STRATEGY | INNOVATION | EXPERTISE

Annual Report and Financial Statements
Randall & Quilter Investment Holdings Ltd.

31 December 2013

Annual Report and Financial Statements

For the year ended 31 December 2013

Index

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Highlights and Summary of Results

For the year ended 31 December 2013

SUMMARY OF RESULTS	2013 £000	2012 £000
GROUP RESULTS		
Operating profit	10,159 *	12,454 * **
Profit on ordinary activities before income taxes	9,564 *	11,645 * **
Profit after tax	7,440 *	11,067 * **
Earnings Per Share (Basic)	11.9p	22.4p **
Net Tangible Assets per Share	116.4p	116.7p **
DIVISIONAL PERFORMANCE		
Insurance Investments Division Operating Profit	8,673 *	11,043 * **
Insurance Services Division Operating Profit	9,839	10,061
Underwriting Management Division Operating Loss	(177)	(1,456)

* After deduction of Minority Interests relating to Syndicate 3330
** After restatement relating to Alma prior year goodwill adjustment and IAS 19

Chairman's Statement and Business Review

For the year ended 31 December 2013

The Group has delivered a solid result during 2013 which was in line with management expectations despite the impact of slow premium development on its active managed syndicates and a weaker result than originally anticipated in its Underwriting Management Division. As reported at the half year stage, a further profit of £1.5m in respect of Alma Insurance has been reallocated as a prior year adjustment as required by international accounting standards, showing the solid performance in 2013 in a less favourable light.

The Group achieved a number of important operational milestones to assist in the delivery of the key strategic goals of its legacy, underwriting management and service businesses. These milestones include the near doubling of the capacity of Syndicate 1991 to £150m for the 2014 underwriting year, the redomicile of the Group to Bermuda to enhance regulatory certainty, the transfer of the Chevanstell business into a new fully licensed EEA run-off consolidator (R&Q Insurance (Malta)), the merger of a number of the Group's unregulated European reinsurers to deliver operational savings and becoming the preferred credit control service provider to the Lloyd's market.

In May we successfully raised £24m net of costs from shareholders to finance the Group's growing Lloyd's syndicate participations and the acquisition of additional legacy related assets. Both of these aims have been successfully completed. The Group now supports capacity of £30m on Syndicate 1991 and acquired FAIR (now known as R&Q Cyprus) late in 2013 from the Validus Group. This was the most significant acquisition the Group has made since 2006, the contribution of which can be clearly seen in this year's results.

The capital efficiencies delivered from our new platforms and the strong cash flow coming from our maturing insurance debt portfolio are providing the Group with significant resources to finance the current pipeline of exciting acquisition opportunities.

In a year of strong equity markets but weak credit markets, where insurers assets tend to be heavily invested, we are very pleased to demonstrate the benefits of our pro-active investment strategy, delivering a return of 3.7% on externally invested assets, over twice that reported by the Lloyd's market. We outperformed in the strong credit market of 2012 and to repeat that outperformance in 2013's weak market is particularly satisfying.

The focus on providing accretive and niche services to the subscription market in London continues and is beginning to bear fruit, with Randall & Quilter becoming increasingly recognised for its expertise and service delivery. The US service business remains a challenge but some key initiatives are gaining traction and cost reduction is beginning to improve results, albeit slowly. The US also benefited from high levels of credit write backs during 2013, which will not be repeated in the current year. We are encouraged by new client additions in the early months of 2014 especially in the UK credit control and broker service operations. The healthy list of new prospects also appears to suggest that this trend will continue through the year.

The results from our active syndicate participations have been below expectations in the short term but we remain confident that both the strategy of creating a specialist live underwriting platform to support our historic legacy and service provider offerings coupled with the creation and development of the unique business of Syndicate 1991 will prove to be in the medium and long-term best interest of shareholders. Delays in signing up the MGAs with Syndicate 1991 and agreeing the detailed terms of their delegated binding authorities resulted in lower than anticipated written and earned premium with an ensuing expense drag on the 2013 calendar year result. Whilst we still expect significant premium development in the current year, the impact of the early premium deferral will continue to be felt by the Group during 2014 with meaningful growth in earned premium coming through from 2015 and beyond. Former turnkey Syndicate 1897 which the Group stopped supporting for the 2014 underwriting year of account suffered from a similar lower level of income in the 2013 underwriting year against plan and was also impacted by a number of late notified losses. The impact on the Group was mitigated by its modest 8% share of the syndicate's capacity.

The positive medium and longer term outlook for Syndicate 1991 remains on track as demonstrated by the doubling of its capacity for 2014. We are actively looking at ways to leverage the unique delegated underwriting focus of Syndicate 1991 to deliver a wider range of quality business to the market, thereby generating additional fee income for the Group.

Distributions of 8.4p per share for the year were in line with guidance and the prior year (2012: 8.4p). Our progressive distribution policy is affirmed and distributions will be increased as profits develop or, in the absence of profit growth, kept at current levels, absent unforeseen circumstances.

Net tangible assets per share remained stable owing to the restatement of the prior year figure following a positive adjustment relating to the acquisition of Alma in late 2012 and the strong cash distributions to shareholders during the year.

We look forward to the future with confidence. Our strong legacy and servicing pipelines continue to offer prospects for profitable development, including in the short term. We have a strong presence in the market for legacy insurance assets although the exact timing of such acquisitions is always difficult to predict. While it has taken longer than planned to build our live underwriting platform, we remain confident that the overall strategy provides a firm foundation for strong, sustainable growth in the future.

DIVISIONAL PERFORMANCE

Further detail on the financial and operating performance of the divisions is provided below:-

Insurance Investments Division

This division is engaged in the following activities:-

- The acquisition of solvent insurance companies, captives and portfolios in run-off, typically at a discount to net asset value;
- The provision of capital (Funds at Lloyd's) to Group managed active syndicates and Reinsurance to Close (RITC) run-off syndicates in Lloyd's; and
- The acquisition of insurance receivables due to insurance or corporate creditors from the estates of insolvent insurance companies.

	2013 £000	2012 £000 Restated
Net Earned Premium[1]	826	996
Net Investment Income[1]	7,826	12,550
Debt Purchase (RQLM) Income	4,410	621
Other Income	921	460
Net Insurance claims released[1]	3,616	5,807
Operating Expenses	(17,960)	(19,284)
Goodwill on bargain purchase	8,479	3,112
Insurance Companies operating result	**8,118**	**4,262**
Net Earned Premium (Syndicates)[2]	5,651	2,887
Syndicates operating result[2]	**555**	**6,781**
Total Divisional Operating Result[2]	**8,673**	**11,043**

[1] Insurance companies only (ie excludes Syndicates).
[2] After deduction of Minority Interests relating to Syndicate 3330.

The Insurance Investment Division's performance was again strong in the period, producing an operating profit of £8.7m[2] (2012: £11.0m). A further gain of £1.5m in Alma, which crystallised in 2013, was taken as a prior year adjustment in accordance with international accounting standards, which shows the solid performance in 2013 in a less favourable light.

Net earned premium of £0.8m (2012: £1.0m) was similar to the previous year, reflecting further reinstatement premiums and recovered premiums in our run-off books.

Investment income of £7.8m for the insurance companies represented a 3.6% return (2012: £12.6m, 5.6%). Whilst lower than the prior year, this was a pleasing outcome given unfavourable credit markets in the rising yield environment that prevailed. A more detailed analysis of performance and holdings is provided below.

RQLM's income, which is mostly related to the acquisition and management of claims against insolvent insurance companies, was significantly higher at £4.4m (2012: £0.6m) as a result of the move to fair value accounting and favourable information received on the Integrity Estate of which the Group is a significant creditor. The final closure of Integrity has now been approved by the New Jersey Court. The aggregate carrying value at the year-end rose to £16.0m from £6.6m at 31 December 2012 following the move to fair value accounting and a number of additional claims purchases in the year at an aggregate cost of $8.8m. We continue to expect a significant portion of the current portfolio to run-off during 2014, bringing significant cash inflow to the Group. The pipeline for new acquisitions continues but as previously commented on, there is competition from US based hedge funds for the larger creditor positions of a number of the well-known estates. We are thus exploring the merits of restructuring the way we participate in this market to optimise returns.

At 31 December 2013, the owned insurance company portfolio was as follows:-

	Vendor	Country of Incorporation	Acquisition Date	NAV* £m (as at 31/12/13)	NAV* £m (as at 31/12/12)
La Metropole SA	Travelers Group	Belgium	29 Nov 2000	0.1	0.2
Transport Insurance Company	American Financial Group	USA	30 Nov 2004	7.0	7.1
R&Q Reinsurance Company (UK) Limited	Ace Group	UK	3 July 2006	19.1	18.4
R&Q Reinsurance Company (Belgium)	Ace Group	Belgium	3 July 2006	-**	2.8
R&Q Reinsurance Company (US)	Ace Group	USA	3 July 2006	12.4	15.3
R&Q Insurance (Malta) / Chevanstell Limited	Trygg Forsikring	UK	10 Nov 2006	31.2***	28.8
R&Q Insurance (Guernsey) Limited	Deloitte LLP, Administrators for Woolworths Group plc	Guernsey	9 June 2009	1.9	2.0
Goldstreet Insurance Company	Sequa Corporation & Columbia Insurance Company	US	14 Dec 2009	3.1	3.7
La Licorne S.A.	MAAF Assurances	France	22 Apr 2010	5.5**	1.1
Principle Insurance Company	PICH Ltd	UK	29 Dec 2011	6.3	5.9
Capstan	Roger and Elizabeth Bullivant	Guernsey	1 Nov 2012	2.4****	1.0
LINPAC	LINPAC Finance Limited	Guernsey	21 Dec 2012	-****	0.3
Alma	Tapiola General	Finland	27 Dec 2012	6.3	5.9
Hickson Insurance Company	Hickson Investments Limited	IOM	11 Jan 2013	0.8	-
La Reassurance Intercontinentale	MAAF	France	3 Jun 2013	-**	-
MPPA Insurance	MPPA	Bermuda (Cell)	24 Jun 2013	0.6	-
Woodcroft Insurance Company	John Laing	Guernsey	28 Aug 2013	-****	-
Flagstone Alliance Insurance & Reinsurance	Validus	Cyprus	11 Oct 2013	19.3	-
TOTAL				**116.0**	**92.5**

* IFRS basis for group consolidation purposes

** R&Q Reinsurance Company (Belgium) and La Reassurance Intercontinentale were merged into La Licorne S.A. during 2013.

*** The liabilities and majority of assets of Chevanstell were transferred into the newly formed company R&Q Insurance (Malta) during 2013.

**** LINPAC and Woodcroft Insurance Company were merged into Capstan during 2013.

Chairman's Statement and Business Review
For the year ended 31 December 2013

Reserve releases from the owned insurance companies of £3.6m (2012: £5.8m) arose as a result of a combination of commutation activity, identified reserve redundancies and bad debt releases, primarily in R&Q Re (UK) and R&Q Insurance (Malta). A number of the smaller owned portfolios, including R&Q Insurance (Guernsey), La Licorne and Principle also benefited from IBNR releases and favourable bad debt reassessments. In R&Q Re (UK), the significant net claims release arose almost entirely through continued commutation activity relating to the "LMX" reinsurance book. In R&Q Insurance (Malta), the improvement came from a material bad debt release, a subrogation recovery and redundancy in specific claims and ledger balances.

In R&Q Re (US) there was significant reserve strengthening of asbestosis claims, largely a result of actuarial benchmarking against global market trends rather than company specific experience. The net impact on the Group was mitigated by recoveries under the surplus maintenance reinsurance agreement with ACE. Our active claims management in this company continued with the settlement of over $30m of claims during the year. We have also made good progress with reinsurance collections following the recent claims activity.

We are hopeful that further commutation and settlement activity, particularly in our non-US portfolios will produce additional releases in the year to come and that we will continue to find redundancy in both case and IBNR reserves as the portfolios continue to mature. Evidently, as the books of business in R&Q Re (UK) and R&Q Insurance (Malta) have been significantly run-down, these portfolios may not provide the level of absolute claims releases seen in recent years. On the other hand, the addition of portfolios such as R&Q Cyprus and future pipeline opportunities should create further scope for profitable development. The further asbestos related reserve strengthening in R&Q Re (US), which has resulted from actuarial benchmarking, should mitigate downside risk in this portfolio given the company's extensive reinsurance programme and the surplus maintenance reinsurance protection.

We successfully extracted capital from La Reassurance, Goldstreet Insurance and a number of the Group owned captive programmes in run-off during the year.

The merger of the Group's three owned unregulated European reinsurers in run-off and the transfer of the Chevanstell book to R&Q Insurance Malta will help to optimise our on-going capital position as well as enhance our ability to offer a wider range of exit solutions efficiently and competitively. The net assets of the 15 owned insurance entities at 31 December 2013 was £116.0m, against £92.5m a year earlier.

Operating expenses remained stable for the year at £18.0m (2012: £19.3m).

There was 'goodwill on bargain purchase' of £8.5m during the year, significantly higher than the £3.1m generated in 2012, as a result of the Group's increased legacy acquisition activity, supported by the capital raise from shareholders last May. A large portion of this goodwill on bargain purchase relates to the acquisition of Flagstone Alliance Insurance and Reinsurance Ltd (now R&Q Cyprus), which arose from the discount to NAV at purchase and subsequent favourable reserve reassessments and claims settlements. There was also goodwill on bargain purchase arising from the novation of the MPPA captive business in Bermuda and the acquisitions of La Reassurance, Woodcroft and Hickson, in France, Guernsey and the IOM respectively.

The number of deals completed into actual transactions and the strong contribution from goodwill on bargain purchase in the year is proof of our ability to convert the strong acquisition pipeline which we have been referring to for some time. In addition to our captive "exit solutions", which have attracted much interest in the Bermuda market as well as in Guernsey, we are pursuing a number of other opportunities with varying size and geographies on both sides of the Atlantic, aided by a recent expansion of the M&A team in Bermuda. The pipeline has never been healthier and whilst there is no guarantee that we will complete all or a majority of these on favourable terms, we are highly encouraged that 2014 will continue the trend of an increasing contribution from legacy acquisition activity. There has also been a shift in the types of transactions we are pursuing away from straight forward acquisitions towards retroactive reinsurances or 'Loss Portfolio Transfers' ("LPTs") and portfolio transfers. This is due both to an increasing focus on Europe and larger captives and insurers where legacy business tends to be encapsulated in an on-going vehicle. Following the various important structural reorganisations achieved in the division during the year, we are now well equipped to offer efficient and cost-effective solutions for these types of transactions.

