Annual Report 2014

Randall & Quilter Investment Holdings Ltd.

The specialist non-life insurance acquirer, service provider and underwriting manager

Randall & Quilter Investment Holdings Ltd. has pursued a buy and build strategy to create a comprehensive range of investment activities and services in the global non-life insurance market.

Mission:

To continue to make value enhancing insurance acquisitions, to build an underwriting management platform to attract best-in-class underwriting teams and to deliver high levels of service to our ‘live’ and ‘legacy’ insurance market clients.

Essential reads

Our Business Model
Pages 08–09

Group Strategy and Performance
Pages 10–11

Risk Management
Pages 18–19

Insurance Investments

We have a proven track record in providing exit solutions to discontinued non-life insurance companies, captives and self-insurers. We also provide underwriting capital to our managed Lloyd's Syndicates and acquire insurance and reinsurance debt positions.

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Underwriting Management

We manage live and run-off syndicates and own MGAs, providing specialist distribution to third-party syndicates and reinsurers. We also own Accredited, an A- rated US admitted carrier, which will predominantly underwrite on behalf of our live syndicate and other authorised reinsurers.

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Insurance Services

We provide a specialist range of claims management, reinsurance collection and premium credit control services to both the live and legacy insurance and reinsurance markets.

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Insurance Management

We offer accounting and regulatory compliance services in many captive domiciles worldwide.

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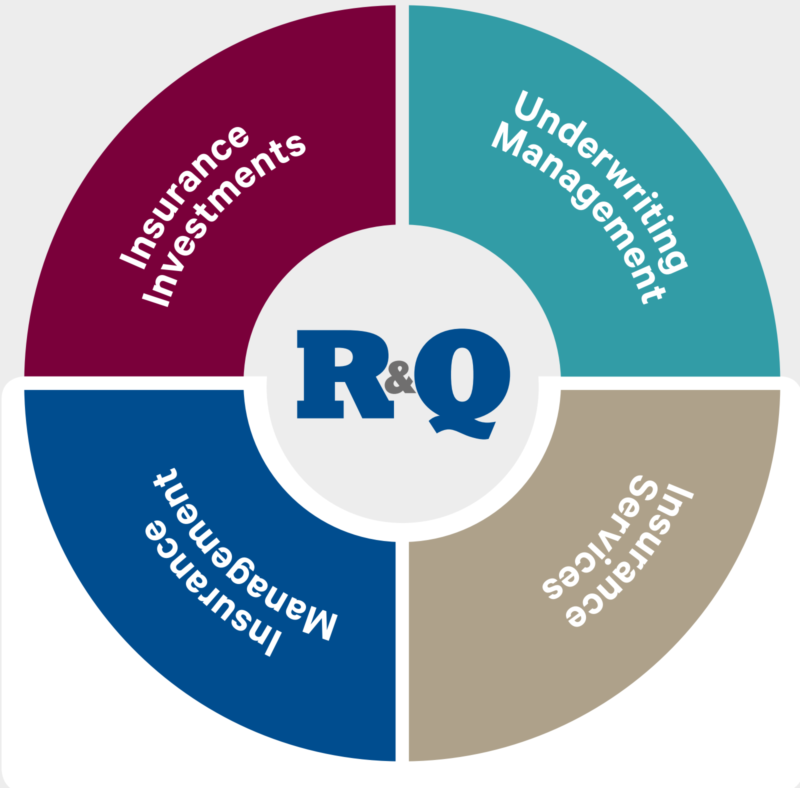


Overview

Strategic Report

Corporate Governance

Financial Statements

Chairman's statement

2014 was a challenging year financially but we remain confident about the prospects and outlook for the Group.

Overview

Key highlights include:

- A strong contribution from new legacy transactions completed during the year and from the UK operations of the Insurance Services Division ("ISD"), particularly broker run-off and premium credit control services.
- Securing the contract to provide the back office support for Syndicate 2088, the newly established syndicate managed by XL Catlin and backed by China Re.
- The acquisition of Accredited, a US admitted insurance carrier rated A- by AM Best, which provides the Group with the opportunity to develop over the medium-term valuable new fee income for the Underwriting Management Division ("UMD") and enhanced new business sources for our live syndicate (Syndicate 1991).

However, as commented on in the 2014 interim results and subsequent trading updates, the 2014 result was adversely impacted by reserve deterioration in R&Q Re US, the legal costs relating to the recently concluded Syndicate 102 arbitration and weaker than expected trading in the Group's US service operations.

The Board is proposing a final Return of Capital in respect of the 2014 financial year of 5.0 pence per share to those shareholders on the register on 28 July 2015, with payments expected to be made on or around 10 August 2015. This will bring the total for the year to 8.4p per share (2013: 8.4p per share), reflecting our confidence in the Group's underlying trading and future prospects.

