income for the year	-	-	-	-	-	6,858	6,858	(164)	6,694
Transactions with owners									
Issue of shares	17	(87)	388	-	-	-	318	-	318
Issue of B shares	1,614	-	(1,614)	-	-	-	-	-	-
Redemption of B Shares	(1,286)	-	-	1,286	-	(1,286)	(1,286)	-	(1,286)
Cancellation of B shares	(328)	-	-	328	-	-	-	-	-
Share based payments	-	83	-	-	-	-	83	-	83
Treasury shares	-	-	-	-	252	(214)	38	-	38
Dividends	-	-	-	-	-	(2,652)	(2,652)	-	(2,652)
At end of year	1,135	250	16,029	1,614	(1,334)	61,855	79,549	(164)	79,385

The accounting policies and notes on pages 32 to 74 form part of these Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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, continental Europe, United States, Canada and Bermuda as owners and managers of insurance companies and captives in run off, as underwriting managers for active insurers, as participators in Lloyd's syndicates, 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 24 April 2012.

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 – 79.

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

The preparation of the consolidated Financial Statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated Financial Statements and the reported amounts of revenues and expenses during the year (Note 3). Although these estimates are based on management's best knowledge of the amount, event or actions, actual results 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.

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.

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 2011. Other than as stated below the adoption of these standards does not have a material impact on the Group's Financial Statements.

IFRS 7 (amended), 'Financial instruments: disclosures'. The amendments require an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments.

IAS 1 (amended), 'Presentation of financial statements'. IAS 1 is amended to clarify that reconciliation from opening to closing balances is required to be presented in the statement of changes in equity for each component of equity. IAS 1 is also amended to allow the analysis of the individual other comprehensive income line items by component of equity to be presented in the notes.

IAS 32 (amended), 'Financial instruments: presentation'. The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

IFRIC 19,' Extinguishing financial liabilities with equity instruments'. IFRIC 19 deals with measurement of equity instruments issued in a debt for equity swap. It addresses the accounting for such a transaction by the debtor only.

IFRIC 14 (amended), 'Prepayment of a minimum funding requirement'. The amendment to IFRIC 14 removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement (MFR). The amendment results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.

In addition, the following is a list of standards that are in issue but are not effective in 2011, and have not yet been adopted in the EU, together with the effective date of application to the group:

- IAS 12 Amendment: Deferred tax: Recovery of underlying assets (effective 1 January 2012)
- IAS 1 Amendment: Presentation of items of other comprehensive income (effective 1 July 2012)
- IFRS 9: Financial Instruments (effective 1 January 2015)
- IFRS 10: Consolidated financial statements (effective 1 January 2013)
- IFRS 11: Joint arrangements (effective 1 January 2013)
- IFRS 12: Disclosure of interests in other entities (effective 1 January 2013)
- IFRS 13: Fair Value Measurement (effective 1 January 2013)
- IAS 19 Amendment: Defined benefit plans (effective 1 January 2013)
- IAS 32 Amendment: Offsetting financial assets and financial liabilities (effective 1 January 2014)

- IFRS 7: Amendment: Offsetting financial assets and liabilities (effective 1 January 2013).

The Directors are currently assessing the impact of these but it is not practicable to quantify their effect as at the date of publication of these financial statements.

Significant uncertainty in technical provisions

Significant uncertainty exists as to the accuracy of the provisions for claims outstanding and the amounts due from reinsurers established in the insurance company subsidiaries as shown in the Consolidated 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.
- 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 2011 and 2010. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial results of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. Accounting policies (continued)

d. Premiums

Premium and reinsurance premium adjustments are recognised in the year that they arise.

Unearned premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the end of the reporting period, calculated on a time apportionment basis having regard where appropriate, to the incidence of risk.

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 and in the Lloyd's syndicates on which the Group participates 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 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 the quantum 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 is to be held as case reserves or incurred but not reported ("IBNR")

The provisions for claims IBNR have been based on a number of factors including previous experience in claims and settlement patterns, the nature and amount of business written, inflation 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.

Unexpired risks provision

Provisions for unexpired risks are made where the costs of outstanding claims, related expense and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the end of the reporting period. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

Closed years of account

At the end of the third year, the underwriting account of a Lloyd's syndicate is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated costs. Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

Run-off years of account

Where an underwriting year of account of a Lloyd's syndicate is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

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 of the US insurance company subsidiaries have entered into structured settlements whereby their liability has been settled by the purchase of annuities from third party life insurance companies in favour of the claimants. The subsidiary retains the credit risk in the unlikely event that the life insurance company defaults on its obligations to pay the annuity amounts. Provided that the life insurance company continues to meet the annuity obligations, no further liability will fall on the insurance company 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 liabilities 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 engages in business combinations from which it may earn revenues and incur expenses, 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 end of the reporting period; the resulting foreign exchange gain or loss is recognised in the consolidated 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 other comprehensive income and subsequently in the income statement in the year in which the entity is disposed of.

k. Financial instruments

Financial instruments are recognised in the consolidated statement of financial position at such time that the group becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the group's obligations specified in the contract expire, are discharged or cancelled.

Financial assets

i) Acquisition

On acquisition of a financial asset, the group is required to classify the asset into one of the following categories: financial assets at fair value through the income statement, loans and receivables, held to maturity and available for sale. The group does not currently make use of the held to maturity and available for sale classifications.

ii) Financial assets at fair value through income statement

All financial assets, other than cash, loans and receivables are currently designated as fair value through the income statement upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the group's key management. The group's investment strategy is to invest and evaluate their performance with reference to their fair values.

2. Accounting policies (continued)

k. Financial instruments(continued)

iii) Fair value measurement

When available, the group measures the fair value of an instrument using quoted prices in an active market for that instrument.

If a market for a financial instrument is not active, the group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same or discounted cash flow analyses.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the group entity and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the group believes a third-party market participant would take them into account in pricing a transaction.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through the profit or loss are recognised in the income statement when incurred. Financial assets at fair value through the income statement are measured at fair value, and changes therein are recognised in the income statement. Net changes in the fair value of financial assets at fair value through the income statement exclude interest and dividend income, as these items are accounted for separately as set out below.

iv) Insurance receivables and payables

Insurance receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Insurance receivables are classified as 'loans and receivables' as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance receivables are measured at amortised cost less any provision for impairments. Insurance payables are stated at amortised cost.

v) Other receivables

Other receivables principally consist of prepayments, accrued income and sundry debtors and are carried at amortised cost less any impairment losses.

vi) Investment income

Investment income consists of dividends, interest, realised and unrealised gains and losses and foreign exchange gains and losses on financial assets at fair value through the income statement. The realised gains or losses on disposal of an investment are the difference between the proceeds and the original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the reporting date, and the carrying value at the previous period end or purchase value during the period.

Financial liabilities

i) Borrowings

Borrowings are initially recorded at fair value less transaction costs incurred. Subsequently borrowings are stated at amortised cost and interest is recognised in the income statement over the period of the borrowings.

(ii) 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.