We continue to look at further legacy opportunities in Lloyd's including partial account reinsurances, syndicate RITCs and acquisitions or capital replacement of third party corporate members supporting open years.

We continue to explore an opportunity to enter the fast growing Insurance Linked Securities market and are working on developing exit solutions to capital market investors looking for liquidity in the event of a claim, especially in the collateralised reinsurance segment. Tenacity and patience will however be required to ensure we enter the market with a relevant and attractive product.

The overall result from our four syndicate participations during the year (the 22.75% line on our 'first party' Syndicate 1991, the 8.3% line on turnkey Syndicate 1897, the 20% line on RITC Syndicate 102 and the 55% line on RITC Syndicate 3330) was below expectations with an operating profit of £0.6m. This compares unfavourably with 2012's operating profit of £6.7m; which benefited from the release of a significant element of the risk premium charged on the RITC of s.1208 into s.3330 as well as a large amount of reserve redundancy on a large specific claim. Net earned premiums of £5.7m (2012: £2.9m) were higher but significantly below initial expectations reflecting the delays in signing up the MGAs for Syndicate 1991. This impacted the result as lower income than anticipated compounded the customary expense drag experienced in start-up syndicates. Our participation on run-off Syndicate 3330 (which reinsured former Syndicate 1208's open years into its 2012 Year of Account) produced a strong result following a further release of the risk premium as well as specific reserve releases in the professional indemnity account. There was some deterioration in run-off Syndicate 102, mostly relating to the last remaining dispute in respect of the former Goshawk Contingent Cost Insurance ("CCI") portfolio. The Group's own share of this was however relatively contained and whilst uncertainties remain, we believe that the risk margin charged on the recent 100% RITC by the Group should provide an adequate return on the additional capital put up over the remainder of the run-off. Our share of turnkey Syndicate 1897 produced a loss as the syndicate suffered from a strengthening of reserves emanating from a number of late notified marine and energy losses and a subdued level of earned premium on the 2013 underwriting year of account. Now that the management of the Syndicate has in any case novated to a third party agency in line with the 3 year 'turnkey' cycle, we decided to withdraw our capital support for the 2014 underwriting year.

Our increased participation on Syndicate 1991 as its capacity doubled for 2014 required the Group to put up an additional £10m of Funds-at-Lloyd's ("FAL"). Our aggregate FAL commitment has now increased further to over £37m following the recent 100% RITC of Syndicate 102. Whilst we expect significantly higher earned premium from Syndicate 1991 during the current year, mostly relating to the 2013 year of account, there will continue to be a significant drag from the expenses of the much expanded 2014 underwriting account as only a modest amount of premium for that account will be earned in the current calendar year. This is to be expected however, given that a substantial part of the new underwriting year's business will emanate from the same MGAs we have already signed up and which will continue to write under the prior year's binding authorities until the anniversary of the original contract date. These MGAs are expected to show significant organic growth against production in the first underwriting year of account, hopefully de-risking the syndicate's ability to reach its expanded target capacity on an ultimate premium basis. In time, this should help deliver a strong contribution to Group profits, albeit slower than our initial expectations.

Operationally, we continue to explore ways to consolidate our run-off entities further to drive efficiencies. The transfer of the small residual business in Principle to R&Q Insurance (Malta) is where our initial focus lies.

Investment Income

Investment income of £7.8m (3.6%) from the insurance company portfolios and 'Funds at Lloyd's' was below last year (£12.6m, 5.6%). The overall figure comprised of £6.2m of investment income on externally invested funds (3.7%) and £1.6m of income from internal loan interest (3.2%). The result from the externally invested assets was at least as pleasing as last year given the extremely different credit market conditions which prevailed as a result of rising rates. The percentage return was over twice the return reported by the Lloyd's sector as a whole in 2013. This was principally achieved as a result of a deliberately low interest rate duration but also a continued overweight position in high grade structured product such as UK/Dutch Residential Mortgage Backed Securities, specialist high yield corporate bonds and senior secured loans. Our 9% allocation to low beta, high yielding equities also performed very strongly.

The overall Group insurance company* investment allocation by asset class at 31 December 2013 was as follows:-

Asset Class	Share of Total Portfolio
AABS (Residential Mortgage Backed Securities)	28%
CLOs (US)	27%
High Yield funds	10%
Equities	9%
Corporate Bonds	7%
Cash	6%
Money Market Funds	6%
US Treasuries	3%
US Municipals	2%
Sharia Cash Deposits	1%
Other	1%

*excludes syndicates

Externally invested funds totalled £158m equivalent at 31 December 2013. The non-Sterling assets matched the currencies of the net insurance liabilities and the surpluses of the non US insurance companies and FAL were invested in Sterling assets with the surpluses of the US insurers maintained in dollars to ensure statutory compliance.

The credit rating of the securities held by the Group at 31 December 2013 was as follows:-

	Share of Total Portfolio
Cash & equivalents	7%
AAA	22%
AA	20%
A	31%
BB	10%
Unrated	10%

Overall the duration of the investment portfolio remained at under one year given that a significant portion of the assets were invested in floating rate securities.

The Group worked hard again during the year to ensure that its investment portfolios were well positioned and optimised from a risk-reward perspective, whilst always maintaining high overall credit quality and good liquidity. Whilst the portfolios and funds are managed externally by carefully selected professional investment managers, the Group Investment Committee makes frequent reviews of the asset allocations, investment strategies and guidelines with the assistance of IIA, a specialist investment consultancy. This has resulted in a much more active management strategy by the Group of its investments, which we believe is necessary in a persistently low yielding environment.

The Group's running investment yield at year end was c.2.75% but subsequent portfolio repositioning has brought this up to just over 3%. Evidence of our active management strategy can be seen in our recent decision to sell our long-only high yield fund investments and Residential Mortgage Backed Security funds as spreads tightened further and, in our view, changed the risk-reward balance. Funds have been rotated into a tactical high yield fund able to take some short positions of overvalued high yield credit and into a fund designed to exploit anomalies in Government bond and FX markets. We remain with no exposure to Emerging Market debt. Whilst we have mitigated interest rate risk substantially through portfolio restructuring, we are of course still exposed to credit spread movements. We have however kept maturities short in the main and increased asset diversification to lessen the potential impact from spread widening. The 2014 year to date performance has been encouraging with capital gains adding to overall returns.

Chairman's Statement and Business Review
For the year ended 31 December 2013

Insurance Services Division

The Insurance Services Division's activities include:-

- Claims management
- Reinsurance management
- Broker services (eg broker replacement)
- Premium credit control, bordereau management & broker performance monitoring
- Captive and cell management for corporates and risk-retention groups
- Audit & Inspection of delegated underwriting facilities (for coverholders etc)
- Accounting services
- 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 active insurance markets.

	2013 £000	2012 £000
UK Claims & Reinsurance Management Services		
Internal portfolio management fees	10,504	11,887
Third party Income	3,355	6,157
Total Income	**13,859**	**18,044**
Operating Profit	**4,125**	**4,299**
UK Broker Services		
Total Income	5,504	4,828
Operating Profit	**1,824**	**897**
UK Liquidity Management		
Total Income	2,364	2,641
Operating (Loss)/Profit	**(422)**	**23**
US Services		
Internal portfolio management fees	3,753	3,817
Third party Income	7,390	9,630
Total Income	**11,143**	**13,447**
Operating Profit	**3,790**	**4,180**
Captive Management		
Total Income	**6,529**	**5,827**
Operating Profit	**522**	**662**
TOTAL INCOME	39,399	44,787
TOTAL DIVISIONAL OPERATING PROFIT	9,839	10,061

The Insurance Services Division's operating profit of £9.8m (2012: £10.1m) reflected a good core performance in UK Services, especially in broker services. There was a satisfactory performance in US Services where the result was once again helped by credit write-backs during the period. Despite increasing income, captive management's operating result was weaker owing to continuing investment and disappointing new business volumes in certain of the smaller jurisdictions.

Total Income decreased to £39.4m (2012: £44.8m) mostly due to a transfer of syndicate related service work to the Underwriting Management Division along with related staff. There was also an impact from certain contracts running down as anticipated in the US Services Division prior to new business coming fully on stream.

In UK Claims and Reinsurance Management Services, internal revenue fell in line with the maturing run-offs whilst the move of the full syndicate servicing to the Underwriting Management Division reduced third party income.

In UK Broker Services, revenue grew as did operating profit with credit write-backs again a significant contributor. The broker run-offs we have acquired continued to perform well and we have added further scale and efficiency in this area with significant recent contract wins. We have also created and signed up our first clients for a turnkey service for UK provincial and overseas brokers looking to access the Lloyd's market.

UK Liquidity Management had a subdued financial performance owing to a reduction in the scope of certain contracts and the failure to develop a significant new client owing to its poor data availability. However, the Group was awarded the status of preferred provider of credit control services by the Lloyd's Market Association at the end of 2013 and this has brought new clients as well as many more enquiries. The development of our binder account management product looks also to have secured firm interest from a number of parties.

Our diversification into the active market and focus on subscription market business, especially Lloyd's, where our services offer a highly cost effective alternative to internal resourcing is thus beginning to bring results and mitigate the impact from fewer large traditional run-off service mandates.

The core US services operations suffered from the expected reduction in work on a number of significant existing third party run-off contracts, delayed new business income as well as the impact of restructuring costs. The overall operating result was however boosted by an exceptional level of credit write-backs during the year. Focus continues on improving the sustainability of revenue by securing multi-year assignments and building on our expertise in workers' compensation loss mitigation and medical related portfolio management.

Captive management grew income in its US and Bermuda operations but the operating result was impacted by poor results in Gibraltar where new income failed to materialise and the cost of on-going investment in the US and new IOM platforms. The Bermuda based operations benefited from revenue related to the captive exit solution activity as well as certain new client wins. The Norwegian business, Triton, continues to perform satisfactorily with a new CEO targeting more local claims management and agency servicing work as well as helping source local run-off acquisition opportunities. Some management changes in the US captive operations and further progress in the medical related risk retention group project should enhance our ability to add new business, whilst in Gibraltar a recent hire with a strong marketing track record should improve prospects there.

Overall in the Insurance Services Division, our scale and expertise in niches such as broker run-off, liquidity management, captive management, and in medical malpractice and workers' compensation claims (in the US), provide good income growth opportunities both in the short to medium term and beyond.

Sustaining or growing the internal service revenue and profits is dependent on new portfolio acquisitions as the existing ones mature but there are encouraging signs emerging here as discussed in the Insurance Investments Division above.

We continue moreover to focus on the consolidation and re-engineering of the division's operations and on cost control.

Underwriting Management Division

The Underwriting Management division is engaged in the following activities:-

- Management of the Group's own active syndicate
- Management of RITC (run-off) syndicates

Delegated underwriting through a number of specialist managing general agents ('MGAs') with niche underwriting accounts.

	2013 £000	2012 £000
Lloyd's Managing Agency Operations		
Fee income	10,122	5,548
Profit Commissions	329	2,077
Operating Profit	**1,338**	**2,378**
MGAs		
Premium Income	37,270	28,133
Income	5,016	3,645
Operating Profit/(Loss)	**167**	**(1,876)**
Underwriting Management Holdings		
Income	477	297
Operating Loss	**(1,682)**	**(1,958)**
TOTAL INCOME	**15,944**	**11,567**
TOTAL OPERATING LOSS	**(177)**	**(1,456)**

The Underwriting Management Division generated an operating loss of £0.2m on revenue of £15.9m (2012: operating loss of £1.5m on revenue of £11.6m). The financial result was nonetheless weaker than originally anticipated due to a combination of factors. The Group's Lloyd's managing agency operations had strong income growth following the transfer of services previously provided to the Group's managed syndicates from the Insurance Services Division and the addition of Syndicate 1991. A material profit commission was generated from run-off Syndicate 3330 which continued to perform well with further identified reserve redundancy and risk margin release. The contribution from profit commission in the aggregate was however lower than the prior year (£2.1m) which benefited from a large risk premium release from Syndicate 3330, as is often the case in the first year of an RITC, and a favourable technical result in Syndicate 102 which, in 2013, was impacted by a small amount of deterioration on the CCI account. This resulted in a lower operating profit in the agency operations of £1.3m (2012: £2.4m).

The MGA commission income was materially higher than during 2012 at £5.0m (2012: £3.6m) which was in line with expectations as the Commercial Risk Services ("CRS") and Synergy accounts continued to mature. R&Q Marine Services, the Yachts and Marine Trades MGA, which traded well during the first part of the year suffered in the last quarter from the loss of a few major accounts in the face of stiff pricing competition. We believe our decision to maintain underwriting discipline is in the interests of our supporting capital and the MGA itself. Expanded line size for the current year should however help to rebuild well-priced business volume. New underwriting hires and capacity improvements in Synergy, the high net worth MGA, are finally beginning to bear fruit whilst CRS, the UK SME Commercial MGA continues to meet budget despite a challenging marketplace, which is testimony to the quality of its book and mid-tier and specialist broker focus.

The division remains well positioned for growth, especially following the doubling of the capacity of Syndicate 1991 for the 2014 underwriting year. New turnkey contracts are relatively scarce but we remain open for new business and there are also Lloyd's legacy management opportunities. Meanwhile, we are looking actively at opportunities to develop additional business through the establishment and management of underwriting consortia. This will bring like-minded capacity alongside our own to write some of the larger lines of business we can access from our specialist MGA network for Syndicate 1991. The division is expected to make a positive contribution to the Group's operating result during 2014 and materially so beyond, especially once anticipated profit commissions begin to accrue for Syndicate 1991 as its underwriting accounts mature.

Proposed Return of Cash via a P/Q Share Scheme and Distribution Policy

The proposed Return of Value, details of which will be outlined in a circular to be posted to shareholders shortly, gives shareholders the option of receiving their payment as capital or income and provided a more flexible and efficient mechanism of returning capital. The payment of 5.0p per share is expected to be made through the scheme in early June 2014 to those shareholders on the register in late May, bringing total cash distributions to shareholders in respect of the 2013 financial year to 8.4p.

The proposed return of cash to shareholders through a P/Q share scheme relates to a period when once again the Group successfully managed to release capital from its insurance investments.