The Group has been making regular returns of cash to shareholders by means of "Return of Value". This has been the method by which the Group has been maintaining its progressive distribution policy to shareholders with a current base of 8.4p per share. The Returns of Value have been made following the regular cash releases generated from the Group's insurance investments. They have not therefore been sourced from reducing existing share capital. The Group intends to continue to follow the same established policy and reserves the right to pay ordinary dividends to maintain the stated distribution policy in periods where there are insufficient cash releases from its owned insurance companies and assets. From 2015, the Group will make a Return of Capital through the issue of shares, which will be redeemed for cash, thus being classified for UK tax purposes as a capital return. There will no longer be an issue of shares on which dividends will be paid before cancellation. The underlying distribution policy, however, remains unchanged.

Strategy and business model

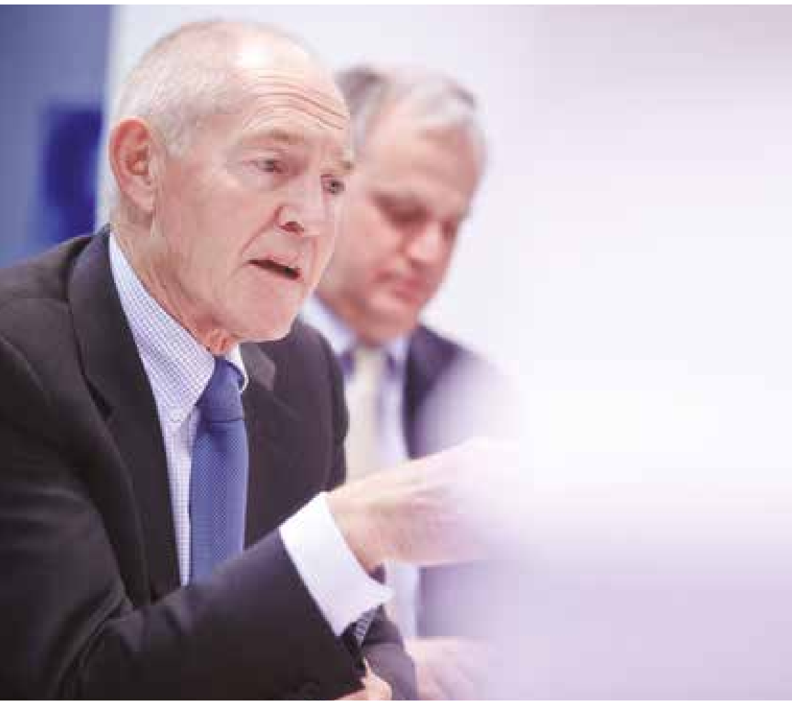
The overall mission and purpose of the Group remains to offer investors a stable cash profit stream from Insurance Services, potential additional profits and capital extractions from Insurance Investments and significant growth prospects through a fee focused Underwriting Management business.

Our main strategic objectives are to:

- acquire or reinsure run-off insurance companies and portfolios to produce attractive cash returns;
- provide specialist insurance services to the live, run-off and captive markets;
- grow our Lloyd's managing agency business; and
- develop Accredited, our new US admitted carrier, with diversified sources of revenue, including fee-based income.

The Group has developed a strong reputation and good relationships in the global insurance market. The Group benefits from financial strength and a highly skilled, entrepreneurial and experienced workforce. We use these attributes to source and manage attractive run-off opportunities and to offer expertise in niche insurance services and underwriting management. The aim is to generate strong cash flows to support our business model, grow tangible book value and increase cash distributions to shareholders.

As stated, 2014 was a challenging year overall, primarily for the reasons detailed in our November trading update. The deterioration in net provisions for asbestos claims in R&Q Re US, the significant legal expenses associated with the recently



"The Group has developed a strong reputation and good relationships in the global insurance market. The Group benefits from financial strength and a highly skilled, entrepreneurial and experienced workforce."

K E Randall
Chairman

successfully concluded arbitration of a large life settlement claim in former Syndicate 102, and the failure to secure a number of anticipated service contract wins in the now restructured US service operations were the main contributory factors.

In addition, maintaining our underwriting discipline amidst poor underwriting conditions slowed the development of earned premium in Syndicate 1991, reduced commission income growth in our Managing General Agency (MGA) business units, and restricted the flow of new syndicate management opportunities.