Assets and liabilities for insurance companies acquired are included in the Groups balance sheet in accordance with the Groups accounting policies for insurance contracts. Any differences that arise between the amounts included in the Groups Financial Statements and the fair value of those assets and liabilities is regarded as an intangible asset and accounted for in accordance with IFRS 4.

p. Other intangible assets

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

Intangible assets acquired on acquisitions are quantified according to a fair value exercise. The assessment of such intangibles may include consideration of customer contracts and customer relationships.

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

	%
Computer software	20 – 33.3 per annum
On acquisition	Useful life

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.

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. 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.

t. 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 administrating such contracts are projected based on management assessment. Investment income on associated funds is taken into account when calculating the level of provision required.

u. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. Accounting policies (continued)

u. Other income (continued)

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.

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. When interim distributions are received from liquidations, a proportion of the original cost is matched against the receipt. The proportion allocated is based on the estimate of the probable ultimate dividends to be received.

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

Profit commission on managed Lloyd's syndicates

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.

Distribution of profits and collection of losses

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

v. Share based payments

The Group issues equity settled 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.

w. 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, in which case it is recognised respectively in other comprehensive income.

Deferred tax liabilities are provided in full, using the 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 substantively enacted and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

x. 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. In addition, the cost of purchasing shares through court authorised buyback is deducted from the share premium account.

y. 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' equity 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' equity 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.

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

Asbestos, pollution and health hazard claims

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

Insurance run-off expenses

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

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

Reinsurance recoveries

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

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

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

Defined benefit pension scheme

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

3. Estimation techniques, uncertainties and contingencies (continued)

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 the Euro 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. A full detail of how the Group manages risks is detailed in the Report of the Directors, including how the Group manages its capital risk.

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

a. Investment risks (including market risk and interest rate 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 them with the recommendations and advice of the Group investment committee. The investment strategy strives to mitigate the impact 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:-

	2011 £m	2010 £m
Government and government agencies	62.2	106.0
Corporate bonds	112.0	107.9
Equities	7.2	2.7
Cash based investment funds	16.6	6.7
Cash and cash equivalents	37.2	60.1
	235.2	283.4
	%	%
Government and government agencies	26.4	37.4
Corporate bonds	47.6	38.0
Equities	3.1	1.0
Cash based investment funds	7.1	2.4
Cash and cash equivalents	15.8	21.2
	100.0	100.0

Corporate bonds include asset backed mortgage obligations totalling £29.5m (2010: £6.5m)

Based on invested assets at external managers of £198.0m as at 31 December 2011 (2010: £223.3m) a 1 percentage increase/decrease in market price would result in an increase/decrease in the profit before income taxes for the year to 31 December 2011 of £2.0m (2010: £2.2m).

In excess of 97% (2010: 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 requirement to analyse them further in this regard.

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

As at 31 December 2011

Maturity date or contractual re-pricing date

	Total £m	Less than one year £m	After one year but less than two years £m	After two years but less than three years £m	After three years but less than five years £m	More than five years £m
Fixed rate	190.8	24.1	9.8	23.1	78.4	55.4

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	0.5%-7%	1.375% - 6.5%	1%-8.5%	0.273% - 9.875%	0.594% - 9.85%

As at 31 December 2010

Maturity date or contractual re-pricing date

£m	Total £m	Less than one year £m	After one year but less than two years £m	After two years but less than three years £m	After three years but less than five years £m	More than five years
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

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 2011

	A rated £000	B rated £000	Less than B £000	Other * £000	Exposures of less than £0.2m £000	Total £000
Deposits with ceding undertakings	824	-	-	253	2,689	3,766
Reinsurers' share of insurance liabilities	94,106	7,634	399	43,205	21,401	166,745
Receivables arising out of reinsurance contracts	16,228	1,763	-	13,541	13,730	45,262

* 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	51.9%	15.6%	11.4%	21.1%

A substantial section of the Group's business consists of acquiring debts or, companies with debts, which are normally past due. Any further analysis of these debts is not meaningful. 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 £000	B rated £000	Less than B £000	Other * £000	Exposures of less than £0.2m £000	Total £000
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. Any further analysis of these debts is not meaningful. 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.

c. Currency risk

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

The Group's principal transactions are carried out in UK sterling and its exposure to foreign exchange risk arise primarily with respect to US dollar and Euros.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities. This mitigates the foreign currency exchange rate risk for the overseas operations. Thus, the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment contract liabilities are expected to be settled. The currency risk is effectively managed by the Group through derivative financial instruments. Forward currency contracts are in place to eliminate the currency exposure on individual foreign transactions. The Group will not enter into these forward contracts until a firm commitment is in place.

The table below summarises the Group's principal assets and liabilities by major currencies:-

31 December 2011	GBP £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Intangible assets	8,982	5,528	-		14,510
Reinsurance assets	(4,404)	171,000	149	-	166,745
Financial investments	36,568	148,999	16,743	490	202,800
Insurance receivables	8,898	36,808	1,051	-	46,757
Cash and cash equivalents	16,369	14,630	5,617	567	37,183
Insurance liabilities including provisions	(32,836)	(338,915)	(15,590)	-	(387,341)
Other provisions	(2,794)	(317)	-	-	(3,111)
Trade and other payables	15,470	(11,082)	(12,028)	(2,371)	(10,011)

31 December 2010	GBP £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Intangible assets	7,941	18,764	-	-	26,705
Reinsurance assets	5,066	211,039	502	-	216,607
Financial investments	19,467	186,733	21,622	494	228,316
Insurance receivables	6,575	17,992	997	(410)	25,154
Cash and cash equivalents	22,004	35,649	2,229	227	60,109
Insurance liabilities including provisions	(23,624)	(409,168)	(21,136)	-	(453,928)
Other provisions	(2)	(838)	-	-	(840)
Trade and other payables	2,984	(15,396)	(8,776)	(1,386)	(22,574)

4. Risk management (continued)

c. Currency risk (continued)

The analysis that follows is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency sensitive monetary assets and liabilities including insurance contract claim liabilities. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non–linear.

		31 December 2011		31 December 2010	
Currency	Changes in variables	Impact on profit £'000	Impact on equity* £'000	Impact on profit £'000	Impact on equity* £'000
Euro	+10%	2	369	(123)	415
USD	+10%	89	(2,209)	1	(4,070)
Euro	-10%	(2)	(451)	149	(507)
USD	-10%	(110)	2,700	(2)	4,975

* Impact on equity reflects adjustments for tax, when applicable.

d. 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
R&Q Insurance Guernsey Limited	2009	9 June 2009
Goldstreet Insurance Company	1987	14 December 2009
La Licorne Compagnie de Reassurances SA	1991	22 April 2010
Principle Insurance Company Limited	2009	29 December 2011

However the Group has an 8.33% participation on live Syndicate 1897.

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 2006.