The Return of Value is in place of the final dividend for the 2013 year but the Group may choose to make future returns of value in addition to or instead of ordinary dividend payments.

The Group has decided to maintain the total distributions to shareholders at 8.4p per share in respect of the 2014 financial year, absent unforeseen circumstances and confirms its commitment to a progressive distribution policy, growing cash returns to shareholders as it increases profits.

Litigation

There is no material litigation with which the Group is involved outside of the ordinary course of business. We continue to receive asbestos related claims and we have a number of on-going legal disputes with cedants but our reinsurers continue to bear the majority of the claims cost.

Staffing

The Group continues to seek high quality individuals to develop existing and new business areas. The Group has strength and depth in the management team across the three divisions.

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. We are especially pleased to welcome Paul Dassenko and Stephen Bailey who joined the Group as part of the acquisition of RTU, a legacy focused US broker, Janet Helson who joined recently as UMD Director, Paul Sewell as Head of Claims, Kate Gower as Synergy Underwriting Manager, John Spencely as UK and International Liability Underwriter, Gordon Breslin as North American Class Underwriter, Eric Silk as Business Development Manager for Syndicate 1991, Bradley King as Managing Director for Triton, our Norwegian captive manager and Andy Matthews as Managing Director for R&Q Gibraltar.

We also express our thanks to Peter Green, Group Actuary for many years, who retired during the early part of 2014. We wish him well in his retirement.

While we are expanding the number of staff in certain areas of the business, it is regrettable that we have to contract in others in order to reflect business priorities and to manage our cost base. This in no way reflects on staff performance.

We continue to reward staff and management primarily based on the Group's financial performance but we also offer equity incentives and profit shares to key people in certain of the new underwriting ventures to help retain and attract the best industry talent.

Chairman's Statement and Business Review
For the year ended 31 December 2013

Key Performance Indicators

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

Insurance Services	Revenue Growth	Operating Profit Margin
2013	(12.0)%	25.0%
2012	12.1%	22.5%

Operating Profit/(Loss)	Insurance Investments £m	Underwriting Management £m
2013	8.7[1]	(0.2)
2012	11.0[1,2]	(1.5)

Key per share indicators	Basic EPS	Distributions p/s	NTA p/s	Total Shareholder Return[3]
2013	11.9p	8.4	116.4	+80.9p
2012	22.4p[2]	8.4	116.7[2]	+20.9p

[1] After s.3330 Minority Interest

[2] After restatement relating to Alma prior year adjustment

[3] 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

21 April 2014

The Directors present their report together with the audited Financial Statements of the Company and its subsidiaries for the year ended 31 December 2013.

Principal Activities

The Company is a holding and investment company.

Group companies carry on business as owners, managers and acquirers of non-life insurance companies, insurance assets and captives in run off, managers of Lloyd's active Syndicates, as underwriting managers for active insurers, and service providers to the non-life insurance market.

The Group owns an active insurance company in Malta and fourteen insurance companies and captives in run-off in Europe, US and UK. The Group also owns and operates an active insurer in Bermuda which currently supports the Group's Lloyd's syndicate operations.

On 22 January 2013 the Company was incorporated as Swallows Nest Limited, and, on 25 February 2013, was renamed Randall & Quilter Investment Holdings Ltd. On 5 July 2013 the Company became the ultimate parent of the Group as detailed in Note 2a.

Results and Distributions

The results for the Group for the year ended 31 December 2013 are set out in the consolidated income statement on page 21.

The Directors declared and paid distributions for the year of 8.4 pence per share on the ordinary shares amounting to £4,901,000 (2012: £4,110,000).

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 2013, the following current Directors held ordinary shares as below. The total ordinary shares in issue at 31 December 2013 amounted to 71,776,080.

K E Randall and family	17,537,518
A K Quilter and family	4,246,545
T A Booth	659,745
M G Smith	25,000

Business Review

An overview of the Group's business and its activities in the year are contained in the Chairman's Statement and Business Review on pages 5 – 15 and the key performance indicators are shown on page 15.

Risk Management

The following risks are deemed to be the principal risks facing the Group. These are analysed between Insurance, Strategic, Operational, Regulatory and Other risks.

Insurance Risk

The main insurance risks which affect the insurance companies and syndicates (both run-off and active) on which the Group participates are:

- Pricing risk – the risk that coverage provided by the Group's insurance policies is inadequately priced, resulting in underwriting losses which in turn could lead to capital impairment.
- Claims risk – a series of claims in respect of a latent liability that the insurance industry is not currently aware of and/or a higher level of attritional losses and catastrophe related losses than anticipated and/or modelled on the policies underwritten in the active syndicates.
- Reinsurance risk – the risk that the reinsurers of the insurance companies will dispute the coverage of losses and/or inadequate or inappropriate reinsurance cover, especially of large catastrophe related losses in the active syndicates on which the Group participates.
- Legal risk – changes in statute or legal precedent.
- Reserving risk – the risk that the provisions established by the companies prove to be inadequate.
- General economic climate and natural disasters - The markets in which the Group operates are directly affected by many national and international factors that are beyond its control. Any one of the following factors, among others, may cause a substantial decline in the financial markets in which the Group operates: legislative, legal and regulatory changes; economic and political conditions in the UK, Europe, the US and elsewhere in the world; changes in the supply and demand of capital; industrial disruption; concerns about terrorism and war; natural disasters; the level and volatility of equity, property and commodity markets; the level and volatility of interest rates and foreign currency exchange rates and concerns over inflation and changes in institutional and consumer confidence levels. Uncertain economic prospects or declines in investment markets for any of the foregoing reasons could adversely affect the operations, business and profitability of the Group.
- Capital Management - Growth within the Group may be constrained by the availability of capital. As part of the yearly budget process, the Group considers any requirements for capital to expand the existing operations and to fund the likely acquisition pipeline of legacy insurance assets or investment in its syndicate participations. This capital requirement is monitored on an ongoing basis. The visibility of pipeline acquisitions is limited and the ability to complete transactions on the terms desired uncertain. The majority of the Group's insurance entities are subject to external risk based or minimum capital requirements which are subject to change, which may be unforeseeable.
- Investment performance - The insurance companies in run-off owned by the Group and the Syndicates (both run-off and active) on which the Group participates hold significant investments to support their liabilities and their earnings will be affected by the returns achieved on their investment portfolios. Therefore despite the Group's asset and liability management strategies, changes in credit spreads, interest rates, credit ratings, default rates and other economic variables could substantially affect the Group's profitability. The capital value of the Group's investments may fall as well as rise and the income derived from them may fluctuate. A fall in such capital values may adversely affect the Group's solvency position.

Strategic Risk

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 are not 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.

Failure to Deliver Objectives

Where there is a lack of understanding or cooperation across divisions, there is a risk that the Group's objectives will not be met. The Directors seek to mitigate these risks through regular reporting and communications throughout the Group.

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.

Operational Risk

Competition

The Group operates in an environment in which it faces competition from current and potential competitors. The Group may not be able to compete effectively with such competitors, particularly those with far greater capital resources.

Systems and Processes

This is the risk that errors caused by people, processes, systems or external events lead to losses. The Group seeks to manage this risk with detailed policies and procedures addressing each potential source of risk.

Reliance on Group IT 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 active underwriting operations.

Group Cash Flow Risk

If cash flows are not managed, this will adversely affect the Group's ability to meet debt and claims repayments and sustain its distribution policy. The Group actively manages 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 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.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The cash position of each entity 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 or placed in UCITS funds or Collective Investment Schemes. The investment performance of the fund managers and pooled funds is closely monitored throughout the year by the Group investment committee and insurance company boards.

Regulatory Risk

The insurance industry is heavily regulated in most jurisdictions. The majority of the insurance companies owned by the Group and Lloyd's Syndicates in which the Group participates are subject to the insurance regulatory systems in the jurisdictions in which they operate. These companies, and any future acquisitions by the Group, may not be able to maintain the necessary licences, permits, authorisations or accreditations in jurisdictions in which they currently engage in business or may only be able to do so at significant cost.

Regulatory agencies that operate in the Group's jurisdictions have broad administrative powers over many aspects of the Group's insurance business. These powers may influence premium rates, marketing and selling practices, advertising, licensing agents, policy forms, capital adequacy and permitted investments. Government regulators that operate in the jurisdictions will be concerned primarily with the protection of policyholders rather than shareholders or creditors.

In addition, the relevant members of the Group may not be able to comply fully with, or obtain appropriate exemptions from, any amendments to a regulatory regime. Failure to comply with or to obtain appropriate exemptions under any applicable laws could result in restrictions on the Group's ability to conduct business in one or more of

Report of the Directors

For the year ended 31 December 2013

the jurisdictions in which it operates and could result in the imposition of fines and other sanctions, each of which could have a material adverse effect on its reputation, financial condition and/or operating results.

Failure to comply with applicable regulations and solvency requirements, including the proposed EU Solvency II legislation and equivalency in other jurisdictions, could result in an impediment of business development and/or a variety of sanctions. The Group's failure to gain and/or maintain a sufficiently high Solvency II rating for its Lloyd's managing agency could in particular impede its business development in the Underwriting Management Division. The Directors are responsible for ensuring that best practice is applied to ensure regulatory compliance.

In addition, changes in the laws and regulations to which the Group's insurance operations are subject could have a material adverse effect on the Group's business and may increase the costs of complying with such laws and regulations.

A curtailment of certain of the licences held by Lloyd's or a deterioration in the credit rating and standing of Lloyd's could also adversely affect the Group's business and its future development, especially of its active underwriting operations.

Other Risks

Currency Risk

The Group is 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 the Group has therefore put in place rolling foreign exchange hedges to mitigate any foreign exchange mismatch between the investments held and the underlying liabilities, rather than directly hold assets and liabilities in the same currency.

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.

Group Reorganisation

Prior to 5 July 2013, the R&Q group of companies was wholly owned by Randall & Quilter Investment Holdings plc, a company registered in England and Wales with company number 03671097 (Old R&Q), and the Ordinary Shares were traded on AIM, a market operated by the London Stock Exchange.

On 17 May 2013, Old R&Q announced details of a change to the corporate structure of the Old R&Q Group (the Group). The restructuring proposals put in place a new parent company for the Group, which is Bermuda-incorporated and UK-listed. The proposals were implemented by means of a scheme of arrangement of Old R&Q under sections 895 to 899 of the Companies Act 2006 (the Scheme).

Following approval by shareholders, the Scheme became effective on 5 July 2013 and the Company became the ultimate holding company of the Group. Simultaneously, the Company's Ordinary Shares were admitted to trading on AIM.

Creditor Payment Policy

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

Disclosure of information to Auditors

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

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

Auditors

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

The Board and the Audit Committee has approved an extension to the engagement term of the Senior Statutory Auditor responsible for the audit opinion in relation to Randall & Quilter Investment Holdings Ltd. The term was extended for a further year and was made to safeguard the quality of the audit in light of the changes made or soon to be made to the structure of the group. The Audit Committee is satisfied that this extension does not in any way prejudice the objectivity and independence of the audit.

By order of the Board

Signed by

M L Glover
Company Secretary
21 April 2014

Statement of Directors' Responsibilities

For the year ended 31 December 2013

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

The Directors have elected to prepare the Group's financial statements under International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. The Directors are also responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:-

1. the Financial Statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and of the Group and the undertakings included in the consolidation taken as a whole; and

2. the sections of the Annual Report include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks that they face.

The Directors consider the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Independent Auditors' Report

to the Shareholders of Randall & Quilter Investment Holdings Ltd.

For the year ended 31 December 2013

We have audited the consolidated financial statements of Randall & Quilter Investment Holdings Ltd. ("the Company") for the year ended 31 December 2013 which comprise the Consolidated Income Statement, Consolidated Statement of Financial Position, Consolidated Cash Flow Statement, Consolidated Statement of Comprehensive Income, Consolidated statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the Company's shareholders, as a body. 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 auditor

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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of the Group's profit for the year then ended; and
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

PKF Littlejohn LLP

PKF Littlejohn LLP

Chartered Accountants
1 Westferry Circus
Canary Wharf
London
E14 4HD

21 April 2014

Consolidated Income Statement

For the year ended 31 December 2013

	Note	2013 £000	2013 £000	2012 Restated £000	2012 Restated £000
Gross premiums written		9,121		6,162	
Reinsurers' share of gross premiums		(837)		(696)	
Net written premiums		8,284		5,466	
Change in gross provision for unearned premiums		(2,077)		(1,583)	
Change in provision for unearned premiums, reinsurers' share		270		-	
Net change in provision for unearned premiums		(1,807)		(1,583)	
Earned premium, net of reinsurance			6,477		3,883
Net investment income	6	7,118		11,966	
Other income	7	40,578		35,906	
			47,696		47,872
Total income			54,173		51,755
Gross claims paid		(42,241)		(79,871)	
Reinsurers' share of gross claims paid		21,954		55,199	
Claims paid, net of reinsurance		(20,287)		(24,672)	
Movement in gross technical provisions		14,377		53,819	
Movement in reinsurers' share of technical provisions		10,638		(13,343)	
Net change in provisions for claims		25,015		40,476	
Net insurance provisions released			4,728		15,804
Operating expenses	8		(55,323)		(52,916)
Result of operating activities before goodwill on bargain purchase			3,578		14,643
Goodwill on bargain purchase	30		8,479		3,112
Amortisation and impairment of intangible assets			(203)		(120)
Result of operating activities			11,854		17,635
Finance costs	9		(523)		(809)
Share of loss of associate			(72)		-
Profit on ordinary activities before income taxes	10		11,259		16,826
Income tax charge	11		(2,124)		(578)
Profit for the year			9,135		16,248
Attributable to equity holders of the parent					
Attributable to owners of the parent			7,440		11,067
Non-controlling interests			1,695		5,181
			9,135		16,248
Earnings per ordinary share for the profit attributable to the ordinary shareholders of the Company:					
Basic	12		11.9p		22.4p
Diluted	12		11.9p		21.8p

The accounting policies and notes on pages 26 to 79 form part of these Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2013
Company number 47341