Investment income was weak in the second half of the year as credit spreads widened, especially in structured and high yield credit where the Group has a significant portion of its assets, though the full year performance was satisfactory. The fall in long-term gilt yields, which has already been partially reversed in the current year to date, caused the pension deficit to increase (as measured by IAS 19) by £4.0m, accounting for the larger fall in net tangible asset per share than would otherwise be expected from the trading result and shareholder distributions made during the year.

Other areas of the Group performed well. We completed nine legacy transactions in 2014, with an increased emphasis on EU-domiciled and Bermuda based entities, prompted in part by the impending introduction of Solvency II and other equivalent solvency regimes. UK services performed well, with broker services continuing to gain in scale and efficiency, as well as strong growth in our premium credit control services after we were awarded preferred supplier status by the Lloyd's Market Association at the end of 2013. We signed a new contract to provide back office support for Syndicate 2088, the newly established syndicate managed by XL Catlin and backed by China Re. Furthermore, our acquisition of Accredited, an A- rated US admitted carrier, offers significant growth potential in fees and underwriting distribution, albeit the necessary US state regulatory processes will delay full implementation until 2016. Similarly, the US Healthcare initiative continues to develop with potential opportunities for the ISD and Insurance Investments Division ("IID") through legacy acquisition opportunities.

Financial highlights

Distribution per share

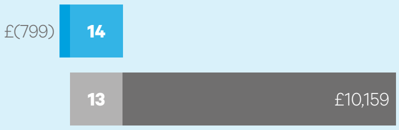
8.4p

Net tangible assets per share

88.2p

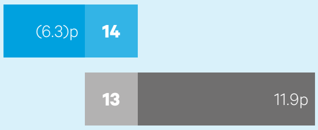
Operating (loss)/profit (£000s)

£(799)



Earnings per share (basic)

(6.3)p



Operational highlights

Acquired Accredited, an A- rated US admitted carrier

Completed nine legacy transactions

Launched a joint venture with Phoenix Asset Management Partners Limited to increase capacity to acquire insolvent insurance debt portfolios

Strong performance in UK insurance services

INSURANCE INVESTMENTS DIVISION REPORT → 12

The Division benefited from a strong contribution from the nine legacy transactions completed in the year (eight acquisitions and one retrospective reinsurance), and from reserve releases from each run-off insurance company save for R&Q Re US, which was affected by deterioration in its US asbestos book. The Division made a reasonable investment return of 2.5% in markets which, in the second half especially, favoured a more traditional credit and government bond-based investment strategy rather than the Group's focus on structured and high-yield credit. We did nevertheless manage to outperform the majority of traditional fixed income strategies, which was pleasing.

Syndicate results were poor in the aggregate, mostly as a result of: (i) a weaker than expected performance in former run-off Syndicate 102, which was impacted by high legal costs related to the now successfully concluded arbitration and deterioration in the values of certain life policy assets; and (ii) losses from the live syndicate participations, which continued to be impacted by slow development of premium exacerbated by poor underwriting conditions. Run-off Syndicate 3330 however continued to perform strongly, in line with expectations.

Chairman's statement continued

Profitability of the Division was also negatively impacted by lower cost recoveries in the US than the prior year.

The insolvent insurance debt portfolio performed to plan, albeit the contribution was significantly lower than in 2013, which benefited from the move to fair value accounting. The joint venture with Phoenix Asset Management Partners Limited ("Phoenix") was successfully launched at the end of the year through the transaction to sell 50% of the portfolio, which will serve to increase our capacity as a buyer going forward.

INSURANCE SERVICES DIVISION REPORT → 14

UK insurance services returned a strong performance, particularly in broker and financial services run-off, premium credit control and binding authority management services. However, results in the US were disappointing, primarily due to a failure to secure certain targeted new business. We have recently restructured this business to focus on the profitable accounting and reinsurance collection services. We continue to grow our franchise in captive management services, and the US Healthcare initiative is developing positively although it will continue to require investment until income picks up towards the end of the current year.

UNDERWRITING MANAGEMENT DIVISION REPORT → 16

During 2014, we secured a new third-party syndicate management contract to provide back office support for Syndicate 2088, the newly established syndicate managed by XL Catlin and backed by China Re. Syndicate 1991 successfully doubled its capacity in the 2014 year of account; however, earned premium development continues to be slow. The acquisition of Accredited, an A- rated US admitted carrier, offers an opportunity to generate future fees and increase distribution to Syndicate 1991. We experienced reasonable performance from our MGA business units during the year, all of which grew commission income. The sale of R&Q Marine Services Limited was completed in February 2015 at a premium to book value.

Governance

We set high standards of corporate governance, with a structure designed to establish, implement and maintain the effective controls essential to the Group's long-term success. The role of the Board is to set the Group's strategic objectives, and to oversee and review management performance, ensuring the required resources are available for meeting those objectives. The Board met regularly through the year to debate and conduct these matters.