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

	Group entities at 1 January 2006 £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	Entities acquired by the Group during 2011 £000
Gross provisions at:-					
1 January 2006/acquisition	105,173	499,383	8,149	6,655	16,598
First year movement	(14,580)	(46,472)	(1,752)	(806)	(4,319)
Second year movement	(5,056)	(72,066)	(2,484)	(3,273)	-
Third year movement	25,035	79,773	(1,386)	-	-
Fourth year movement	(17,611)	(79,976)	-	-	-
Fifth year movement	(4,607)	(38,664)	-	-	-
Sixth year movement	(20,883)	(64,602)	-	-	-
Gross position at 31 December 2011	67,471	277,376	2,527	2,576	12,279
Estimated gross ultimate claims at:-					
1 January 2006/acquisition	105,173	499,383	8,149	6,655	16,598
Foreign exchange	8,820	78,072	128	58	876
Payments	(49,092)	(256,152)	(3,931)	(2,807)	(2,416)
Gross position at 31 December 2011	(67,471)	(277,376)	(2,527)	(2,576)	(12,279)
(Deficit)/surplus to date	(2,570)	43,927	1,819	1,330	2,779

	Group entities at 1 January 2006 £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	Entities acquired by the Group during 2011 £000
Net provisions at:-					
1 January 2006/acquisition	7,894	276,958	7,994	6,436	12,497
First year movement	(4,530)	(23,490)	(1,757)	(786)	(2,659)
Second year movement	(31)	(30,099)	(2,490)	(3,074)	-
Third year movement	5,915	40,924	(1,386)	-	-
Fourth year movement	910	(48,142)	-	-	-
Fifth year movement	86	(12,303)	-	-	-
Sixth year movement	3,346	(36,729)	-	-	-
Net position at 31 December 2011	13,590	167,119	2,361	2,576	9,838
Estimated net ultimate claims at:-					
1 January 2006/acquisition	7,894	276,958	7,994	6,436	12,497
Foreign exchange	4,629	43,466	116	52	879
Payments	(1,170)	(119,351)	(3,578)	(2,730)	(1,704)
Net position at 31 December 2011	(13,590)	(167,119)	(2,361)	(2,576)	(9,838)
(Deficit)/surplus to date	(2,237)	33,954	2,171	1,182	1,834

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 and insurance debt and provides capital support to the Group's managed Lloyd's Syndicates
- Insurance Services, which provides insurance related services to both internal and external clients in the insurance market
- Captives, which manages captive operations
- Underwriting Management, which provides management to Lloyd's syndicates and operates other underwriting entities
- Other corporate activities, which primarily includes the Group holding company and other minor subsidiaries which fall outside of the segments above

Segment result for the year ended 31 December 2011

	Insurance Investments £000	Insurance Services £000	Captives £000	Underwriting Management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	339	-	-	-	-	-	339
Net investment income	6,306	1,058	22	34	621	(1,683)	6,358
External income	803	20,593	4,301	4,399	-	-	30,096
Internal income	-	13,597	397	958	-	(14,952)	-
Total income	**7,448**	**35,248**	**4,720**	**5,391**	**621**	**(16,635)**	**36,793**
Claims paid, net of reinsurance	(29,499)	-	-	-	-	-	(29,499)
Net change in provision for claims	42,865	-	-	-	-	-	42,865
Net insurance claims released	**13,366**	**-**	**-**	**-**	**-**	**-**	**13,366**
Operating expenses	(14,038)	(29,602)	(4,443)	(6,504)	(2,673)	14,952	(42,308)
Result of operating activities before goodwill on bargain purchase	**6,776**	**5,646**	**277**	**(1,113)**	**(2,052)**	**(1,683)**	**7,851**
Goodwill on bargain purchase	1,541	-	-	-	-	-	1,541
Impairment of intangible assets	(13,286)	-	(172)	-	-	-	(13,458)
Result of operating activities	**(4,969)**	**5,646**	**105**	**(1,113)**	**(2,052)**	**(1,683)**	**(4,066)**
Finance costs	(262)	(353)	(58)	(56)	(1,545)	1,683	(591)
Management charges	-	(1,408)	(139)	-	1,547	-	-
(Loss)/Profit on ordinary activities before income taxes	**(5,231)**	**3,885**	**(92)**	**(1,169)**	**(2,050)**	**-**	**(4,657)**
Income tax credit/(charge)	3,666	(304)	146	(23)	684	-	4,169
(Loss)/Profit for the year	**(1,565)**	**3,581**	**54**	**(1,192)**	**(1,366)**	**-**	**(488)**
Segment assets	**503,902**	**89,560**	**18,863**	**7,675**	**(4,617)**	**(108,103)**	**507,280**
Segment liabilities	**408,061**	**75,913**	**13,013**	**8,707**	**48,096**	**(118,942)**	**434,848**

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.

No income from any one client included within the external income generated more than 10% of the total external income.

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 year	**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 are amounts of £5.2m and £3.1m from two clients, each of which generated more than 10% of the total external income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. Segmental information (continued)

Geographical analysis

As at 31 December 2011

	UK £000	North America £000	Europe £000	Total £000
Gross assets	254,944	350,413	20,865	626,222
Intercompany eliminations	(74,913)	(32,545)	(11,484)	(118,942)
Segment assets	180,031	317,868	9,381	507,280
Gross liabilities	215,591	323,341	14,839	553,771
Intercompany eliminations	(84,615)	(33,850)	(458)	(118,923)
Segment liabilities	130,976	289,491	14,381	434,848
Segment income	23,392	12,767	634	36,793

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	164,416	401,645	14,123	580,184
Gross liabilities	158,216	367,715	20,452	546,383
Intercompany eliminations	(32,109)	(13,001)	(474)	(45,584)
Segment liabilities	126,107	354,714	19,978	500,799
Segment income	23,371	8,280	1,167	32,818

Other information

As at 31 December 2011

	Insurance companies in run-off	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Capital expenditure	-	1,405	-	-	1,405
Depreciation	-	513	-	-	513

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

6. Net investment income

	2011 £000	2010 £000
Investment income	7,442	8,119
Realised gains on financial assets	690	2,531
Unrealised losses on financial assets	(1,369)	(1,586)
Investment management expenses	(405)	(534)
	6,358	8,530

7. Other income

	2011 £000	2010 £000
Administration of third party insurance clients	28,878	23,098
Expected return on pension scheme assets	1,576	1,512
Interest cost on pension scheme liabilities	(1,366)	(1,352)
Purchased reinsurance receivables (including debt collection fees)	1,008	312
	30,096	23,570

8. Operating expenses

	2011 £000	2010 £000
Costs of insurance company subsidiaries	5,186	5,194
Other operating expenses	37,122	30,901
	42,308	36,095

The costs of insurance company subsidiaries exclude group charges.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

9. Finance costs

	2011 £000	2010 £000
Bank loan, overdraft interest and arrangement fees	591	358

10. (Loss)/Profit on ordinary activities before income taxes

	2011 £000	2010 £000
(Loss)/Profit on ordinary activities before taxation is stated after charging/(crediting):-		
Employee benefits (Note 27)	25,475	19,568
Depreciation of fixed assets	513	232
Acquisition costs (including aborted)	93	1,307
Amortisation of pre contract costs	110	166
Impairment of goodwill	13,458	-
Operating lease rental expenditure	900	590
Operating lease rental income	(40)	(225)