	Note	2013 £000	2012 Restated £000
Assets			
Intangible assets	14	17,198	15,675
Investments in associates		228	-
Property, plant and equipment	15	1,440	1,719
Financial instruments			
- Investment properties	16a	1,019	1,004
- Investments (fair value through profit or loss)	16b	155,809	174,274
- Deposits with ceding undertakings	4	4,925	3,589
Reinsurers' share of insurance liabilities	22	157,682	148,988
Current tax assets	19	4,047	4,365
Deferred tax assets	23	5,292	5,383
Insurance and other receivables	17	80,046	68,486
Cash and cash equivalents	18	46,942	52,263
Total assets		474,628	475,746
Liabilities			
Insurance contract provisions	22	323,948	327,973
Financial liabilities			
- Amounts owed to credit institutions	21	17,572	18,939
- Deposits received from reinsurers		1,518	1,674
Deferred tax liabilities	23	2,602	2,192
Insurance and other payables	20	20,110	39,267
Current tax liabilities		3,845	2,570
Pension scheme obligations	27	3,018	4,381
Total liabilities		372,613	396,996
Equity			
Share capital	24	1,435	1,036
Shares to be issued		84	744
Share premium account	24	23,392	4,752
Treasury share reserve	24	(54)	(434)
Retained earnings		75,787	67,510
Attributable to equity holders of the parent		100,644	73,608
Non-controlling interest in subsidiary undertakings		1,371	5,142
Total equity		102,015	78,750
Total liabilities and equity		474,628	475,746

The Financial Statements were approved by the Board of Directors on 21 April 2014 and were signed on its behalf by:-

K E Randall **T A Booth**

The accounting policies and notes on pages 26 to 79 form part of these Financial Statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2013

	Note	2013 £000	2012 Restated £000
Cash flows from operating activities			
Profit before income taxes		11,259	16,826
Finance costs	9	523	809
Depreciation	15	638	746
Share based payments		240	621
Share of losses of associates		72	-
Goodwill on bargain purchase	30	(8,479)	(3,112)
Amortisation and impairment of intangible assets	14	203	120
Fair value gain on financial assets		(1,268)	(6,466)
Loss on net assets of pension schemes		123	70
(Increase)/decrease in receivables		(11,087)	5,444
Decrease in deposits with ceding undertakings		365	293
Decrease in payables		(23,155)	(77,083)
Decrease in net insurance technical provisions		(22,976)	(40,849)
		(53,542)	(102,581)
Sale of financial assets		50,542	101,303
Purchase of financial assets		(33,117)	(11,492)
Cash used in operations		(36,117)	(12,770)
Income taxes paid		-	(78)
Income taxes repaid		194	254
Net cash used in operating activities		(35,923)	(12,594)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(568)	(721)
Proceeds from sale of property, plant & equipment	15	210	-
Purchase of intangible assets	14	(344)	-
Acquisition of subsidiary undertakings (offset by cash acquired)		18,923	7,890
Share of cash from reinsurance of Syndicate		-	29,912
Acquisition of non-controlling interest in subsidiary		(5,064)	-
Cash injection by non-controlling interest in subsidiary		-	100
Net cash generated from investing activities		13,157	37,181
Cash flows to financing activities			
Repayment of borrowings		(2,278)	(3,931)
Proceeds from new borrowing arrangements		1,017	-
Equity dividends paid	13	(2,249)	(1,270)
Interest and other finance costs paid	9	(523)	(809)
Receipts from issue of shares		23,977	-
Cancellation of shares	13	(2,652)	(2,840)
Sale of treasury shares		230	90
Net cash from/(to) financing activities		17,522	(8,760)
Net (decrease)/increase in cash and cash equivalents		(5,244)	15,827
Cash and cash equivalents at beginning of year		52,263	37,183
Foreign exchange movement on cash and cash equivalents		(77)	(747)
Cash and cash equivalents at end of year	18	46,942	52,263
Share of Syndicates' cash restricted funds		1,570	2,747
Unrestricted funds		45,372	49,516
Cash and cash equivalents at end of year		46,942	52,263

The accounting policies and notes on pages 26 to 79 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 £000	2012 Restated £000
Other Comprehensive Income:-		
Items that will not be reclassified to profit or loss:-		
Pension scheme actuarial gains/(losses)	1,465	(1,604)
Deferred tax on pension scheme actuarial (gains)/losses	(285)	369
	1,180	(1,235)
Items that may be subsequently reclassified to profit or loss:-		
Exchange losses on consolidation	(1,100)	(395)
Other comprehensive income	80	(1,630)
Profit for the year	9,135	16,248
Total comprehensive income for the year	9,215	14,618
Attributable to:-		
Equity holders of the parent	7,490	9,476
Non-controlling interests	1,725	5,142
Total recognised comprehensive income for the year	9,215	14,618

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	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 2013									
At beginning of year	1,036	744	4,752	-	(434)	66,390	72,488	5,142	77,630
Prior period adjustment	-	-	-	-	-	1,120	1,120	-	1,120
At beginning of year	1,036	744	4,752	-	(434)	67,510	73,608	5,142	78,750
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	7,440	7,440	1,695	9,135
Other comprehensive income									
Exchange losses on consolidation	-	-	-	-	-	(1,130)	(1,130)	30	(1,100)
Pension scheme actuarial gains (note 27)	-	-	-	-	-	1,465	1,465	-	1,465
Deferred tax on pension scheme actuarial gains	-	-	-	-	-	(285)	(285)	-	(285)
Total other comprehensive income for the year	-	-	-	-	-	50	50	30	80
Total comprehensive income for the year	-	-	-	-	-	7,490	7,490	1,725	9,215
Transactions with owners									
Issue of shares (net of expenses)	383	-	23,500	-	-	-	23,883	-	23,883
Issue of L-O shares	4,937	-	(4,937)	-	-	-	-	-	-
Cancellation of L&N shares	(2,688)	-	-	-	36	-	(2,652)	-	(2,652)
Cancellation of M&O shares	(2,249)	-	-	-	-	2,249	-	-	-
Share based payments	16	(562)	77	-	-	757	288	-	288
Treasury shares	-	(98)	-	-	344	30	276	-	276
Dividends	-	-	-	-	-	(2,249)	(2,249)	-	(2,249)
Purchase of non-controlling interest	-	-	-	-	-	-	-	(5,064)	(5,064)
Non-controlling interest in subsidiary acquired	-	-	-	-	-	-	-	(432)	(432)
At end of year	1,435	84	23,392	-	(54)	75,787	100,644	1,371	102,015

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	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 2012 (Restated)									
At beginning of year	1,118	254	12,096	1,636	(704)	58,032	72,432	-	72,432
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	11,067	11,067	5,181	16,248
Other comprehensive income									
Exchange losses on consolidation	-	-	-	-	-	(356)	(356)	(39)	(395)
Pension scheme actuarial losses (note 27)	-	-	-	-	-	(1,604)	(1,604)	-	(1,604)
Deferred tax on pension scheme actuarial losses	-	-	-	-	-	369	369	-	369
Total other comprehensive income for the year	-	-	-	-	-	(1,591)	(1,591)	(39)	(1,630)
Total comprehensive income for the year	-	-	-	-	-	9,476	9,476	5,142	14,618
Transactions with owners									
Purchase of own shares	(82)	-	(3,182)	(1,636)	-	-	(4,900)	-	(4,900)
Issue of G-K shares	4,162	-	(4,162)	-	-	-	-	-	-
Cancellation of G&J shares	(2,892)	-	-	-	52	-	(2,840)	-	(2,840)
Cancellation of H&K shares	(1,270)	-	-	-	-	1,270	-	-	-
Share based payments	-	514	-	-	-	-	514	-	514
Treasury shares	-	(24)	-	-	218	2	196		196
Dividends	-	-	-	-	-	(1,270)	(1,270)	-	(1,270)
At end of year	1,036	744	4,752	-	(434)	67,510	73,608	5,142	78,750

The accounting policies and notes on pages 26 to 79 form part of these Financial Statements.

1. Corporate information

Randall & Quilter Investment Holdings Ltd. (the "Company") is a company domiciled and incorporated in Bermuda. Group companies carry on business worldwide as owners and managers of insurance companies and captives in run off, as underwriting managers for active insurers, as participators and managers of Lloyd's Syndicates, as purchasers of insurance receivables, as managers of insurance 'captives' and as service providers to the non-life insurance market. The Financial Statements were approved by the Board of Directors on 21 April 2014.

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 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.

On 5 July 2013, pursuant to a Scheme of Arrangement under sections 895 to 899 of the Companies Act 2006, a new parent company was introduced which is now called Randall & Quilter Investments Holdings Ltd (the "Company"). The previous parent company has been renamed as RQIH Ltd (Old R&Q).

Immediately after the Scheme of Arrangement became effective the Company had the same business and operations as Old R&Q. The consolidated assets and liabilities of the Company immediately after the effective date of the Scheme of Arrangement are the same as the consolidated assets and liabilities of Old R&Q immediately before.

The introduction of a new holding company constitutes a group reconstruction and has been accounted for using merger accounting principles. As a result, the financial statements are shown as if the new group had always been in existence.

These Financial Statements have been restated for a prior year adjustment in respect of provisional accounting of the acquisition of Alma Vakuutus OY in line with IFRS 3 (see note 30) and for the revision to accounting for defined benefit pension schemes in line with IAS 19 (note 27).

New and Amended Standards Adopted by the Group

All new standards and interpretations released by the International accounting Standards Board (IASB) have been considered and of these the following new and amended standards have been adopted by the Group during the year:-

- IFRS 7 Amendment Offsetting financial assets and financial liabilities
- IFRS 13 Fair Value measurement
- IAS 1 Amendment Presentation of other items of comprehensive income
- IAS 19 Amendment Defined benefit plans

Amendments to IFRS 7, Financial Instruments – Disclosures

The amendments include enhanced disclosures to enable users of the financial statements to evaluate the effect or

potential effect of netting arrangements in the statement of financial position. The new disclosures are required for

all recognised financial instruments that are set off in accordance with IAS 32, Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement. The standard has been applied retrospectively but has no impact on the Group's profit for the current or prior period or on the equity reported.

IFRS 13, Fair Value Measurement

IFRS 13 establishes a single standard for all fair value measurements. The standard does not change the scope of fair value measurement, but provides further guidance on how fair value should be determined. The changes have no significant impact on the Group's application of fair value measurements and have no impact on the profit or loss for the current or prior period or on equity reported. IFRS 13 also requires enhanced disclosures about fair value measurement, some of which replace existing disclosure requirements in other standards, including IFRS 7.

IAS 1, Presentation of Financial Statements (Amended)

The amendments to IAS 1 require the grouping of items presented in other comprehensive income according to whether they will subsequently be reclassified (or recycled) to income statement in the future. The criteria when items are required to be reclassified from other comprehensive income to income statement are set out in the accounting policies below. The adoption of the amendments to IAS 1 results in a revised presentation of the statement of comprehensive income and is applied retrospectively. It has no impact on the profit or loss for the current or prior period or on equity reported.

IAS 19, Employee Benefits (Revised)

The amendment revises requirements for pensions and other post-retirement benefits, termination benefits and other employee benefits.

The key changes include the revision of the calculation of the finance cost, enhanced disclosures surrounding the characteristics and risk profile of defined benefit plans, and a requirement to include all actuarial gains and losses immediately in other comprehensive income which is already in line with the Group's current policy. The key impact of the revised standard on the Group's consolidated financial statements is the replacement of the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest income (or expense). This is based on the net defined benefit asset (or liability) at the start of the year multiplied by the discount rate used at that point to measure the pension obligation. There is no change in the method to determine the discount rate. Net interest income is credited to investment income, whereas net interest expense is charged to finance costs. The revised standard has introduced a new term "remeasurements" comprised of actuarial gains and losses and the difference between actual investment returns less investment expenses and the return implied by the net interest cost. These are recognised in other comprehensive income with no subsequent recycling to the income statement. Amounts recorded in the income statement are therefore limited to service costs, and the net interest income/expense. The revised standard has been applied retrospectively in accordance with the transitional provision of the standard. There is no impact on reported equity in the current or prior period.

New standards and interpretations not yet effective

- IFRS 10 Consolidated financial statements (effective 1 January 2014)
- IFRS 11 Joint arrangements (effective 1 January 2014
- IFRS 12 Disclosure of interests in other entities (effective 1 January 2014)
- IAS 19 Amendment Defined benefit plans: Employee Contributions (effective 1 July 2014)
- IAS 27 Amendment Separate financial statements (effective 1 January 2014)
- IAS 28 Amendment Investments in associates and joint ventures (effective 1 January 2014)
- IAS 32 Amendment Offsetting financial assets and financial liabilities (effective 1 January 2014)
- IAS 36 Amendment Recoverable amount disclosures for non-financial assets (effective 1 January 2014)
- IAS 39 Amendment Novation of derivatives and continuation of hedge accounting (effective 1 January 2014)
- IFRIC 21 Levies

The Group is continuing to assess the impact of these new standards, however they are not likely to have a material impact on the Group's 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 and the Lloyd's Syndicates on which the Group participates 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 at the year end.

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.

Except as disclosed in Note 32, the Company bears no financial responsibility for any liabilities or obligations of any insurance company subsidiary in run-off. 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.
- 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 2013 and 2012. 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.

2. Accounting policies (continued)

c. Consolidation (continued)

The financial results of the Group's Syndicate participations are consolidated on a proportionate basis.

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 as goodwill on bargain purchase.

Associates are those entities in which the Group has power to exert influence but which it does not control. Investments in associates are accounted for using the equity method of accounting. Under this method the investments are initially measured at cost and the Group's share of post-acquisition profits or losses are recognised in the consolidated income statement. Therefore the cumulative post-acquisition movements in the associates' net assets are adjusted against the cost of the investment.

When the Group's share of losses equals or exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition for the losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Equity accounting is discontinued when the Group no longer has significant influence over the investment. 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 the equity attributable to the shareholders' of the parent.

Insurance broking cash, debtors and creditors held by subsidiary companies, other than the receivable for fees, commissions and interest earned on a transaction, are not included in the group's Consolidated Statement of Financial Position as the subsidiaries act as agents in placing the insurable risks of their clients with insurers and as such are not liable as principals for amounts arising from such transactions.

d. Going concern

The Directors have assessed the position of the Group 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.

e. 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. Reinsurance premium costs are allocated by the Managing Agent of each syndicate to reflect the protection arranged in respect of the business written and earned.

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

f. 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.

g. 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 latest trends in court awards. The Directors of the subsidiaries, with the assistance of run-off managers, independent actuaries and internal 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, an assessment will be made whether the 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 as regards specific and general industry experience of trends.