Our people

During the past year, our staff have continued to make valuable contributions to the success of the Group and I emphasise my gratitude for this. We continue to identify and recruit high-quality individuals to develop existing and new business areas, and we demonstrate strength and depth in the management team across the three divisions. We are pleased to welcome, amongst other new joiners, Heather McKinlay as Deputy Group CFO, Caroline Cotterell as Group Head of HR, Terry McGinness as Group Head of IT as well as Debbie Snow, Sharon Jallad, Marney Emel and AJ Campofiore, all from Accredited. We would like to wish Brenda Payter, who worked for the Group for a number of years, latterly helping the Group's managing agency become fully Solvency II compliant, a happy retirement.

Outlook

We expect a much improved full year result compared with 2014, with the potential to increase distribution to shareholders in line with anticipated profit growth.

Our run-off entities are generally performing satisfactorily, and we are working on a strong legacy and run-off acquisition pipeline, continuing and expanding our geographical diversity, and focusing on some larger scale opportunities. Certain of these transactions, such as the acquisition of IC Insurance Limited, have already been announced and are only subject

Group performance

£000s	2014	2013
Group results		
Operating (loss)/ profit *	(799)**	10,159***
(Loss)/profit before tax	(1,559)**	9,564***
(Loss)/profit after tax	(2,746)	7,440***
Earnings per share (basic)	(6.3)p	11.9p
Balance sheet information		
Total gross assets	537,599	474,628
Total net insurance contract provisions	191,479	166,266
Shareholders' equity	86,296	100,644
Key statistics		
Investment return on free assets	2.5%	3.3%
Return on tangible equity	(3.2%)	11.8%
Net tangible assets per share	88.2p	116.4p
Distribution per share	8.4p	8.4p

* Operating (loss)/profit is defined as (loss)/profit before income tax, finance costs and share of loss of associate

** In 2014, operating profit and profit before tax are stated before deducting exceptional costs relating to the acquisition of Accredited of £750k

*** In 2013, operating profit, profit before tax and profit after tax are stated after the deduction of non-controlling interests primarily relating to Syndicate 3330 of £1,695k to change of control approval. Others are very well-progressed, but in most, if not all cases, completion is not expected until the second half of 2015. This, coupled with the fact that our service businesses have a customary income bias in the latter part of the year, will mean that the Group's profit will likely emanate in the second half of the year. However, considerably more progress has already been achieved towards meeting our year end goal than was the case at the equivalent stage in 2014.

Investment markets have been generally favourable in the year to date for our type of investment portfolio, with its focus on floating rate structured credit, though yields remain low.

Syndicate 1991 premium continues to build although a lot more slowly than we originally anticipated. However, there are some positive signs of good business retention rates and continuing new business flows, leading to more substantial levels of business being bound. As previously indicated, we have steadily lessened our live underwriting exposure and have reduced the capacity we provide on Syndicate 1991 to £20m for the 2015 underwriting year, from £30m in 2014; this is to focus on fee-generating new third-party syndicate management opportunities. Through Accredited, our newly acquired A-rated US admitted carrier, we are developing, subject to completing various regulatory processes, new sources of fee income in the US admitted market, placing business through to our own syndicate and interested third parties, potentially from the end of 2015 but most likely from 2016 onwards.

We continue to see new business growth in UK services with further broker run-off opportunities arising. We have been refining our strategy, and have closed down the non-performing parts of our US services operations. We have sold our Marine MGA to Hiscox at an attractive premium to book value, but continue to support the growth of our remaining MGA units, Commercial Risk Services and Synergy Insurance Services.

As well as generating potential service opportunities through offering carriers ways to reduce medical expenses in workers' compensation claims, the US Healthcare initiative could also bring benefits to our legacy acquisition activity.

Across the business we are reviewing our cost base with a view to realising economies and the Remuneration and Nominations Committee will be focusing on senior management succession issues.

We look to the future with confidence after a challenging year financially during 2014. We benefit from an excellent legacy transaction pipeline, a newly streamlined service operation in the US and further opportunity to grow fee income in our Underwriting Management Division. The focus will be firmly on growing tangible book value and resuming the annual increases in cash distributions to shareholders.

K E Randall
Chairman and Chief Executive Officer

"We expect a much improved full year result compared with 2014, with the potential to increase distributions to shareholders in line with anticipated profit growth."

Strategic Report

Our Business Model

Our business model reflects our commercial proposition through which we create value for customers and shareholders.