Auditor Remuneration

	2011	2010
Fees payable to the Company's auditor for the audit of the annual accounts	105	63
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	318	236
Other auditors	190	330
	508	566
Other services under legislative requirements	103	70
Services relating to corporate finance transactions		
Pre-acquisition due diligence and advice	48	5
All other services		
Non-regulatory reporting on internal controls and corporate governance matters	-	5
Advice on financial and accountancy matters	5	6

11. Income tax

	2011 £000	2010 £000
a. Analysis of charge in the year		
Current tax – continuing operations		
Current year	85	461
Adjustments in respect of previous years	(524)	(5)
Foreign tax	(1,422)	2,257
	(1,861)	2,713
Deferred tax	(2,308)	(1,563)
Income tax (credit)/charge	(4,169)	1,150

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:-

	2011 £000	2010 £000
(Loss)/Profit on ordinary activities before taxation	(4,657)	7,523
(Loss)/Profit on ordinary activities at the standard rate of corporation tax in the UK of 26.49% (2010: 28%)	(1,234)	2,106
Permanent differences	(1,439)	(359)
Capital allowances in excess of depreciation	(32)	(67)
Utilisation of tax losses	(2,326)	(1,152)
Timing differences – pension schemes	(56)	(45)
Other timing differences	1,876	205
Unrelieved losses	52	19
Foreign tax rate differences	(486)	448
Adjustments to the tax charge in respect of prior years	(524)	(5)
Income tax (credit)/charge for the year	(4,169)	1,150

c. Factors that may affect future tax charges

In addition to the recognised deferred tax asset, the Group has other trading losses of approximately £81.8m (2010: £79.8m) in various group companies available to be carried forward against future trading profits of those companies. The recovery of these losses is uncertain and no deferred tax asset has been provided in respect of these losses. Should it become possible to offset these losses against taxable profits in future years the Group tax charge in those years will be reduced accordingly.

12. Loss/Earnings and net assets per share

a. Basic earnings 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. These calculations assume completion of the Court approved cancellation referred to in note 24.

	2011 £000	2010 £000
(Loss)/Profit for the year attributable to ordinary shareholders	(488)	6,559
	No. 000's	**No. 000's**
Shares in issue throughout the year	54,923	54,129
Weighted average number of shares through buy-back	(2,465)	-
Weighted average number of shares issued in the year	476	887
Weighted average number of Treasury shares held	(1,409)	(1,286)
Weighted average number of ordinary shares	51,525	53,730
Basic (loss)/earnings per ordinary share	(0.9p)	12.2p

b. Diluted (loss)/earnings 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.

	2011 £000	2010 £000
(Loss)/Profit for the year attributable to ordinary shareholders	(488)	6,559
	No. 000's	**No. 000's**
Weighted average number of ordinary shares in issue in the year	51,525	53,730
Options	1,015	1,093
	52,540	54,823
Diluted (loss)/earnings per ordinary share	(0.9p)	12.0p

c. Net asset value per share

	2011 £000	2010 £000
Net assets attributable to equity shareholders as at 31 December	65,334	79,549
	No. 000's	**No. 000's**
Ordinary shares in issue as at 31 December	*49,420	54,923
*Reduction due to shares held in treasury		
Net asset value per ordinary share	136.7p	144.8p

13. Distributions

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

	2011 £000	2010 £000
Dividend to ordinary shareholders	-	2,324
Refund of waived dividend	(44)	-
Dividend to B shareholders	-	328
Dividend to D shareholders	714	-
Dividend to F shareholders	502	-
	1,172	2,652
Distribution on redemption of B shares	-	1,286
Distribution on cancellation of C shares	1,737	-
Distribution on cancellation of E shares	1,079	-
Distributions to shareholders	3,988	3,938

14. Intangible assets

	Patents £000	Arising on acquisition £000	Goodwill £000	Software £000	Total £000
As at 1 January 2010	1	-	19,503	10	19,514
Exchange adjustments	-	-	486	-	486
Additions	-	-	6,705	-	6,705
As at 31 December 2010	1	-	26,694	10	26,705
Exchange adjustments	-	(14)	(34)	-	(48)
Additions	-	178	1,133	-	1,311
Impairment	-	-	(13,458)	-	(13,458)
As at 31 December 2011	1	164	14,335	10	14,510

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 2011

14. Intangible assets (continued)

Goodwill acquired through business combinations has 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	2011 £000	2010 £000
Insurance Investments UK ("IID UK")	474	474
Insurance Investments US ("IID US")	-	13,249
Insurance Services UK ("ISD UK")	7,747	7,747
Insurance Services US ("ISD US")	749	759
Captives	5,365	4,465
Total	14,335	26,694

Management consider the 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 2011.

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 carried out, management have identified that full impairment of the carrying amount for this unit should be made. Two factors have significantly impacted on the carrying value for this unit, these being a significant reduction in the assets held in the companies which form part of the unit following significant claims settlements in the year and a reassessment of the projected level of future investment returns.

ISD UK and Captives cash-generating units

The recoverable amount of the ISD UK and Captives cash-generating units 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 £7,747k and £5,365k is allocated respectively.

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% (2010: 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 standards. Cash flows beyond the four-year period are extrapolated using a 10.0% growth rate (2010: 10.0%).

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the IID UK, ISD UK 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.

15. Property, plant and equipment

	Computer equipment £000	Motor vehicles £000	Office equipment £000	Leasehold improvements £000	Total £000
Cost					
As at 1 January 2010	958	-	817	80	1,855
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	1,029	11	1,076	239	2,355
Exchange adjustments	2	-	-	2	4
Acquisition of subsidiaries	8	-	-	-	8
Additions	384	-	1,021	-	1,405
Disposals	(175)	-	(299)	-	(474)
As at 31 December 2011	1,248	11	1,798	241	3,298
Depreciation					
As at 1 January 2010	758	-	612	71	1,441
Exchange adjustments	5	-	1	12	18
Charge for the year	115	1	103	13	232
Disposals	(152)	-	(1)	-	(153)
As at 31 December 2010	726	1	715	96	1,538
Exchange adjustments	1	-	1	2	4
Charge for the year	192	3	285	33	513
Disposals	(175)	-	(299)	-	(474)
As at 31 December 2011	744	4	702	131	1,581
Carrying amount					
As at 31 December 2011	504	7	1,096	110	1,717
As at 31 December 2010	303	10	361	143	817

As at 31 December 2011, the Group had no significant capital commitments (2010: none). The depreciation charge for the year is included in operating expenses.

16. Financial assets and Investment Properties

a. Investment properties

	2011 £000	2010 £000
As at 31 December	1,022	1,042

The reduction in the valuation of these properties is due to foreign exchange movements of £20,000 (2010: £53,000); the change in market value was nil (2010: £10,000).