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 insurance 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 year of account of a Lloyd's Syndicate is normally closed by way of a Reinsurance to Close into the following underwriting year of account of the same syndicate. 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 of administering those claims. Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of Lloyd's chain of security were to fail, then the participators in the closed underwriting account would have to settle outstanding claims.

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The company has included its share of the external reinsurance to close premiums payable as technical provisions at the end of the current period, and no further provision is made for any potential variation in the ultimate liability of that year of account.

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 underwriting year of account. 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 members participating therein until the relevant underwriting year of account is closed by way of a Reinsurance to Close into the successor underwriting year of account or a later underwriting year of account of another syndicate. 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.

h. Provisions for future costs

Claims handling costs

Full provision is made for the anticipated costs of running off the business of those insurance subsidiaries and the Group's participation in Syndicates which are in run off (Syndicate 3330). Syndicates are treated as being in run off for the Group financial statements where they have ceased writing new business and, in the opinion of management, there is no current probable reinsurer available to close the relevant syndicate year of account. We also include Syndicates which are in long term run-off in a Group supported Syndicate.

Provision for run off costs is made to the extent that the provision exceeds the estimated future investment return expected to be earned by those insurance subsidiaries and syndicates treated as being in run off. Changes in the estimates of such costs and future investment return are reflected in the year in which the estimates are made.

When assessing the amount of future investment return to be recognised, the investment return and claims handling and all other costs of all the insurance company subsidiaries and syndicates in run off 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.

i. 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

2. Accounting policies (continued)

i. Structured settlements

are recognised in liabilities. The amount payable to claimants by the third party life insurance companies are also shown in liabilities as reducing the Group's 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.

j. Segmental reporting

A business segment is a component of an entity that is engaged in business operations 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.

k. 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 statement of financial position 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.

l. 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 profit and loss, 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 profit and loss

All financial assets, other than cash, loans and receivables are currently designated as fair value through the profit and loss 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.

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 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 profit and loss. 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.

m. Employee benefit trust

The Employee Benefit Trust holds shares in the Company for the benefit of employees of the Group. These have been used to meet exercises of options granted by the Company or its predecessor, Randall & Quilter Investment Holdings plc, (now RQIH Limited). The Trust has waived its right to dividends and to vote the shares it holds and as a consequence these shares are deemed to be in Treasury. The Company funds the expenses of the trust and consolidates the expense statement and balance sheet of the Trust in full.

n. 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.

o. 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, IT 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
IT equipment	25
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.

p. 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 Group's balance sheet in accordance with the Group accounting policies for claims provisions and related reinsurance recoveries. Any material differences that arise between the amounts included in the Group 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.

q. 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.

2. Accounting policies (continued)

q. Other intangible assets (continued)

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

Purchased IT software	3 – 5 years
On acquisition of insurance companies	Estimated period of run-off
On acquisitions - other	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.

r. Employee Benefits

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, net interest income or cost and any curtailments/settlements are charged to the income statement. 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.

s. Cash and cash equivalents

For the purposes of the consolidated 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.

t. Finance costs

Finance costs comprise interest payable and fees paid for the arrangement of the debt. Finance costs are recognised in the income statement on an accruals basis. Arrangement fees in relation to loan facilities are deducted from the relevant financial liability and amortised over the period of the facility.

u. Operating expenses, pre-contract costs and onerous contracts

Operating expenses are accounted for on an accruals basis.

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

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

Onerous contract provisions are provided for in circumstances where a legal commitment exists to provide services which exceed future management fee income. The costs of providing the services are projected based on management assessment. Estimated future investment income on associated funds is taken into account when calculating the level of provision required.

v. Other income

Other income includes the value of management and consultancy fees receivable, profit commission on managed Lloyd's syndicates, the value of debt collection fees receivable and the movement in the fair value of purchased reinsurance receivables and is stated excluding any applicable value added tax.

Management and Consultancy Fees

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

Debt collection fees

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

Purchased reinsurance receivables

Previously, these assets were included within "Insurance and other receivables" and were initially recorded at cost. However, with effect from 1 January 2013, the Group now accounts for these financial assets at fair value in accordance with International accounting standard No 39 (IAS 39).

The Directors are of the opinion that this change provides reliable and more relevant information about the effect of the transactions on the Group's financial position.

The effect of this change has no material impact on the Group's results for 2012 but uplifts the Group's profit for the year by £4.4m. These assets are included within the Consolidated Statement of Financial Position heading insurance and other receivables.

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Fair value is defined as the price at which an orderly transaction would take place between market participants at the reporting date and is therefore an estimate which requires the use of judgement.

Profit commission on managed Lloyd's Syndicates

Profit commission from managed Syndicates is recognised when 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. The Group's share of the profit and losses arising from its syndicate participations are accounted for under the annual basis of accounting, however profits and losses are not normally transferred between the syndicate and members until after the 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.

Insurance commissions and fees

Revenues from commissions and fees are recognised at the inception date of the policy, or the date of contractual entitlement, if later. Alterations in commission arising from premium adjustments are taken into account as and when such adjustments are notified. To the extent that the Group is contractually obliged to provide services after this date, a suitable proportion of income is deferred and recognised over the life of the relevant contracts to ensure that revenue appropriately reflects the cost of fulfilling those obligations. Profit commission is recognised when the right to such profit commission is established through a contract but only to the extent that a reliable estimate of the amount due can be made. Such estimates are made on a prudent basis that reflects the level of uncertainty involved.

w. 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.

x. Current and deferred income tax

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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable 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 income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. 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.

y. Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

z. Distributions

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

3. Estimation techniques, uncertainties and contingencies

Estimates and judgments are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Claims provisions

The Group participates on a number of syndicates and 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 to run-off its liabilities.

3. Estimation techniques, uncertainties and contingencies (continued)

Claims provisions (continued)

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 Group also contracts with independent external actuaries to provide a range of acceptable estimates for the Lloyd's syndicates it participates on and its larger run-off insurance companies. The Group sets its reserves to lie within this acceptable range.

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

Litigation, mediation and arbitration

The Group in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectorial inquiries in the normal course of its business. The Directors do not believe that, any current mediation, arbitration, regulatory, governmental or sectorial 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 sectorial 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.

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 Group investment committee set the policy followed by the investment managers. 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.

4. Risk management (continued)

a. Investment risks (including market risk and interest rate risk) (continued)

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

	2013 £m	2012 £m
Government and government agencies	7.5	18.7
Corporate bonds	94.2	111.7
Equities	16.9	12.4
Cash based investment funds	37.2	31.6
Cash and cash equivalents	46.9	52.2
	202.7	226.6

	%	%
Government and government agencies	3.7	8.3
Corporate bonds	46.5	49.3
Equities	8.3	5.5
Cash based investment funds	18.4	13.9
Cash and cash equivalents	23.1	23.0
	100.0	100.0

Corporate bonds include asset backed mortgage obligations totalling £40.3m (2012: £105.0m)

Based on invested assets at external managers of £155.8m as at 31 December 2013 (2012: £174.3m) a one percentage increase/decrease in market price would result in an increase/decrease in the profit before income taxes for the year to 31 December 2013 of £1.6m (2012: £1.7m).

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The following table shows the fair values of financial assets using a valuation hierarchy; the fair value hierarchy has the following levels:-

Tier 1 – Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date.

Tier 2 – Valuations based on quoted prices in markets that are not active, or based on based on pricing models for which significant inputs can be corroborated by observable market data.

Tier 3 – Valuations based on inputs that are unobservable or for which there is limited activity against which to measure fair value.

2013	Tier 1 £m	Tier 2 £m	Tier 3 £m	Total £m
Government and government agencies	7.5	-	-	7.5
Corporate bonds	50.1	44.1	-	94.2
Equities	16.9	-		16.9
Cash based investment funds	34.2	3.0	-	37.2
Purchased reinsurance receivables (note 17)	-	-	16.0	16.0
Total financial assets measured at fair value	108.7	47.1	16.0	171.8

2012	Tier 1 £m	Tier 2 £m	Tier 3 £m	Total £m
Government and government agencies	18.7	-	-	18.7
Corporate bonds	111.7	-	-	111.7
Equities	12.4	-		12.4
Cash based investment funds	28.4	3.2	-	31.6
Purchased reinsurance receivables (note 17)	-	-	6.6	6.6
Total financial assets measured at fair value	171.2	3.2	6.6	181.0

Tier 3 investments (purchased reinsurance receivables) have been valued using detailed models outlining the anticipated timing and amounts of future receipts. The gain recognised in the income statement in other income for the year amounted to £4.4m (2012: £nil). During the year the Group purchased further insurance receivables at a cost of £5m. Short term delays in the receipt of these investments will not have a material impact on their valuation.

4. Risk management (continued)

a. Investment risks (including market risk and interest rate risk) (continued)

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

As at 31 December 2013

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
Debt securities	138.9	1.0	7.9	13.0	47.0	70.0

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 %
Debt securities	0.5-4.2	0.5-9.875	0.5-5.5	0.45-6.25	1.5-7.53

As at 31 December 2012

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
Debt securities	162.0	53.5	10.6	22.8	41.8	33.3

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 %
Debt securities	0.5-6.5	0.451-6.95	0.464-9.875	0.304-6.25	0.304-5.75

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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 agencies.

As at 31 December 2013

	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	2,333	454	-	-	2,148	4,925
Reinsurers' share of insurance liabilities	109,326	10,213	-	22,743	15,400	157,682
Receivables arising out of reinsurance contracts	18,686	1,616	-	3,420	13,620	37,342

* 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	40.4	5.6	21.3	32.7

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.

4. Risk management (continued)

b. Credit risk (continued)

As at 31 December 2012

	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	1,062	451	-	-	2,076	3,589
Reinsurers' share of insurance liabilities	111,439	4,476	331	10,580	22,162	148,988
Receivables arising out of reinsurance contracts	25,275	542	-	4,030	13,193	43,040

* 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	35.2	21.2	18.6	25.0

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.

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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 arises 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 significant exchange rates as at the 31 December 2013 were USD 1.64 (2012: 1.61) and EUR 1.20 (2012: 1.22).

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

31 December 2013	STG £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	11,839	5,262	97	-	17,198
Reinsurance assets	6,469	148,834	2,379	-	157,682
Financial investments	42,976	97,299	20,911	567	161,753
Insurance receivables	9,042	31,384	1,130	-	41,556
Cash and cash equivalents	25,830	12,129	8,612	371	46,942
Insurance liabilities including provisions	(38,053)	(275,448)	(19,886)	-	(333,387)
Other provisions	(5,557)	(63)	-	-	(5,620)
Trade and other (payables)/receivables	35,741	(11,263)	(9,561)	(397)	14,520
31 December 2012	**STG £000**	**US Dollar £000**	**Euro £000**	**Other £000**	**Total £000**
Intangible assets	10,346	5,329	-		15,675
Reinsurance assets	8,879	139,859	250	-	148,988
Financial investments	28,657	133,090	16,517	603	178,867
Insurance receivables	4,957	40,839	816	-	46,612
Cash and cash equivalents	38,117	4,900	8,827	419	52,263
Insurance liabilities including provisions	(65,827)	(274,258)	(14,122)	-	(352,207)
Other provisions	(5,997)	(167)	(374)	-	(6,538)
Trade and other (payables)/receivables	19,847	(22,189)	(4,764)	(946)	(8,052)

The Group has no significant concentration of currency risk.

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.

Currency	Changes in variables	31 December 2013 Impact on profit £000	31 December 2013 Impact on equity* £000	31 December 2012 Impact on profit £000	31 December 2012 Impact on equity* £000
Euro	+10%	(59)	(335)	(661)	(888)
USD	+10%	733	(812)	(19)	(2,680)
Euro	-10%	71	409	804	1,084
USD	-10%	(894)	992	21	3,275

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

d. Insurance risk

The Group participates on Syndicates shown below:-

Syndicate	Year of account	Syndicate Capacity £	Group capacity £	Status
1991	2014	150,000,000	30,000,000	Active
1991	2013	76,844,431	17,479,528	Active
1897	2013	70,000,000	5,833,333	Active
1897	2012	60,000,000	5,000,000	Active
1897	2011	60,000,000	5,000,000	Closed
102	2011	3,500,000	700,000	Closed
3330	2014	3,300,000	3,300,000	Active*
3330	2012	3,000,000	3,000,000	Active*

*RITC Syndicate.

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The following subsidiaries and cells 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 (UK) Limited	1990	3 July 2006
Chevanstell Limited	2003	10 November 2006
R&Q Insurance (Malta) Limited*	-	-
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
Trimac (TE segregated account)	1995	13 June 2012
Capstan Insurance Company Limited	2010	1 November 2012
Alma Vakuutus OY	1989	27 December 2012
Hickson Insurance Company Limited	2002	11 January 2013
MMA (Retro segregated account)	1990	31 May 2013
MPPA (Travelers/AIG segregated accounts)	2008	24 June 2013
R&Q Cyprus Ltd (formerly Flagstone Alliance Insurance & Reinsurance Ltd)	2010	11 October 2013

* R&Q Insurance (Malta) Limited has licences to write live business. This company was set up to acquire the run-off of other Group Insurance Companies where appropriate and assume third party business.

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 2009.

During the year the all the liabilities and the majority of the assets of Chevanstell Limited were transferred into R&Q Insurance (Malta) Limited by means of a statutory transfer Part VII of the Financial Services and Markets Act 2000("FSMA").