THE RESOURCES WE USE TO CREATE VALUE

R&Q has built good relationships and a strong reputation in the global insurance market. We have a well established track record in acquiring and managing legacy portfolios and providing specialist insurance services, including having 'Lloyd's preferred supplier' status for our premium credit control services. The Group's financial strength and access to capital enables it to pursue further attractive non-live insurance investment opportunities.

To add to these strengths, we have, over time, recruited, developed and trained the human and intellectual capital of a highly skilled and experienced workforce.

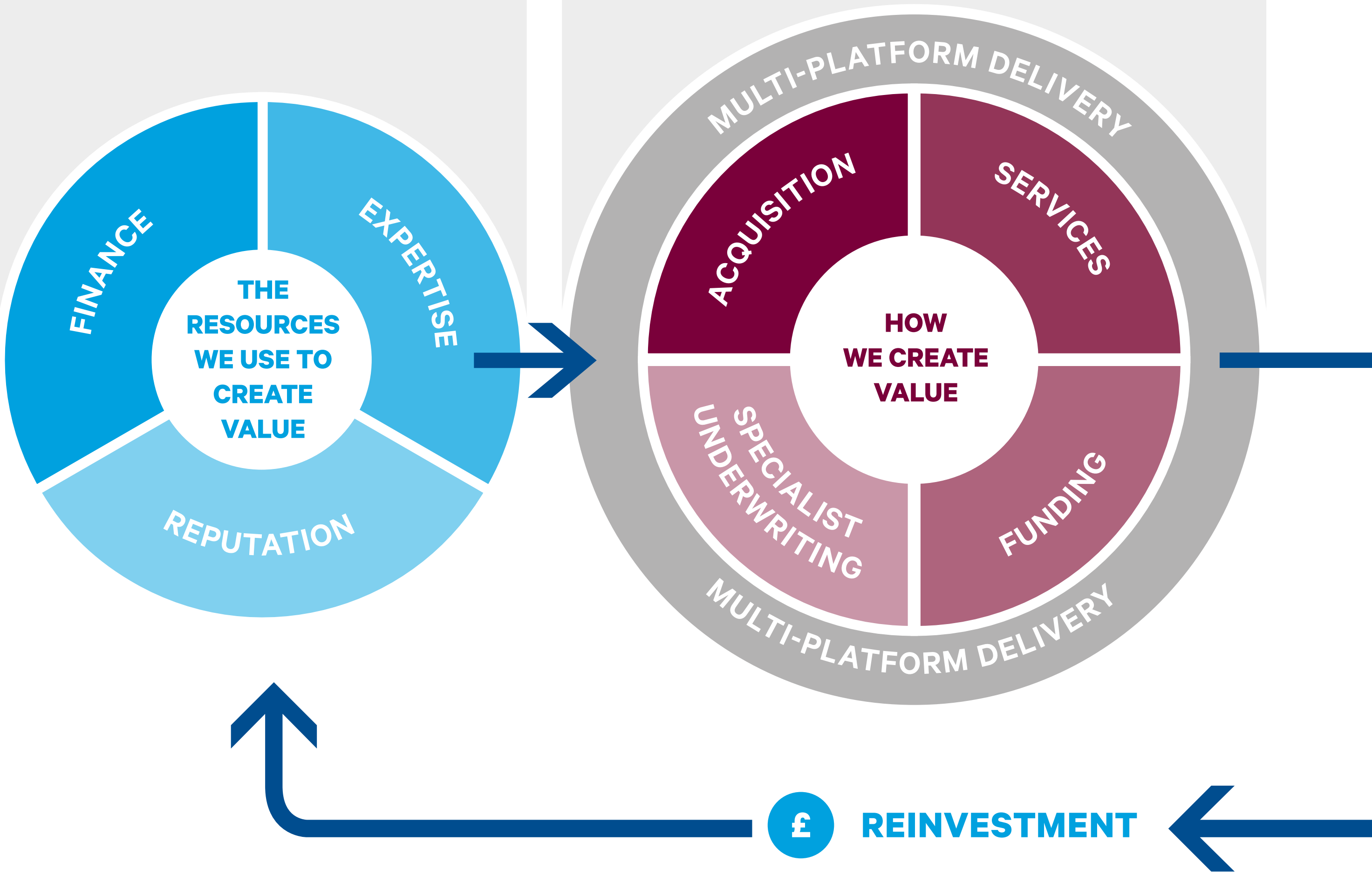
The result is an underlying entrepreneurial spirit and culture of innovation that acts as a catalyst for our value-generating activities in the insurance market.