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

	2011 £000	2010 £000
Equities	7,241	2,717
Debt securities – fixed interest rate	190,771	220,541
	198,012	223,258

In the normal course of business insurance company subsidiaries have deposited investments in 2011 of £5.6m (2010: £8.4m) 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 £5.5m (2010 - £4.8m) deposited with the Corporation of Lloyd's to support the Group's underwriting activities at Lloyd's in 2012. 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.

c. *Shares in subsidiary undertakings and other investments*

The Company has interests in the following principal subsidiaries at 31 December 2011, which, except where indicated, are registered in England and Wales:-

Principal activity and name of subsidiaries	*Country of incorporation /registration*	*% of ordinary shares held by:* The Company	*Subsidiary undertakings*	*Overall effective % of share capital held*
Insurance Investments Division				
Randall & Quilter II Holdings Limited	England	100	-	100
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	England	-	100	100
R&Q Capital No 1 Ltd	England	-	100	100
La Licorne Compagnie de Reassurances SA	France	-	100	100
R&Q Re (Bermuda) Ltd	Bermuda	-	100	100
Chevanstell Management Ltd	England	-	100	100
Principle Insurance Company Limited	England	100	-	100
Insurance Services Division				
Randall & Quilter IS Holdings Limited	England	100	-	100
R&Q Insurance Services Ltd	England	-	100	100
KMS Insurance Management Ltd	England	-	100	100
R&Q Audit & Inspection Ltd	England	-	100	100
R&Q Archive Services Limited	England	-	100	100
R&Q Broking Services Ltd	England	-	100	100
JMD Specialist Insurance Services Group Ltd	England	-	100	100
JMD Specialist Insurance Services Ltd	England	-	100	100
Callidus Group Ltd	England	-	100	100
Callidus Secretaries Ltd	England	-	100	100
Callidus Solutions Ltd	England	-	100	100
R&Q Consultants Ltd	England	-	100	100
ReQuiem Ltd	England	-	100	100
Reinsurance Solutions Ltd	England	-	100	100
Randall & Quilter America Holdings Inc	USA	100	-	100
R&Q Services Holding Inc	USA	-	100	100
ReQuiem America Inc	USA	-	100	100
Syndicated Services Company Inc	USA	-	100	100
John Heath & Company Inc	USA	-	100	100
Excess and Treaty Management Corp	USA	-	100	100
R&Q USA Inc	USA	-	100	100
R&Q Reinsurance Solutions LLC	USA	-	100	100
RSI Solutions International Inc	USA	-	100	100
R&Q Quest Management Services LLC	USA	-	100	100
Randall & Quilter Canada Holdings Ltd	Canada	100	-	100
A. M. Associates Insurance Services Ltd	Canada	-	100	100

16. Financial assets (continued)

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

Principal activity and name of subsidiaries	*Country of incorporation / /registration*	*% of ordinary shares held by: The Company*	*Subsidiary undertakings*	*Overall effective % of share capital held*
Captives				
Randall & Quilter Captive Holdings Limited	England	100	-	100
Randall & Quilter Bermuda Holdings Ltd	Bermuda	-	100	100
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
Randall & Quilter Nordic Holdings APS	Denmark	100	-	100
Triton Insurance Management AS	Denmark	-	100	100
Triton Management AS	Norway	-	100	100
Triton Claims Management AS	Norway	-	46	46
Caledonian Insurance Management Services Ltd	Gibraltar	-	100	100
Caledonian Insurance Brokers Ltd	Gibraltar	-	75	75
R&Q Jersey PCC	Jersey	100	-	100
Underwriting Management				
Randall & Quilter Underwriting Management Holdings Limited	England	100	-	100
R&Q Managing Agency Ltd	England	-	100	100
R&Q MGA Ltd	England	-	100	100
R&Q Risk Services Canada Limited	Canada	-	100	100
R&Q Commercial Risk Services Limited	England	-	100	100
R&Q Just Underwriting Group Limited	England	-	100	100
Altus Management Partners LLP	England	-	100	100
R&Q Marine Services Limited	England	-	80	80
KMS Insurance Services Ltd	England	-	100	100
KMS Employment Ltd	England	-	100	100
Others				
EC3 Solutions Ltd	England	100	-	100
R&Q Secretaries Ltd	England	100	-	100
Ken Randall Associates Ltd	England	100	-	100
R&Q No. 1 Ltd	England	100	-	100
Malling Investments Ltd	England	-	100	100
Oast Holdings Ltd	England	100	-	100
Ludgate No. 1 Ltd	England	-	100	100

17. Other receivables, including insurance receivables

	2011 £000	2010 £000
Debtors arising from direct insurance operations	1,494	-
Debtors arising from reinsurance operations	45,262	25,154
Insurance receivables	46,756	25,154
Trade debtors	2,693	3,512
Other debtors/receivables	9,519	2,442
Purchased reinsurance receivables	8,144	1,821
Prepayments and accrued income	9,086	10,599
	76,198	18,374
	76,198	43,528
Due within 12 months	76,198	43,528
Due after 12 months	-	-
	76,198	43,528

Included in other debtors/receivables is an amount of £600,000 (2010: £500,000) is held in escrow in respect of the defined benefit scheme.

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

18. Cash and cash equivalents

	2011 £000	2010 £000
Cash at bank and in hand	37,183	60,109

Included in cash and cash equivalents is £471,550 (2010: £484,778) being funds held in escrow accounts in respect of guarantees provided to the Institute of London Underwriters ("ILU"). The decrease 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.

Included in above are clients funds held amounting to £10,369,000 (2010: £nil) which are not available to meet the Group's operating requirements.

19. Current income tax

	2011 £000	2010 £000
Current tax assets	2,769	1,394

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

20. Trade and other payables

	2011 £000	2010 £000
Structured liabilities	370,340	369,310
Structured settlements	(370,340)	(369,310)
	-	-
Creditors arising from reinsurance operations	18,469	8,428
Creditors arising from direct insurance operations	4,351	2,668
Insurance payables	22,820	11,096
Trade creditors	2,489	2,463
Other taxation and social security	738	694
Other creditors	13,775	15,937
Accruals and deferred income	3,570	4,786
Due within 12 months	43,392	34,976

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 paid for 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 subsidiary retains the credit risk in the unlikely event that the life insurance company defaults on its obligations to pay the annuity amounts. 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. These have been shown as reducing the insurance companies liabilities 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 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 2011 amount to £59,097,000 (2010: £47,930,000).

21. Financial liabilities

	2011 £000	2010 £000
Amounts owed to credit institutions	23,224	19,627

Amounts due to credit institutions are payable as follows:-

	2011 £000	2010 £000
Less than one year	2,000	3,409
Between one to five years	21,224	16,218
	23,224	19,627

As outlined in Note 33 the amounts owed to credit institutions are secured by debentures over the assets of the Company and various of its subsidiaries.