4. Risk management (continued)

d. Insurance risk (continued)

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

	Group entities at 1 January 2010 £000	Entities acquired by the Group during 2010 £000	Entities acquired by the Group during 2011 £000	Entities acquired by the Group during 2012 £000	Entities acquired by the Group during 2013 £000
Gross provisions at:-					
1 January 2010/acquisition	480,001	6,655	16,598	31,922	13,996
First year movement	(45,754)	(806)	(4,319)	(15,701)	(126)
Second year movement	(86,873)	(3,273)	(1,458)	(6,535)	-
Third year movement	(48,685)	(335)	320	-	-
Fourth year movement	(11,400)	(279)	-	-	-
Gross position at 31 December 2013	287,289	1,962	11,141	9,686	13,870
Estimated gross ultimate claims at:-					
1 January 2010/acquisition	480,001	6,655	16,598	31,922	13,996
Foreign exchange	(2,149)	(68)	1,908	(2,431)	(466)
Payments	(229,699)	(3,384)	(9,623)	(3,440)	(606)
Gross position at 31 December 2013	(287,289)	(1,962)	(11,141)	(9,686)	(13,870)
(Deficit)/surplus to date	(39,136)	1,241	(2,258)	16,365	(946)

Analysis of claims development – net

	Group entities at 1 January 2010 £000	Entities acquired by the Group during 2010 £000	Entities acquired by the Group during 2011 £000	Entities acquired by the Group during 2012 £000	Entities acquired by the Group during 2013 £000
Net provisions at:-					
1 January 2010/acquisition	232,544	6,436	12,497	29,174	12,272
First year movement	(14,706)	(786)	(2,658)	(15,510)	(227)
Second year movement	(34,768)	(3,074)	(590)	(5,457)	-
Third year movement	(29,239)	(335)	685	-	-
Fourth year movement	(19,713)	(279)	-	-	-
Net position at 31 December 2013	134,118	1,962	9,934	8,207	12,045
Estimated net ultimate claims at:-					
1 January 2010/acquisition	232,544	6,436	12,497	29,174	12,272
Foreign exchange	4,048	(72)	1,998	(2,403)	(408)
Payments	(74,007)	(3,310)	(7,680)	(2,612)	(665)
Net position at 31 December 2013	(134,118)	(1,962)	(9,934)	(8,207)	(12,045)
Surplus/(deficit) to date	28,467	1,092	(3,119)	15,952	(846)

The above figures include the Group's participation on Lloyd's Syndicates treated as being in run-off.

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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 (including captive management) to both internal and external clients in the insurance market
- 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 2013

	Insurance Investments £000	Insurance Services £000	Underwriting Management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	6,477	-	-	-	-	6,477
Net investment income	8,707	1,312	250	2,288	(5,439)	7,118
External income	4,538	22,816	13,224	-	-	40,578
Internal income	793	15,271	2,470	1,533	(20,067)	-
Total income	**20,515**	**39,399**	**15,944**	**3,821**	**(25,506)**	**54,173**
Claims paid, net of reinsurance	(20,287)	-	-	-	-	(20,287)
Net change in provision for claims	25,015	-	-	-	-	25,015
Net insurance claims released	**4,728**	**-**	**-**	**-**	**-**	**4,728**
Operating expenses	(23,385)	(29,504)	(15,978)	(6,523)	20,067	(55,323)
Result of operating activities before goodwill on bargain purchase	**1,858**	**9,895**	**(34)**	**(2,702)**	**(5,439)**	**3,578**
Goodwill on bargain purchase	8,479	-	-	-	-	8,479
Amortisation and impairment of intangible assets	(4)	(56)	(143)	-	-	(203)
Result of operating activities	**10,333**	**9,839**	**(177)**	**(2,702)**	**(5,439)**	**11,854**
Finance costs	(1,737)	(1,540)	(436)	(2,249)	5,439	(523)
Share of loss of associate	-	-	(72)	-	-	(72)
Profit/(loss) on ordinary activities before income taxes	**8,596**	**8,299**	**(685)**	**(4,951)**	**-**	**11,259**
Income tax (charge)/credit	(1,733)	(379)	(37)	25	-	(2,124)
Profit/(loss) for the year	**6,863**	**7,920**	**(722)**	**(4,926)**	**-**	**9,135**
Non-controlling interest	**(1,660)**	**58**	**(93)**	**-**	**-**	**(1,695)**
Attributable to owners of parent	**5,203**	**7,978**	**(815)**	**(4,926)**	**-**	**7,440**
Segment assets	**554,176**	**65,228**	**13,168**	**65,112**	**(223,056)**	**474,628**
Segment liabilities	**436,630**	**64,187**	**15,747**	**79,105**	**(223,056)**	**372,613**

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

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

5. Segmental information (continued)

Segment result for the year ended 31 December 2012 (Restated)

	Insurance Investments £000	Insurance Services £000	Underwriting Management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	3,883	-	-	-	-	3,883
Net investment income	13,379	1,497	197	1,155	(4,262)	11,966
External income	621	27,245	7,999	41	-	35,906
Internal income	460	16,045	3,371	-	(19,876)	-
Total income	**18,343**	**44,787**	**11,567**	**1,196**	**(24,138)**	**51,755**
Claims paid, net of reinsurance	(24,672)	-	-	-	-	(24,672)
Net change in provision for claims	40,476	-	-	-	-	40,476
Net insurance claims released	**115,804**	**-**	**-**	**-**	**-**	**15,804**
Operating expenses	(21,152)	(34,671)	(12,958)	(4,011)	19,876	(52,916)
Result of operating activities before goodwill on bargain purchase	**12,995**	**10,116**	**(1,391)**	**(2,815)**	**(4,262)**	**14,643**
Goodwill on bargain purchase	3,112	-	-	-	-	3,112
Amortisation of intangible assets	-	(55)	(65)	-	-	(120)
Result of operating activities	**16,107**	**10,061**	**(1,456)**	**(2,815)**	**(4,262)**	**17,635**
Finance costs	(1,143)	(1,778)	(325)	(1,825)	4,262	(809)
Profit/(loss) on ordinary activities before income taxes	**14,964**	**8,283**	**(1,781)**	**(4,640)**	**-**	**16,826**
Income tax credit/(charge)	72	(1,198)	75	473	-	(578)
Profit/(loss) for the year	**15,036**	**7,085**	**(1,706)**	**(4,167)**	**-**	**16,248**
Non-controlling interest	**(5,064)**	**-**	**(117)**	**-**	**-**	**(5,181)**
Attributable to owners of parent	**9,972**	**7,085**	**(1,823)**	**(4,167)**	**-**	**11,067**
Segment assets	**511,595**	**83,751**	**16,410**	**40,453**	**(176,463)**	**475,746**
Segment liabilities	**409,304**	**82,667**	**18,643**	**62,845**	**(176,463)**	**396,996**

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

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

Geographical analysis

As at 31 December 2013

	UK £000	North America £000	Europe £000	Total £000
Gross assets	262,928	328,862	105,894	697,684
Intercompany eliminations	(155,835)	(11,850)	(55,371)	(223,056)
Segment assets	107,093	317,012	50,523	474,628
Gross liabilities	231,412	317,305	46,952	595,669
Intercompany eliminations	(168,517)	(54,491)	(48)	(223,056)
Segment liabilities	62,895	262,814	46,904	372,613
Segment income	37,995	14,344	1,834	54,173

As at 31 December 2012 (Restated)

	UK £000	North America £000	Europe £000	Total £000
Gross assets	293,157	335,547	23,505	652,209
Intercompany eliminations	(140,848)	(26,150)	(9,465)	(176,463)
Segment assets	152,309	309,397	14,040	475,746
Gross liabilities	255,358	304,467	13,634	573,459
Intercompany eliminations	(141,293)	(34,638)	(532)	(176,463)
Segment liabilities	114,065	269,829	13,102	396,996
Segment income	32,574	17,817	1,364	51,755

Other information

As at 31 December 2013

	Insurance companies in run-off £000	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Capital expenditure	-	509	59	-	568
Depreciation	-	635	3	-	638

5. Segmental information (continued)

Other information (continued)

As at 31 December 2012

	Insurance companies in run-off £000	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Capital expenditure	-	721	-	-	721
Depreciation	-	746	-	-	746

6. Net investment income

	2013 £000	2012 £000
Investment income	6,449	5,992
Realised gains on financial assets	2,491	816
Unrealised (losses)/gains on financial assets	(1,241)	5,775
Investment management expenses	(581)	(617)
	7,118	11,966

7. Other income

	2013 £000	2012 Restated £000
Administration of third party insurance clients	36,499	35,465
Interest expense on pension scheme deficit	(178)	(136)
Purchased reinsurance receivables (including debt collection fees)	4,257	577
	40,578	35,906

Included within other external income in ISD is £3,835,000 (2012: £4,796,000) which represents amounts previously classified as liabilities which no longer meet the definition of liabilities under IFRS.

8. Operating expenses

	2013 £000	2012 £000
Costs of insurance company subsidiaries	7,538	7,171
Other operating expenses	47,785	45,745
	55,323	52,916

The costs of insurance company subsidiaries exclude group charges.

9. Finance costs

	2013 £000	2012 £000
Bank loan, overdraft interest and arrangement fees	523	809

10. Profit on ordinary activities before income taxes

	2013 £000	2012 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):-		
Employee benefits (Note 26)	33,398	32,179
Depreciation of fixed assets	638	746
Acquisition costs (including aborted)	296	142
Amortisation of pre contract costs	120	95
Amortisation and impairment of intangibles	203	120
Operating lease rental expenditure	1,508	1,537
Operating lease rental income	(39)	(41)
Auditor Remuneration		
Fees payable to the Company's auditor for the audit of the annual accounts	120	110
Fees payable to the Company's auditor and its associates for other services provided to the Company and its subsidiaries:-		
The audit of the Company' subsidiaries under legislative requirements:-		
The Company's auditor	407	466
Other auditors	178	123
		589
Other services under legislative requirements	76	138
Services relating to relisting and redomicile	85	-
All other services		
Advice on financial and accountancy matters	28	30

11. Income tax

	2013 £000	2012 Restated £000
a. Analysis of charge in the year		
Current tax – continuing operations		
Current year	-	-
Adjustments in respect of previous years	1,370	(1,229)
Foreign tax	539	115
	1,909	(1,114)
Deferred tax	215	1,692
Income tax charge	2,124	578

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:-

	2013 £000	2012 Restated £000
Profit on ordinary activities before taxation	11,259	16,826
Profit on ordinary activities at the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	2,617	4,122
Permanent differences	3,799	(1,120)
Capital allowances in (excess of)/ lower than depreciation	(72)	4
Utilisation of tax losses	(274)	(2,390)
Timing differences – pension schemes	(72)	(63)
Other timing differences	(6,270)	1,570
Unrelieved losses	3,235	299
Foreign tax rate differences	(2,209)	(615)
Adjustments to the tax charge in respect of prior years	1,370	(1,229)
Income tax charge for the year	2,124	578

c. Factors that may affect future tax charges

In addition to the recognised deferred tax asset, the Group has other trading losses of approximately £57.8m (2012: £83.3m) in various group companies available to be carried forward against future trading profits of those companies. The recovery of these losses is uncertain and no deferred tax asset has been provided in respect of these losses. Should it become possible to offset these losses against taxable profits in future years the Group tax charge in those years will be reduced accordingly.

12. 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.

	2013 £000	2012 Restated £000
Profit for the year attributable to ordinary shareholders	7,440	11,067
	No. 000's	**No. 000's**
Shares in issue throughout the year	50,133	50,133
Weighted average number of ordinary shares issued	12,927	-
Weighted average number of Treasury shares held	(489)	(624)
Weighted average number of ordinary shares	62,571	49,509
Basic earnings per ordinary share	11.9p	22.4p

b. Diluted 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.

	2013 £000	2012 Restated £000
Profit for the year attributable to ordinary shareholders	7,440	11,067
	No. 000's	**No. 000's**
Weighted average number of ordinary shares in issue in the year	62,571	49,509
Options	164	1,236
	62,735	50,745
Diluted earnings per ordinary share	11.9p	21.8p

12. Earnings/net assets per share (continued)

c. Net asset value per share

	2013 £000	2012 Restated £000
Net assets attributable to equity shareholders as at 31 December	100,644	73,608
	No. 000's	No. 000's
Ordinary shares in issue as at 31 December *Adjusted for shares held in treasury	*71,708	*49,645
Net asset value per ordinary share	140.4p	148.3p

13. Distributions

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

	2013 £000	2012 £000
Dividend to M/H shareholders	1,074	726
Dividend to O/K shareholders	1,175	544
	2,249	1,270
Distribution on cancellation of L/G shares	1,409	1,697
Distribution on cancellation of N/J shares	1,243	1,143
Total distributions to shareholders	4,901	4,110

14. Intangible assets

	Patents £000	Arising on acquisition £000	Goodwill £000	Software £000	Total £000
As at 1 January 2012	1	164	14,335	10	14,510
Exchange adjustments	-	4	(128)	-	(124)
Additions	-	323	1,086	-	1,409
Amortisation	-	(120)	-	-	(120)
As at 31 December 2012	1	371	15,293	10	15,675
Exchange adjustments	-	(22)	(241)	-	(263)
Additions	-	990	655	344	1,989
Amortisation	-	(120)	-	(62)	(182)
Impairment	-	-	-	(21)	(21)
As at 31 December 2013	1	1,219	15,707	271	17,198

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.

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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	2013 £000	2012 £000
Insurance Investments ("IID")	474	474
Insurance Services ("ISD")	14,362	13,948
Underwriting Management ("UMD")	871	871
Total	15,707	15,293

Management consider the ISD units to represent a significant part of the goodwill balance.

Cash-generating units

The recoverable amount of these 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, no impairment was required for these cash-generating units.

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% (2012: 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 managed by ISD.
- 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 (2012: 10.0%).

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash-generating 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 2012	1,248	11	1,798	241	3,298
Exchange adjustments	(15)	-	(9)	(31)	(55)
Acquisition of subsidiaries	9	-	25	-	34
Additions	558	-	161	2	721
Disposals	(66)	-	(89)	(70)	(225)
As at 31 December 2012	1,734	11	1,886	142	3,773
Exchange adjustments	(11)	-	(2)	(11)	(24)
Acquisition of subsidiaries	2	-	-	-	2
Additions	397	23	112	36	568
Disposals	(449)	-	(1)	(70)	(520)
As at 31 December 2013	1,673	34	1,995	97	3,799
Depreciation					
As at 1 January 2012	744	4	702	131	1,581
Exchange adjustments	(13)	-	(7)	(28)	(48)
Charge for the year	303	3	354	86	746
Disposals	(66)	-	(89)	(70)	(225)
As at 31 December 2012	968	7	960	119	2,054
Exchange adjustments	(8)	-	(5)	(10)	(23)
Charge for the year	272	5	346	15	638
Disposals	(239)	-	(1)	(70)	(310)
As at 31 December 2013	993	12	1,300	54	2,359
Net book value					
As at 31 December 2013	680	22	695	43	1,440
As at 31 December 2012	766	4	926	23	1,719

As at 31 December 2013, the Group had no significant capital commitments (2012: none). The depreciation charge for the year is included in operating expenses.