HOW WE CREATE VALUE

We use these attributes to acquire suitable, solvent, run-off companies and portfolios. We then run them efficiently to generate net tangible asset growth and capital efficiencies. We also acquire insurance debt from companies under administration. Finally, we offer a source of expertise in specialist insurance services to both our own group companies and third parties. We manage Lloyd's Syndicates, both owned and third-party. We are a provider of capital support to group-managed Lloyd's Syndicates, both run-off and live. Additionally, we provide specialist underwriting to third-party insurance carriers through our two MGAs, and write specialist surety business through our US admitted carrier and will expand to writing other lines reinsured to third-party insurance carriers.

We benefit from extensive infrastructure to deliver the above services and investment activities, including:

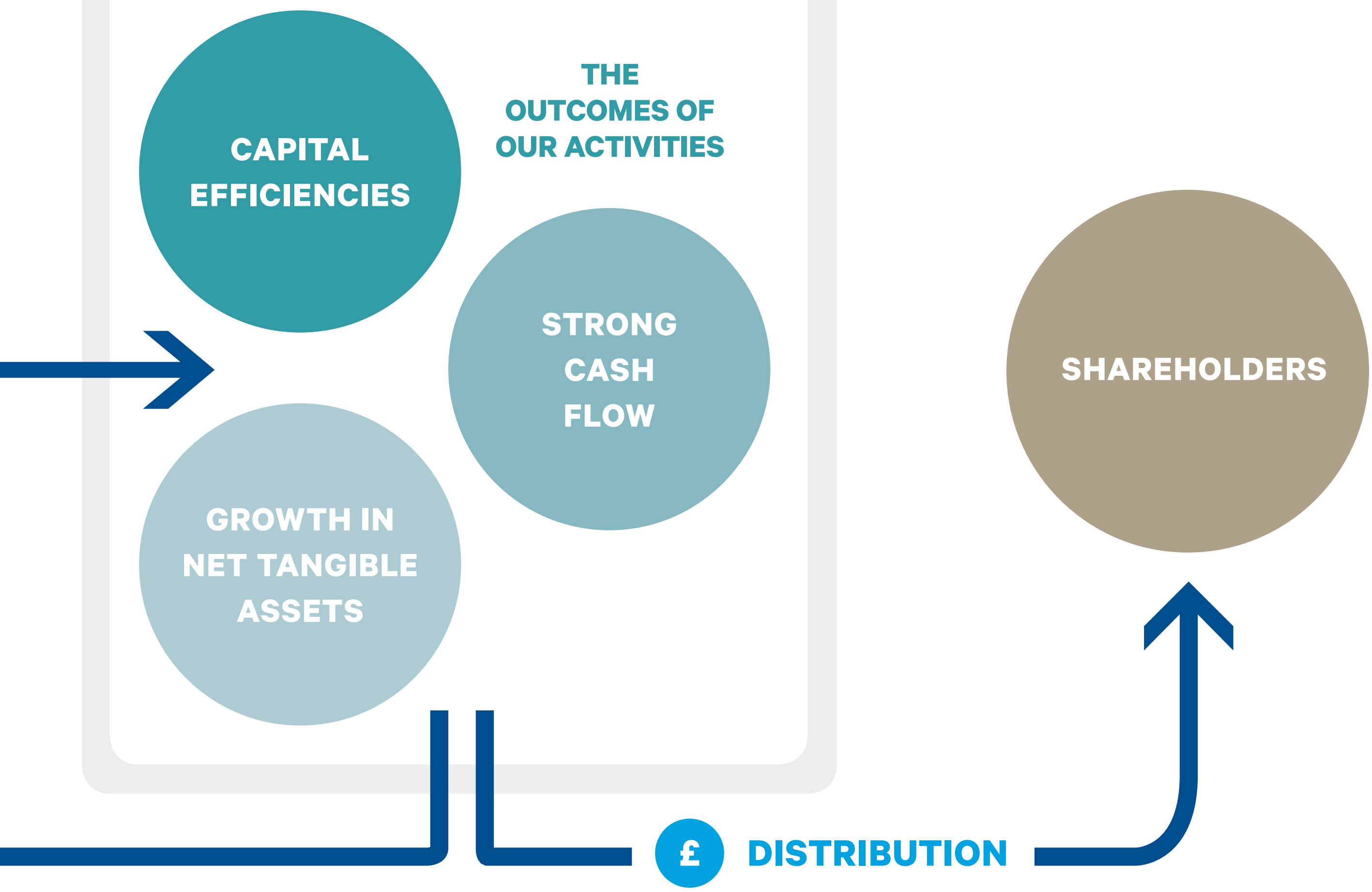
- a Bermuda Class 3a reinsurer
- a Lloyd's managing agency
- an A- rated US admitted carrier
- an EU-domiciled licensed insurance carrier to assume and reinsure run-off portfolios.