22. Insurance contract provisions and reinsurance balances

Gross	2011 £000	2010 £000
Claims outstanding at 1 January	440,095	480,616
Claims paid	(80,777)	(43,863)
Increase in provisions arising from the acquisition of subsidiary undertakings and syndicate participations	16,599	6,040
Release of provisions	(13,223)	(18,035)
Net exchange differences	(465)	15,337
As at 31 December	362,229	440,095

Reinsurance	2011 £000	2010 £000
Reinsurers share of claims outstanding at 1 January	216,607	247,456
Reinsurers share of gross claims paid	(51,278)	(30,048)
Increase in provisions arising from the acquisition of subsidiary undertakings and syndicate participations	4,102	219
Strengthening/(release) of provisions	143	(8,578)
Net exchange differences	(2,829)	7,558
As at 31 December	166,745	216,607

Net	2011 £000	2010 £000
Net claims outstanding at 1 January	223,488	233,160
Net claims paid	(29,499)	(13,815)
Increase in provisions arising from the acquisition of subsidiary undertakings	12,497	5,821
Release of provisions	(13,366)	(9,457)
Net exchange differences	2,364	7,779
As at 31 December	195,485	223,488

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 2011

22.Insurance contract provisions and reinsurance balances (continued)

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.

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 per cent reduction in the net technical provisions would increase net assets by £2.0m (2010: £2.2m).

23. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 25 percent for the UK (2010: 27 percent) and 35 percent for the US (2010: 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 2010	1,346	(1,084)	262
Movement for the year	1,361	244	1,605
As at 31 December 2010	2,707	(840)	1,867
Movement for the year	2,651	370	3,021
As at 31 December 2011	5,358	(470)	4,888

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 2010	167	-	-	95	262
Movement in year	(47)	-	-	1,652	1,605
As at 31 December 2010	120	-	-	1,747	1,867
Movement in year	(28)	273	661	2,115	3,021
As at 31 December 2011	92	273	661	3,862	4,888

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 2010	(3)	-	1,563	45	1,605
Movement in 2011	-	-	2,308	713	3,021

24. Share capital

	2011 £	2010 £
Allotted, called up and fully paid		
54,092,916 Ordinary Shares of 2 6/91p each		
(2010: 54,923,002 Ordinary Shares of 2 6/91p each)	1,117,524	1,134,673
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,117,526	1,134,675

	2011 £	2010 £
Included in:		
Equity		
54,092,916 Ordinary Shares of 2 6/91p each		
(2010: 54,923,002 Ordinary Shares of 2 6/91p each)	1,117,524	1,134,673
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,117,526	1,134,675

During the year the Group paid out £4,900,000 in order to acquire and cancel 3,959,914 ordinary shares. The legal process for this transaction had not been completed at 31 December 2011. Accordingly, the Group intends to go to the Court on 30 May 2012 in order to finalise this process. Pending completion of the Court process in 2012 the £4,900,000 paid out in 2011 is included in other debtors/receivables in Note 17 to these financial statements.

The total number of ordinary shares cancelled during the year and to be cancelled (subject to Court approval) will equal 5,000,000 at a total consideration of £6,166,000.

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.

Shares issued

During the year the Group issued C, D, E and F shares (with an aggregate value of £4,032,000) which were all cancelled.

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 2011 pence	Number of options 2011	Weighted average exercise price 2010 pence	Number of options 2010
Outstanding at 1 January	34.2	1,735,000	42.0	1,704,500
Exercised/Lapsed	16.9	(765,000)	40.0	(814,500)
Granted	53.5	50,000	23.1	845,000
At 31 December	48.1	1,020,000	34.2	1,735,000

The total number of options in issue during the year have given rise to a charge to the income statement of £74,598 (2010: £46,885) 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.

	2011 options	2010 options
Weighted average fair value	56.9 pence	34 pence
Weighted average share price	105 pence	102 pence
Exercise price	48.1 pence	34.2 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%	2.98%

The options outstanding at 31 December 2011 had a weighted average remaining contractual life of 6.2 (2010: 8.1) years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

25. Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent

	Attributable to owners of the parent								
	Share capital	Shares to be issued	Share premium	Capital redemption reserve	Treasury shares	Retained profit	Total	Non-controlling interest	Total
Year ended 31 December 2011									
At beginning of year	1,135	250	16,029	1,614	(1,334)	61,855	79,549	(164)	79,385
Total comprehensive income for the year									
(Loss)/Profit for the year	-	-	-	-	-	(488)	(488)	171	(317)
Other comprehensive income									
Exchange losses on consolidation	-	-	-	-	-	(31)	(31)	(7)	(38)
Pension scheme actuarial losses	-	-	-	-	-	(2,851)	(2,851)	-	(2,851)
Deferred tax on pension scheme actuarial losses	-	-	-	-	-	713	713	-	713
Total other comprehensive income for the year	-	-	-	-	-	(2,169)	(2,169)	(7)	(2,176)
Total comprehensive income for the year	-	-	-	-	-	(2,657)	(2,657)	164	(2,493)
Transactions with owners									
Issues of shares	5	(20)	99	-	-	-	84	-	84
Issue of C-F shares	4,032	-	(4,032)	-	-	-	-	-	-
Redemption of ordinary shares	(22)	-	-	22	-	(1,266)	(1,266)	-	(1,266)
Redemption of C&E Shares	(2,816)	-	-	-	-	-	(2,816)	-	(2,816)
Cancellation of D&F shares	(1,216)	-	-	-	-	1,216	-	-	-
Share based payments	-	51	-	-	-	-	51	-	51
Treasury shares	-	(27)	-	-	630	56	659	-	659
Dividends	-	-	-	-	-	(1,172)	(1,172)	-	(1,172)
At end of year	1,118	254	12,096	1,636	(704)	58,032	72,432	-	72,432

Attributable to equity holders of the parent

	Attributable to owners of the parent								
	Share capital	Shares to be issued	Share premium	Capital redemption reserve	Treasury shares	Retained profit	Total	Non-controlling interest	Total
Year ended 31 December 2010									
At beginning of year	1,118	254	17,255	-	(1,586)	59,149	76,190	-	76,190
Total comprehensive income for the year									
Profit/(Loss) for the year	-	-	-	-	-	6,559	6,559	(186)	6,373
Other comprehensive income									
Exchange gains on consolidation	-	-	-	-	-	414	414	22	436
Pension scheme actuarial losses	-	-	-	-	-	(160)	(160)	-	(160)
Deferred tax on pension scheme actuarial losses	-	-	-	-	-	45	45	-	45
Total other comprehensive income for the year	-	-	-	-	-	299	299	22	321
Total comprehensive income for the year	-	-	-	-	-	6,858	6,858	(164)	6,694
Transactions with owners									
Issue of shares	17	(87)	388	-	-	-	318	-	318
Issue of B shares	1,614	-	(1,614)	-	-	-	-	-	-
Redemption of B Shares	(1,286)	-	-	1,286	-	(1,286)	(1,286)	-	(1,286)
Cancellation of B shares	(328)	-	-	328	-	-	-	-	-
Share based payments	-	83	-	-	-	-	83	-	83
Treasury shares	-	-	-	-	252	(214)	38	-	38
Dividends	-	-	-	-	-	(2,652)	(2,652)	-	(2,652)
At end of year	1,135	250	16,029	1,614	(1,334)	61,855	79,549	(164)	79,385

26. Employee Benefit Trust

The EBT has purchased no Ordinary shares and released 630,000 Ordinary shares deemed to be held in Treasury during the year to give a holding at the year end of 713,338 (2010: 1,343,338). The value at the year end was £677,671 (2010: £1,334,000). 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 2011

27. Employees and Directors

Employee benefit expense for the Group during the year

	2011 £000	2010 £000
Wages and salaries	21,365	16,462
Social security costs	2,294	1,444
Pension costs	1,765	1,579
Share based payment charge	51	83
	25,475	19,568

Pension costs are recognised in operating expenses in the income statement and include £1,719,000 (2010: £1,533,000) in respect of payments to closed defined contribution schemes and £46,000 (2010: £46,000) in respect of closed defined benefit schemes.