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16. Financial assets and Investment Properties

a. Investment properties

	2013 £000	2012 £000
As at 31 December	1,019	1,004

The increase in the valuation of these properties is due to foreign exchange movements of £15,000 (2012: reduction £18,000); the change in market value was nil (2012: nil).

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

	2013 £000	2012 £000
Equities	16,899	12,384
Debt securities – fixed interest rate	138,910	161,890
	155,809	174,274

In the normal course of business insurance company subsidiaries have deposited investments in 2013 of £0.1m (2012: £0.1m) in respect of certain contracts in escrow which can only be released or withdrawn with the approval of the appropriate regulatory authority.

Included in the Debt securities – fixed interest rate, is £30.6m (2012: 11.0m) pledged as Funds at Lloyd's to support the Groups' underwriting activities in 2013. Lloyd's has the right to apply these monies in the event the corporate member fails to meet its obligations. These monies are not available to meet the Group's own working capital requirements and can only be released with Lloyd's express permission.

16. Financial assets and Investment Properties (continued)

c. Shares in subsidiary undertakings and other investments

The Company has interests in the following subsidiaries at 31 December 2013:-

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 Ltd	England	-	100	100
Chevanstell Limited	England	-	100	100
R&Q Malta Holdings Ltd	Malta	-	100	100
R&Q Insurance (Malta) Ltd	Malta	-	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 (UK) Ltd	England	-	100	100
Transport Insurance Company	USA	-	100	100
R&Q Liquidity Management Ltd	England	-	100	100
RQLM Ltd	Bermuda	100	-	100
R&Q Capital No.1 Ltd	England	-	95	95
R&Q Capital No.2 Ltd	England	-	100	100
R&Q Capital No.3 Ltd	England	100	-	100
R&Q Capital No.4 Ltd	England	100	-	100
R&Q Capital No.5 Ltd	England	100	-	100
La Licorne Compagnie de Reassurances SA	France	-	100	100
R&Q Re (Bermuda) Ltd	Bermuda	-	100	100
Principle Insurance Company Ltd	England	-	100	100
Capstan Insurance Company Ltd	Guernsey	-	100	100
Alma Vakuutus OY	Finland	-	100	100
Hickson Insurance Ltd	IOM	-	100	100
R&Q Cyprus Ltd	Cyprus	100	-	100
Alliance Insurance Agents Ltd	Cyprus	-	100	100
Insurance Services Division				
Randall & Quilter IS Holdings Ltd	England	-	100	100
R&Q Insurance Services Ltd	England	-	100	100
R&Q KMS Management Ltd	England	-	100	100
R&A Market Services Ltd (formerly R&Q Audit & Inspection Ltd)	England	-	100	100
R&Q Archive Services Ltd	England	-	100	100
R&Q Broker Services Ltd	England	-	100	100
JMD Specialist Insurance Services Group Ltd	England	-	100	100
JMD Specialist Insurance Services Ltd	England	-	100	100
R&Q CG Ltd	England	-	100	100
Callidus Secretaries Ltd	England	-	100	100
Callidus Solutions Ltd	England	-	100	100
R&Q Central Services Ltd (formerly R&Q Consultants Ltd)	England	-	100	100
R&Quiem 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

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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*
R&Q Solutions LLC	USA	-	100	100
RSI Solutions International Inc	USA	-	100	100
R&Q Quest Management Services USA LLC	USA	-	100	100
Randall & Quilter Canada Holdings Ltd	Canada	-	100	100
A. M. Associates Insurance Services Ltd	Canada	-	100	100
Grafton US Inc	USA	-	60	60
Risk Transfer Underwriting Inc	USA	-	100	60
Randall & Quilter Captive Holdings Ltd	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
R&Q Quest Management Services (Cayman) Ltd	Cayman Isl.	-	100	100
R&Q Quest Insurance Ltd	Bermuda	-	100	100
R&Q Triton AS	Norway	-	100	100
R&Q Triton Claims AS	Norway	-	100	100
R&Q Insurance Management (Gibraltar) Ltd	Gibraltar	-	100	100
Caledonian Insurance Brokers Ltd	Gibraltar	-	100	100
R&Q Quest Insurance Management (IOM) Ltd	Isle of Man	-	100	100
R&Q Quest PCC LLC	USA	-	100	100
Underwriting Management Division				
Randall & Quilter Underwriting Management Holdings Ltd	England	-	100	100
R&Q Managing Agency Ltd	England	-	100	100
R&Q S1991 Management Services Ltd	England	-	100	100
R&Q MGA Ltd	England	-	100	100
R&Q Commercial Risk Services Ltd	England	-	100	100
R&Q Risk Services Canada Ltd	Canada	-	100	100
R&Q Just Underwriting Group Ltd	England	-	100	100
Altus Management Partners LLP	England	-	100	100
R&Q Marine Services Limited	England	-	75	75
Synergy Insurance Services (UK) Ltd	England	-	100	100
Others				
RQIH Ltd	England	100	-	100
R&Q (EC3) Ltd	England	-	100	100
R&Q Secretaries Ltd	England	-	100	100
R&Q No 1 Ltd	England	-	100	100
R&Q Oast Ltd	England	-	100	100
R&Q Ludgate No. 1 Ltd	England	-	100	100

17. Insurance and other receivables

	2013 £000	2012 £000
Debtors arising from direct insurance operations	4,215	3,571
Debtors arising from reinsurance operations	37,342	43,040
Insurance receivables	41,557	46,611
Trade debtors	3,057	2,521
Other debtors/receivables	10,922	3,912
Purchased reinsurance receivables	16,033	6,598
Prepayments and accrued income	8,477	8,844
	38,489	21,875
Due within 12 months	80,046	68,486

Included in other debtors/receivables is an amount of £280,000 (2012: £800,000) 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

	2013 £000	2012 £000
Cash at bank and in hand	46,942	52,263

Included in cash and cash equivalents is £457,512 (2012: £464,713) 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.

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.

Insurance broking fiduciary funds of £19,628,559 (2012: £17,026,690), which are used to pay premiums to underwriters and settle claims to policy holders, are not included in the above cash balances.

19. Current income tax

	2013 £000	2012 £000
Current tax assets	4,047	4,365

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20. Insurance and other payables

	2013 £000	2012 £000
Structured liabilities	343,519	350,117
Structured settlements	(343,519)	(350,117)
	-	-
Creditors arising from reinsurance operations	5,712	23,866
Creditors arising from direct insurance operations	2,209	695
Insurance payables	7,921	24,561
Trade creditors	1,284	1,034
Other taxation and social security	724	776
Other creditors	4,865	8,639
Accruals and deferred income	5,316	4,257
Due within 12 months	20,110	39,267

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 company 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 annuities 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 ("Quest") 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 only the assets and liabilities of the Group owned cells are included in the consolidated statement of financial position. Excluding Group owned cells, the amounts held on behalf of the segregated cells as at 31 December 2013 amount to £51,514,000 (2012: £58,594,000).

21. Financial liabilities

	2013 £000	2012 £000
Amounts owed to credit institutions	17,572	18,939

Amounts due to credit institutions are payable as follows:-

	2013 £000	2012 £000
Less than one year	2,411	2,328
Between one to five years	15,161	16,611
	17,572	18,939

As outlined in Note 32 £16.5m (2012: £18.9m) 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	2013 £000	2012 Restated £000
Claims outstanding at 1 January	327,973	362,229
Claims paid	(42,241)	(79,871)
Increase in provisions arising from the acquisition of subsidiary undertakings and syndicate participations	13,996	31,922
Strengthening of provisions	29,941	26,052
Net exchange differences	(5,741)	(12,359)
As at 31 December	323,948	327,973

Reinsurance	2013 £000	2012 Restated £000
Reinsurers share of claims outstanding at 1 January	148,988	166,745
Reinsurers share of gross claims paid	(21,954)	(55,199)
Increase in provisions arising from the acquisition of subsidiary undertakings and syndicate participations	1,724	2,747
Strengthening of provisions	32,862	41,855
Net exchange differences	(3,938)	(7,160)
As at 31 December	157,682	148,988

Net	2013 £000	2012 Restated £000
Net claims outstanding at 1 January	178,985	195,484
Net claims paid	(20,287)	(24,672)
Increase in provisions arising from the acquisition of subsidiary undertakings	12,272	29,175
Release of provisions	(2,921)	(15,803)
Net exchange differences	(1,783)	(5,199)
As at 31 December	166,266	178,985

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

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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 for its insurance liabilities 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 (g) 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. Full provision is also made to run-off the underwriting years for those syndicates treated as being in run-off on which the Group participates. 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 and Syndicates 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 percent reduction in the net technical provisions would increase net assets by £1.8m (2012: £1.8m).

23. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 20% for the UK (2012: 23%) and 34% for the US (2012: 34%).

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 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 2012	5,358	(470)	4,888
Movement for the year (restated)	25	(1,722)	(1,697)
As at 31 December 2012 (restated)	5,383	(2,192)	3,191
Movement for the year	(91)	(410)	(501)
As at 31 December 2013	5,292	(2,602)	2,690

The analysis of the deferred tax assets relating to tax losses is as follows:-

	2013 £000	2012 £000
Deferred tax assets – relating to tax losses		
Deferred tax assets to be recovered after more than 12 months	1,941	497
Deferred tax assets to be recovered within 12 months	525	169
Deferred tax assets	2,466	666

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Directors have prepared reasonable forecasts which indicate that, excluding the deferred tax asset on the pension scheme deficit the deferred tax assets will substantially reverse over the next five years.

The above deferred tax assets arise mainly from timing difference and losses arising on the Group's US insurance companies in run-off. Under local tax regulations these losses and other timing differences are available to offset against the US subsidiaries future taxable profits in the Group's US Insurance Services Division as well as any future taxable results that may arise in the US run-off insurance companies.

The Directors believe that it is probable that the deferred tax timing differences arising in the US sub group will substantially reverse against the future budgeted taxable profits in the US element of the Insurance Services Division within the next five years, taking into account the Group's long term financial and strategic plans and anticipated future tax adjusting items.

In making this assessment account is taken of business plans, the five year detailed trading forecasts and the following future risk factors:-

- The expected future economic outlook as set out in the Chairman's Statement and Business Review; and
- The availability of these tax losses in each jurisdiction to be offset against future trading profits

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The Group's total deferred tax asset includes £2.5m (2012: £0.7m) in respect of trading losses carried forward. The tax losses have arisen in individual legal entities and will be used as future taxable profits arise in those legal entities, though substantially all of the unused tax losses for which a deferred tax asset has been recognised arise in the US subgroup.

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 deficit £000	Other timing differences £000	Total £000
As at 1 January 2012	92	273	661	3,862	4,888
Movement in year (restated)	10	393	347	(2,447)	(1,697)
As at 31 December 2012 (restated)	102	666	1,008	1,415	3,191
Movement in year	-	1,800	(374)	(1,927)	(501)
As at 31 December 2013	102	2,466	634	(512)	2,690

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 2012 (restated)	-	(186)	(1,927)	416	(1,697)
Movement in 2013	-	(87)	(128)	(286)	(501)

24. Share capital

	Number of shares	Ordinary shares £000	Share premium £000	Treasury shares £000	Total £000
At 1 January 2012	54,092,916	1,118	12,096	(704)	12,510
Issue of G-K shares	100,266,004	4,162	(4,162)	-	-
Redemption/Cancellation of G-K shares	(100,266,004)	(4,162)	-	-	(4,162)
Movement in treasury shares*	-	-	-	270	270
Redemption/Cancellation of shares	(3,959,914)	(82)	(3,182)	-	(3,264)
At 31 December 2012	50,133,002	1,036	4,752	(434)	5,354
Issue of ordinary shares	20,833,333	416	23,500	-	23,916
Redenomination of 2 6/91p – 2p shares	-	(33)	-	-	(33)
Issue of L-O shares	121,789,337	4,937	(4,937)	-	-
Redemption/Cancellation of L-O shares	(121,789,337)	(4,937)	-	-	(4,937)
Issue of shares to cover options	809,745	16	77	-	93
Movement in treasury shares*	-	-	-	380	380
At 31 December 2013	71,776,080	1,435	23,392	(54)	24,773

* Represents the value of shares held by the Employee Benefit Trust, deemed to be held in Treasury, which were allocated in satisfaction of options in Randall & Quilter Investment Holdings plc (now RQIH Limited).

	2013 £	2012 £
Allotted, called up and fully paid		
71,776,080 Ordinary Shares of 2p each (2012: 50,133,002 Ordinary Shares of 2 6/91P each)	1,435,522	1,035,717
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,435,524	1,035,719

	2013 £	2012 £
Included in:		
Equity		
71,776,080 Ordinary Shares of 2p each (2012: 50,133,002 Ordinary Shares of 2 6/91p each)	1,435,522	1,035,717
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,435,524	1,035,719

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. No distributions have been made to date by either R&Q Reinsurance Company or R&Q Reinsurance Company (UK) Limited.

Shares issued

During the year the Group issued 20,833,333 ordinary shares at £1.20 per share.

During the year the Group issued L, M, N and O shares (with an aggregate value of £4,937,000) (2012: G, H, J and K shares (with an aggregate value of £4,162,000)) which were all cancelled. Of these amounts £36,000 (2012: £52,000) were payable the Employee Benefit Trust which is consolidated within these accounts.

On the 5 July 2013 the Group completed a scheme of arrangement between Randall & Quilter Investments Holdings plc and Randall & Quilter Investments Holdings Ltd.

24. Share capital (continued)

Share Options

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

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

	Weighted average exercise price 2013 pence	Number of options 2013	Weighted average exercise price 2012 pence	Number of options 2012
Outstanding at 1 January	35.8	1,240,000	48.1	1,020,000
Exercised/Lapsed	25.5	(1,234,745)	40.5	(300,000)
Granted	2.0	159,745	14.4	520,000
At 31 December	67.2	165,000	35.8	1,240,000

The total number of options in issue during the year have given rise to a charge to the income statement of £241,480 (2012: £545,226) based on the fair values at the time the options were granted.

Following the Group reorganisation detailed in note 2(a), option holders in Randall & Quilter Investment Holdings plc (now RQIH Limited) will, on exercise, be allocated shares in the Company. These options are reflected on the above numbers.

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.