THE OUTCOMES OF OUR ACTIVITIES

The aim is to generate strong cash flows, grow distributions to shareholders and increase tangible book value.

The capital efficiencies and growth in book value fund the financial needs of the model and the expertise and infrastructure needs of the business.



Group Strategy and Performance

We made good progress in 2014, and set out our plans to continue towards achieving our four strategic objectives.

OUR MISSION

To continue to make value enhancing insurance investments, to offer high levels of service to our 'live' and 'legacy' insurance market clients, and to build an underwriting management platform to attract best-in-class underwriting teams

STRATEGIC OBJECTIVES

To acquire legacy-related insurance assets which, through structural innovation, active management and deep expertise, will generate attractive returns with short to medium-term payback.

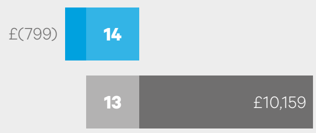
To provide a focused, high-quality and competitive service offering to the live and legacy markets, generating sustainable and attractive operating margins.

To develop Accredited, our new A- rated US admitted carrier in the United States, with diversified sources of non-underwriting income.

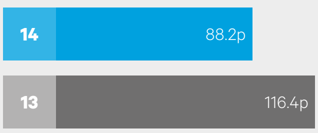
To develop a valuable Lloyd's-centric specialist insurance business, supported by a majority of third-party capital, thereby generating strong fee income for the Group.

Group KPIs

Operating (loss)/profit (£000s)

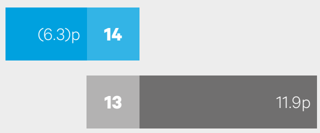


Net tangible assets per share



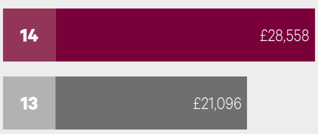
Distributions per share

Earnings per share (basic)



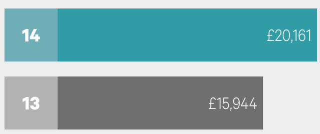
Divisional KPIs

Insurance Investments total income (£000s)



Insurance Services total income (£000s)

Underwriting Management total income (£000s)



PROGRESS IN 2014	STRATEGIC PLAN
Nine transactions completed in the year – eight acquisitions and a retrospective reinsurance. Contribution of £8.6m from goodwill on bargain purchase in addition to reinsurance premium.	Continue to use Malta as a transferee company for EEA portfolio transfers and as intra-Group consolidator. Expand retrospective reinsurance activity in US, especially in Workers' Compensation, through Bermuda and US cell structures.
Strong growth in premium credit control and binder management services after being awarded preferred status by the Lloyd's Market Association at the end of 2013. Acquired a significantly sized new broker/ financial services run-off. US business significantly streamlined. Achieved operating margins above 20%.	Capitalise further on market-leading position in premium credit control/binder management and broker run-off. US focus on accounting services, Workers' Compensation tool, legacy broking (RTU) and developing the Healthcare initiative.
The Group acquired Accredited on 26 November 2014.	Develop Accredited into a specialist admitted carrier with nationwide licenses in a number of new insurance classes. Risks to be reinsured to Syndicate 1991 and other authorised reinsurers. Model focused on fee generation through accessing a quality, well controlled underwriting account.
Syndicate 1991's capacity increased to £150m for 2014 Year of Account. The Group reduced its own capacity support following growth of third-party demand. Won new contract to provide back-office support for new XL Catlin syndicate backed by China Re.	Increasing focus on syndicate management rather than deployment of underwriting capital. Development of strategic partnerships with entities looking for long-term access to Lloyd's.

Divisional Review

Divisional Review Insurance Investments

2014 saw a significant increase in income in the division but a fall in profitability.

Income rose in the live segment as earned premium from our Syndicate 1991 participation increased. In the run-off segment, income rose as a result of the retrospective reinsurance premium relating to the AEGON non-life loss portfolio transfer.

Profitability was primarily impacted by the following factors, all of which are discussed in further detail below: lower claims releases, a reduced contribution from the insolvent insurance debt portfolio, lower investment income, and higher expenses in our US companies, which in the prior year benefited from certain legal expense recoveries and credits arising from the attachment of the ACE surplus maintenance agreement.

Run-off investments

Claims releases from run-off insurance companies were positive at £2.4m, but significantly below last year's total of £8.3m, primarily as a result of the higher strengthening in R&Q Re US's asbestos reserves, but also lower releases in R&Q Malta and R&Q Re UK. The results from the run-off syndicates were positive overall given continued strong performance from Syndicate 3330's 2012 year of account, but the impact of the legal expenses associated with the arbitration in former Syndicate 102 meant that the contribution was below original expectations. It is nevertheless pleasing to report a successful resolution to this long-standing dispute concerning a life settlement claim.