Average number of employees	2011 Number	2010 Number
Group investment activities	10	10
Captives	32	21
Insurance services	318	319
	360	350

Remuneration of the Directors and key management

	2011 £000	2010 £000
Aggregate Director emoluments	1,159	743
Aggregate key management emoluments	778	787
Share based payments – key management	6	10
Director pension contributions	124	80
Key management pension contributions	99	116
	2,166	1,736
Highest paid Director		
Aggregate emoluments	416	328

Name	Salary	Pension	Bonus	Benefits	Total
K E Randall	312,000	-	-	2,654	314,654
A K Quilter	215,750	39,919	50,000	1,212	306,881
T A Booth	*331,000	33,750	50,000	964	415,714
M G Smith	150,000	-	-	-	150,000
J M P Welman	-	50,000	-	-	50,000
K P McNamara	50,000	-	-	-	50,000

Three Directors have retirement benefits accruing under money purchase pension schemes (2010: Two). In the year, no Director was granted any share options in respect of qualifying services under a long term incentive plan.

*Salary includes £100,000 non-pensionable back pay.

28. Pension commitments

The defined benefit scheme's assets are 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 2012 by a qualified independent actuary. The next triennial valuation is due in mid 2012; 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 amounts recognised in the Group's balance sheet in respect of the defined benefit scheme on an IAS19 valuation basis are as follows:-

	2011 £000	2010 £000
Total market value of scheme assets	24,508	26,152
Present value of defined benefit obligations	(27,149)	(26,110)
(Deficit)/surplus in the scheme	(2,641)	42
Surplus not recognised	-	(42)
Deficit included in the balance sheet	(2,641)	-

The scheme has no unfunded past service costs. No decision has been made regarding contributions after the end of the reporting period.

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 was recognised in the Statement of Financial Position at the 31 December 2010.

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:-

	2011	2010
Inflation rate	3.2%	3.6%
Projected return on assets	5.5%	6.2%
Pension increase	3.2%	3.6%
Deferred pension increases	2.7%	3.6%
Discount rate	4.7%	5.3%
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 2011

28. Pension commitments (continued)

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

	2011 £000	2010 £000
Current service cost (operating expense)	(46)	(46)
Interest cost (other income)	(1,366)	(1,352)
Expected return on plan assets (other income)	1,576	1,512
	164	114

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:-

	2011 £000	2010 £000
Actual return less expected return on assets	(1,990)	1,200
Experience losses arising on obligations	(6)	(48)
Changes in assumptions	(897)	(2,021)
Amount not recognised due to restriction on recovery (as required by IAS19)	42	709
Total actuarial losses charged to other comprehensive income	(2,851)	(160)

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

	2011 £000	2010 £000
Surplus in the scheme as at 1 January	42	751
Current service costs	(46)	(46)
Contributions by employer	46	46
Actuarial loss	(2,893)	(869)
Other financial income	210	160
(Deficit)/surplus in the scheme as at 31 December	(2,641)	42

Movements in the fair value of the pension plan assets:-

	2011 £000	2010 £000
Fair value of plan assets as at 1 January	26,152	24,226
Expected return	1,576	1,512
Actuarial (losses)/gains	(1,990)	1,200
Contributions by employer	46	46
Benefits paid	(1,276)	(832)
Fair value of plan assets as at 31 December	**24,508**	**26,152**

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

	2011	2010
Equity securities	39.8%	51.7%
Debt securities	36.4%	34.3%
Property	9.6%	7.3%
Cash	14.2%	6.7%

Fair value of the pension plan obligations:-

	2011 £000	2010 £000
Fair value of plan obligations as at 1 January	26,110	23,475
Current service cost	46	46
Interest cost	1,366	1,352
Actuarial losses	903	2,069
Benefits paid	(1,276)	(832)
Fair value of plan obligations as at 31 December	**27,149**	**26,110**

29. Related party transactions

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

	2011 £	2010 £
K E Randall and family	1,774,634	1,751,357
A K Quilter	348,691	345,450
K P McNamara	10,642	1,988
M G Smith	1,913	-
J M P Welman	1,301	-
M L Glover	-	8,700

- Mr and Mrs K E Randall received £25,000 (2010: £25,000) for rent for property used by the Group.
- During the year the Group recharged expenses totalling £5,319,122 (2010: £3,541,000) to Lloyd's Syndicates 102, 3330 and 1897, 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:-

	2011 £000	2010 £000
Land and buildings		
No later than one year	19	152
Later the one year no later than five years	700	179
Later than five years	6,461	2,006
Other		
No later than one year	-	37
Later the one year no later than five years	-	-
Later than five years	-	-

The Group leases a number of premises under operating leases. The Group has entered into a number of sublease arrangements with third parties. Sublease arrangements in force as at 31 December 2011 are due to expire within one to five years of the balance sheet date. It is anticipated that sublease income of £136,000 (2010: £none) will be earned over the lease term.

31. Contingent liabilities

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

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

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

32. Business Combinations

Triton Management AS

On 7 July 2011 the Group purchased the entire issued share capital of Triton Management AS, a company incorporated in Norway and is its country's leading captive and insurance company manager. The goodwill represents the Group's investment in the Directors' and employees' knowledge of the Scandinavian market and their ability to generate future profits.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was NOK4,146,000 (£481,000). Goodwill of NOK 8,254,000 (£961,000) 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 NOK'000
Financial investments	48
Intangible assets	1,526
Tangible assets	74
Other debtors	1,771
Cash	2,389
Other creditors	(1,662)
Net assets acquired	4,146
Satisfied by	
Cash paid	12,400
Goodwill	8,254

The intangible assets of NOK 1,526,000 (£178,000) relates to the fair value attributed to the contracts acquired.

Post acquisition profit before tax amounted to NOK989,000 (£112,000), if the Group had purchased the company at the start of the year its contribution to the Group would have been a profit of NOK 2,528,000 (£282,000).

Post acquisition income amounted to NOK5,803,000 (£659,000), if the Group had purchased the company at the start of the year its income would have been NOK 12,448,000 (£1,414,000).

Costs of £62,000 were incurred in relation this acquisition and have been expensed in the year.