	2013 options	2012 options
Weighted average fair value	73.8 pence	56.9 pence
Weighted average share price	140.2 pence	103 pence
Exercise price	67.2 pence	35.8 pence
Expiry date	10 years after granting	10 years after granting
Vesting period	3 years	3 years
Volatility	21.0%	21.0%
Dividend yield	8.5%	8.5%
Expected option life	3 years	3 years
Annual risk free interest rate	0.91%	0.91%

The options outstanding at 31 December 2013 had a weighted average remaining contractual life of 5.0 (2012: 7.6) years.

25. Employee Benefit Trust

The EBT has purchased no Ordinary shares and released 225,000 Ordinary shares deemed to be held in Treasury during the year to give a holding at the year end of 68,338 (2012: 488,338). The value at the year end was £121,642 (2012: £517,638). 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.

26. Employees and Directors

Employee benefit expense for the Group during the year

	2013 £000	2012 £000
Wages and salaries	28,193	27,010
Social security costs	2,717	2,783
Pension costs	2,247	1,841
Share based payment charge	241	545
	33,398	32,179

Pension costs are recognised in operating expenses in the income statement and include £2,047,000 (2012: £1,841,000) in respect of payments to defined contribution schemes and £200,000 (2012: £nil) in respect of closed defined benefit schemes.

Average number of employees	2013 Number	2012 Number
Group executives & support services	66	64
Insurance services	211	213
Group investment activities	9	9
Underwriting	87	76
	373	362

Remuneration of the Directors and key management

	2013 £000	2012 £000
Aggregate Director emoluments	1,416	1,389
Aggregate key management emoluments	1,496	899
Share based payments - Directors	235	404
Share based payments – key management	40	6
Director pension contributions	88	88
Key management pension contributions	97	71
	3,372	2,857

Highest paid Director

Aggregate emoluments	612	544

26. Employees and Directors (continued)

Name	Salary £	Pension £	Bonus £	Overseas living expenses £	Total £
K E Randall	312,550	-	-	-	312,550
A K Quilter	250,750	50,000	-	-	300,750
T A Booth	250,536	37,500	249,365	74,813	612,213
M G Smith	150,000	-	-	-	150,000
J M P Welman	37,500	-	-	-	37,500
K P McNamara	50,000	-	-	-	50,000
P A Barnes	40,383	-	-	-	40,383

Two Directors have retirement benefits accruing under money purchase pension schemes (2012: Two). In the year, T A Booth was granted share options in respect of qualifying services under a long term incentive plan over 159,745 shares with fair value of £235k (2012: relating to 2011 and 2012 over 450,000 shares with fair value of £404k) which has been charged to the income statement.

27. 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.

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.

a. Employee benefit obligations – amount disclosed in the balance sheet:-

	2013 £000	2012 £000
Fair value of plan assets	25,552	25,549
Present value of funded obligations	(28,570)	(29,930)
Net defined benefit liability	(3,018)	(4,381)
Related deferred tax asset	634	1,008
Liability in the statement of financial position	(2,384)	(3,373)

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

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b. Movement in the net defined benefit obligation and fair value of plan assets over the year:-

	Present value of obligation £000	Fair value of plan assets £000	Deficit of funded plan £000	Net defined benefit liability £000
As at 31 December 2011	**(27,149)**	**24,508**	**(2,641)**	**(2,641)**
Interest income/(expense)	(1,267)	1,131	(136)	(136)
	(28,416)	25,639	(2,777)	(2,777)
Remeasurements:				
Return on plan assets, excluding amounts included in interest income/(expense)	-	800	800	800
Gain/(loss) from changes in demographic assumptions	(355)	-	(355)	(355)
Gain/(loss) from changes in financial assumptions	(2,523)	-	(2,523)	(2,523)
Experience gain/(loss)	474	-	474	474
	(2,404)	800	(1,604)	(1,604)
Benefit payments from the plan	890	(890)	-	-
As at 31 December 2012	**(29,930)**	**25,549**	**(4,381)**	**(4,381)**

	Present value of obligation £000	Fair value of plan assets £000	Deficit of funded plan £000	Net defined benefit liability £000
As at 31 December 2012	**(29,930)**	**25,549**	**(4,381)**	**(4,381)**
Interest income/(expense)	(1,192)	1,014	(178)	(178)
	(31,122)	26,563	(4,559)	(4,559)
Remeasurements:				
Return on plan assets, excluding amounts included in interest income/(expense)	-	607	607	607
Gain/(loss) from changes in demographic assumptions	-	-	-	-
Gain/(loss) from changes in financial assumptions	769	-	769	769
Experience gain/(loss)	89	-	89	89
	858	607	1,465	1,465
Employers contributions	-	76	76	76
Benefit payments from the plan	1,694	(1,694)	-	-
As at 31 December 2013	**(28,570)**	**25,552**	**(3,018)**	**(3,018)**

The Group does not expect to contribute directly to the Scheme but expects to contribute £280,000 to an Escrow account in the next accounting year.

27. Pension commitments (continued)

c. Significant actuarial assumptions:-

i) Financial assumptions

	2013	2012
Discount rate	4.4%	4.1%
RPI inflation assumption	3.5%	3.1%
CPI inflation assumption	2.7%	2.3%
Pension revaluation in deferment:		
- CPI, maximum 5%	2.7%	2.3%
Pension increases in payment:		
- RPI, maximum 5%	3.5%	3.5%

ii) Demographic assumptions

Assumed life expectancy in years, on retirement at 60

	2013	2012
Retiring today		
- Males	29.3	29.1
- Females	31.7	31.5
Retiring in 20 years		
- Males	32.8	32.6
- Females	34.9	34.7

d. Sensitivity to assumptions:-

The results of the IAS 19 valuation at 31 December 2013 are sensitive to the assumptions adopted.

The sensitivities regarding the principal assumptions used to measure the Scheme liabilities are set out below:-

Assumption	Change in assumption	Change in liabilities
Discount rate	Decrease by 0.5%	Increase by 9%
Rate of inflation	Increase by 0.5%	Increase by 4%
Life expectancy	Increase by 1 year	Increase by 1%

The above sensitivity analyses are based on a change in assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to significant actuarial assumptions has been estimated, based on the average age and the normal retirement age of members and the duration of the Scheme.

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e. The major categories of plan assets are as follows:-

			As at 2013			As at 2012
	Quoted £000	Un-quoted £000	Total £000	Quoted £000	Un-quoted £000	Total £000
Cash and cash equivalents	-	219	219	-	316	316
Investment funds:						
– equities	-	-	-	-	10,573	10,573
– bonds	-	3,041	3,041	-	10,623	10,623
– property	-	-	-	-	2,094	2,094
– cash	-	22,292	22,292	-	1,943	1,943
	-	25,552	25,552	-	25,549	25,549

f. Amount, timing and uncertainty of future cash flows:-

The Group paid a single premium into the Scheme following the last full actuarial valuation as at 1 January 2012. Funding levels are monitored on an annual basis and the current agreed contribution rate is £280,000 per annum, which is based on the last triennial valuation as at 1 January 2012.

The present value of the defined benefit obligation has been estimated by projecting the results of the last full actuarial valuation as at 1 January 2012 to 31 December 2013. The table below shows an analysis by term to retirement of Scheme membership and past service liability as at the date of the last full actuarial valuation,

		Term to retirement					
	Pensioners	0-5 years	6-10 years	11-15 years	16-20 years	21-25 years	26+ years
Proportion of total liabilities (funding basis)	36.6%	26.2%	17.8%	12.3%	6.7%	0.4%	0.0%
Number of members	48	49	36	34	36	5	0

The duration of the liabilities of the Scheme is approximately 18 years as at 31 December 2013.

28. Related party transactions

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

	2013 £	2012 £
K E Randall and family	1,657,984	1,829,710
A K Quilter and family	346,702	360,756
T A Booth	17,000	-
K P McNamara	10,165	11,546
M G Smith	2,100	2,075
J M P Welman and family	8,400	11,546

- Mr and Mrs K E Randall received £nil (2012: £18,750) for rent for property used by the Group.
- During the year the Group recharged expenses totalling £9,401,523 (2012: £7,960,135) to Lloyd's Syndicates 102, 3330, 1897 and 1991, which are managed by the Group.

29. Operating lease commitments

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 2013 are due to expire within one to five years of the balance sheet date. It is anticipated that sublease income of £50,000 (2012: £91,000) will be earned over the lease term.

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

	2013 £000	2012 £000
Land and buildings		
No later than one year	9	38
Later the one year no later than five years	2,744	4,268
Later than five years	1,467	491

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30. Business Combinations

Hickson Insurance Limited

On 11 January 2013 the Group purchased the entire issued share capital of Hickson Insurance Limited, a company incorporated in the Isle of Man.

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 liabilities acquired was £775k. Goodwill on bargain purchase of £250k 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
Other debtors	1
Cash	782
Other creditors	(8)
Net assets acquired	775
Satisfied by	
Cash paid	(525)
Goodwill on bargain purchase	250

Post acquisition loss before tax amounted to (£6k). This would also have been the contribution the company would have made for the year.

Post acquisition income amounted to £18k, this is also the income for the full year.

Costs of £8k were incurred in relation this acquisition and have been expensed in the year.

30. Business Combinations (continued)

La Reassurance Intercontinentale

On 3 June 2013 the Group purchased the entire issued share capital of La Reassurance Intercontinentale a company incorporated in France.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £1,928k. Goodwill on bargain purchase of £495k 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
Other debtors	654
Deposits with ceding undertakings	1,695
Cash	2,574
Technical provisions	(2,529)
Other creditors	(466)
Net assets acquired	1,928
Satisfied by	
Cash paid	(1,433)
Goodwill on bargain purchase	495

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.

As the company was merged into another Group entity (La Licorne Compagnie de Reassurances SA) entity soon after acquisition, its post acquisition results are included within that entity.

Costs of £57k were incurred in relation this acquisition and have been expensed in the year.

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MPPA Insurance Limited

On 24 June 2013 the Group novated certain contracts from MPPA Insurance Limited to the Group's owned cell in R&Q Quest (SAC) Ltd.

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 £2,218k. Goodwill on bargain purchase of £825k arose. This goodwill on bargain purchase arises because run-off insurance participations 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
Cash	2,526
Technical provisions	(221)
Other creditors	(87)
Net assets acquired	2,218
Satisfied by	
Cash paid	(1,393)
Goodwill on bargain purchase	825

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.

30. Business Combinations (continued)

Woodcroft Insurance Company Limited

On 28 August 2013 the Group purchased the entire issued share capital of Woodcroft Insurance Company Limited a company incorporated in Guernsey.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £1,185k. Goodwill on bargain purchase of 367k 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
Other debtors	65
Cash	2,769
Technical provisions	(1,639)
Other creditors	(10)
Net assets acquired	1,185
Satisfied by	
Cash paid	(818)
Goodwill on bargain purchase	367

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.

As the company was amalgamated into another Group entity (Capstan Insurance Company Limited) entity soon after acquisition, its post acquisition results are included within that entity.

Costs of £15k have been incurred in relation to the acquisition.

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Flagstone Alliance Insurance & Reinsurance Limited

On 11 October 2013 the Group purchased the entire issued share capital of Flagstone Alliance Insurance & Reinsurance Ltd and its subsidiary Alliance Insurance Agents Limited, both incorporated in Cyprus. Since acquisition this company has been renamed R&Q Cyprus Ltd.

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 £20,273k. Goodwill on bargain purchase of £6,542k 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
Intangible asset	990
Other debtors	1,434
Cash	27,383
Technical provisions	(7,326)
Other creditors	(2,208)
Net assets acquired	20,273
Satisfied by	
Cash paid	(13,731)
Goodwill on bargain purchase	6,542

The carrying value of the insurance liabilities is £990k more than their fair value and therefore an intangible asset is needed to be recognised in accordance with the accounting policy for goodwill.

Post acquisition operating profit amounted to £290k. Given the nature of the run-off activities of this entity it is not appropriate to calculate the contribution to the Group if it had been purchased at the start of the year.

Costs of £114k have been incurred in relation to the acquisition.

30. Business Combinations (continued)

Grafton US Holdings Inc

On 29 July 2013 the Group purchased 60% of the ordinary shares in Grafton US Holdings Inc and its subsidiary Risk Transfer Underwriting Inc. The goodwill represents the Group's investment in the employees' knowledge of the insurance 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 liabilities acquired was £1,079k. Goodwill of £655k arose.

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

	Fair value
	£000
Tangible assets	2
Other debtors	26
Cash	170
Other creditors	(1,277)
Net liabilities acquired	(1,079)
Non- controlling interest	432
Satisfied by	
Cash paid	(8)
Goodwill	(655)

Post acquisition loss before tax amounted to £126k. If the company had been owned for the whole year the loss for the year would have been £318k.

Post acquisition income amounted to £nil, this is also the income for the full year.

Costs of £15k were incurred in relation this acquisition and have been expensed in the year.

Alma Insurance Company Limited

In the financial statements for the year ended 31 December 2012 the initial accounting for this business combination had been determined only provisionally. Since then, the fair value of the insurance liabilities has been reassessed as £1.5m below their provisional carrying value on acquisition. As a result the fair value of these liabilities has been decreased by £1.5m, with an associated deferred tax liability of £0.4m, and a corresponding increase in goodwill on bargain purchase.

The 2012 comparative information is restated to reflect this adjustment.

31. Non-controlling interests

During the year the Group purchased the non-controlling interests of R&Q Capital No. 1 Limited which had the economic benefit of 45% of the result of the 2012 year of account of Syndicate 3330 in the 2012 financial year.

32. Guarantees and debentures

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 term loan facilities. The total liability to the bank at 31 December 2013 is £16,531,000 (2012: £18,939,000).

The Company has counter-guaranteed the obligations of its subsidiary, R&Q Reinsurance Company (UK) Limited ('RQUK') in respect of the provision of a guarantee by RQUK to R&Q Managing Agency Limited ('RQMA') in the amount of £600,000 to allow RQMA to meet its Lloyd's solvency.

The Group has the following external guarantee provided through a subsidiary:-

- R&Q Reinsurance Company (UK) Limited guarantee to MAAF Assurances in respect of La Reassurance Intercontinentale up to €1.6m

33. Contingent liabilities

In connection with certain acquisitions the terms are subject to potential amendment which could give rise to an additional payment of up to £8.3m (2012: £4.8m).

34. Ultimate Controlling Party

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

STRATEGY | INNOVATION | EXPERTISE

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