32. Business Combinations (continued)

Principle Insurance Company Limited

On 29 December 2011 the Group purchased the entire issued share capital of Principle Insurance Company 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 £5,881,000. Goodwill on bargain purchase of £1,541,000 arose. This goodwill on bargain purchase arises because insurance companies in run-off normally cause significant problems for former owners such as tying up capital and lack of specialist staff. As a specialist service provider and manager, the Group is more efficient at managing such entities.

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	-
Other debtors	193
Cash	7,833
Loan	-
Other creditors	(2,144)
Net assets acquired	5,882
Satisfied by Cash paid	4,341
Goodwill on bargain purchase	1,541

The carrying value of the insurance liabilities is materially similar to their fair value and therefore no intangible asset is needed to be recognised in accordance with the accounting policy for goodwill.

Post acquisition loss before tax amounted to £nil, if the Group had purchased the company at the start of the year its contribution to the Group would have been a profit of £608,000

Costs of £31,000 have been incurred in relation to the acquisition.

33. Inter-company guarantee and debenture

The Company has entered into a guarantee agreement and debenture arrangement with its bankers, along with various of its subsidiaries in respect of the Group overdraft and term loan facilities. The total liability to the bank at 31 December 2011 is £23,237,000 (2010: £19,161,000).

The Company has counter-guaranteed the obligations of its subsidiary, Chevanstell Limited ('Chev') in respect of the provision of a guarantee by Chev to R&Q Managing Agency Limited ('RQMA') in the amount of £3.4m to allow RQMA to meet its Lloyd's solvency. The guarantee has been released since 31 December 2011.

34. Post balance sheet events

After the balance sheet date the Group has acquired Synergy Insurance and Northern Foods Insurance, neither of which is considered material to the Group's financial position.

The Group has also made a participation on RITC Syndicate 3330, formerly Syndicate 1208.

35. Ultimate controlling party

The Directors consider that the Group has no ultimate controlling party.

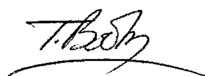
Parent Company Balance Sheet

As at 31 December 2011
Company Number 03671097

	Note	2011 £000	2010 £000
Fixed assets			
Intangible assets	3	1	1
Investments	4	31,648	50,375
		31,649	50,376
Current assets			
Debtors	5	20,122	7,690
Cash at bank and in hand		1,476	2,890
		21,598	10,580
Creditors: amounts falling due within one year	6	(35,090)	(7,476)
Net current (liabilities)/assets		(13,492)	3,104
Total assets less current liabilities		13,257	53,480
Creditors: amounts falling due after more than one year	6	-	(34,520)
		18,157	18,960
Capital and reserves			
Called up share capital	7	1,118	1,135
Shares to be issued	8	254	250
Share premium account	8	12,096	16,029
Capital redemption reserve	8	1,636	1,614
Treasury share reserve	8	(704)	(1,334)
Profit and loss account	8	3,757	1,266
Equity shareholders' funds		18,157	18,960

The Financial Statements were approved by the Board of Directors on 24 April 2012 and were signed on its behalf by:-

K E Randall

T A Booth 

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2011

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.

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 (2010: 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 2011	**1**	**1**

4. Investments

	Investment in Subsidiary Undertakings £000	Loans to Subsidiary Undertakings £000	Total £000
Cost			
As at 1 January 2011	39,817	10,808	50,625
Foreign currency exchange	-	17	17
Additions in the year	18,812	398	19,210
Intra group disposals	(37,230)	-	(37,230)
Capital release	(724)	-	(724)
As at 31 December 2011	20,675	11,223	31,898
Provision for impairment			
As at 1 January 2011	(250)	-	(250)
As at 31 December 2011	(250)	-	(250)
Net book value			
As at 31 December 2011	20,425	11,223	31,648
As at 31 December 2010	39,567	10,808	50,375

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 $15,218,000 (£9,864,000) (2010: $14,603,000 (£9,439,000)) 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 2011

5. Debtors

	2011 £000	2010 £000
Amounts due from subsidiaries	14,171	5,573
Other debtors	5,852	242
Prepayments and accrued income	99	1,875
	20,122	7,690

6. Creditors

	2011 £000	2010 £000
Bank loans	-	19,161
Other creditors	514	595
Amounts due to subsidiaries	34,312	21,123
Accruals and deferred income	264	1,117
	35,090	41,996
These borrowings are repayable as follows:		
In one year or less, or on demand	35,090	7,476
Between two and five years	-	34,520
	35,090	41,996

Included in the amounts due to subsidiaries above are loans of £31.1m from group companies. Interest is chargeable at a rate of 2.75% above LIBOR and is payable annually in arrears.

7. Share capital

	2011 £000	2010 £000
Allotted, called up and fully paid		
54,092,916 Ordinary Shares of 2 6/91p each		
(2010: 54,923,002 Ordinary Shares of 2 6/91p each)	1,117,524	1,134,673
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,117,526	1,134,675
Included in:		
Equity		
54,092,916 Ordinary Shares of 2 6/91p each		
(2010: 54,923,002 Ordinary Shares of 2 6/91p each)	1,117,524	1,118,260
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,117,526	1,118,262

Further details of the share capital are included in note 24 of the Group Financial Statements.

8. Reserves

	Share capital £000	Shares to be issued £000	Share premium £000	Capital redemption reserve £000	Treasury shares £000	Retained profit £000	Total £000
2011							
At 1 January	1,135	250	16,029	1,614	(1,334)	1,266	18,960
Issue of shares	5	(20)	99	-	-	-	84
Issue of D&F shares	4,032	-	(4,032)	-	-	-	-
Redemption of C&E shares	(2,816)	-	-	-	-	-	(2,816)
Cancellation of D&F shares	(1,216)	-	-	-	-	1,216	-
Cancellation of ordinary shares	(22)	-	-	22	-	(1,266)	(1,266)
Share based payments	-	51	-	-	-	-	51
Treasury shares	-	(27)	-	-	630	56	659
Total recognised gains and losses	-	-	-	-	-	3,657	3,657
Dividends	-	-	-	-	-	(1,172)	(1,172)
At 31 December	1,118	254	12,096	1,636	(704)	3,757	18,157

	Share capital £000	Shares to be issued £000	Share premium £000	Capital redemption reserve £000	Treasury shares £000	Retained profit £000	Total £000
2010							
At 1 January	1,118	254	17,255	-	(1,586)	5,359	22,400
Issue of shares	17	(87)	388	-	-	-	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	250	16,029	1,614	(1,334)	1,266	18,960

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

STRATEGY | INNOVATION | EXPERTISE

Principal Worldwide office locations

www.rqih.com

UK Offices

Head Office
110 Fenchurch Street,
London EC3M 5JT

130 Fenchurch Street,
London
EC3M 5DJ

Mayland House
Floor 2, Mayland Road
Witham, Essex CM8 2FR

Evolution House,
Unit C/D, Iceni Court,
Norwich NR6 6BB

US Offices

101 Summer Street,
Boston
MA 02110

2 Logan Square
Suite 600
Philadelphia PA 19103 - 2772

Bermuda Office

FB Perry Building, 40 Church Street,
PO Box HM 2062,
Hamilton HM HX Bermuda