Mergers and acquisitions

Eight legacy acquisitions were completed during 2014 within the Insurance Investments Division generating goodwill on bargain purchase of £8.6m. These figures exclude the Oval and Accredited acquisitions which are reflected in the Insurance Services Division and Underwriting Management Division respectively.

In addition, the reinsurance premium received for AEGON's non-life book exceeded estimated liabilities. Adding this risk premium to the goodwill on bargain purchase for the year, the contribution from legacy acquisition activity was significantly ahead of the prior year, which itself was a very good year.

The deals completed were broad in type and geography. Silco was a US-based Black Lung Trust, Pender was an Isle of Man insurer subject to a scheme, SRM and Catholic were both Bermuda-based cells with predominantly Workers' Compensation ("WC") exposures, Armitage and Berda were Unilever's Bermuda-based captives which primarily wrote WC deductible reimbursement policies, Aker was a Norwegian WC portfolio transfer and Tryg was a portfolio transfer of Danish, Swedish and Norwegian-based marine business.

We are pleased to report that R&Q Malta is gaining significance as our strategy of consolidating run-off portfolios into this company develops and we offer flexible and well-priced exit solutions to the growing number of interested parties in the UK and rest of Europe ahead of Solvency II implementation. Meanwhile, our Bermuda-based team continues to develop its loss portfolio transfer solutions using our segregated account companies in Bermuda and the US.

Live syndicate results

Our participation on live syndicates, including Syndicate 1991, which is the Group's own syndicate, and Syndicate 1897, for which we were previously turnkey agent, produced higher income in the aggregate in 2014, but slightly higher losses compared with the prior year. We remain on only one underwriting year of account for Syndicate 1897, being the 2013 year of account, which should naturally close at the end of this year.

Much as anticipated, premium development in Syndicate 1991 continued at a slow pace given challenging market underwriting conditions and the knock-on effects of earlier delays in signing up the MGAs with which the syndicate has established its binding authorities. This meant that the higher expenses associated with an expanded team and a larger underwriting book and reinsurance programme outweighed the benefits of the higher premium levels. As income continues to grow, expenses will be mitigated and the bottom line result will improve. The loss ratio continues to be in line or ahead of plan.

As indicated earlier in the year, we reduced our underwriting commitment for the 2015 year of account from £30m to £20m and will begin to see our associated funding begin to fall as early year capital loadings are removed and the account's track record as regards claims loss ratios is proven. Going forward, the Group believes that a focus on management and fee income, rather than the deployment of significant levels of underwriting capital, will generate the best returns for shareholders.

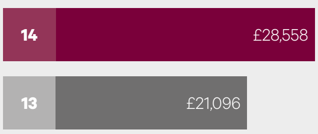
Insolvent insurance debt portfolio

RQLM Limited is our subsidiary that is dedicated to acquiring insurance debt from insolvent estates. We had an active year during 2014 with results in line or slightly ahead of expectations, though the contribution was materially lower than in 2013, which benefited from our switch to a fair value accounting basis in that year. The fair value of debt decreased year-on-year from £16.0m to £10.6m primarily due to the receipt of a large dividend on certain positions we owned as an estate moved to closure earlier this year.

Financial Summary

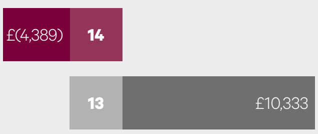
Total income (£000s)

£28,558



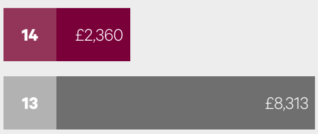
Operating (loss)/profit (£000s)

£(4,389)



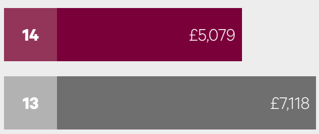
Net claims releases* (£000s)

£2,360



Net investment income (£000s)

£5,079



* excluding reserves acquired through portfolio transfers

We were pleased to announce the joint venture with Phoenix in November 2014, which has increased our capacity as a bidder, a benefit we have brought to bear in recent successful acquisitions in 2015.

Investment return

We generated a satisfactory investment performance during 2014, with an average return of 2.5% on free assets of around £160m equivalent. After a strong first half year, returns were disappointing during the remainder of the year when yields began to fall and credit spreads widened, especially in structured and high-yield credit where the Group has a significant amount of its assets invested. However, our strategy of being diversified and focused on high quality securities with low credit spread duration paid off and we avoided suffering mark to market losses on the portfolio overall. As a result, despite the falling yield environment, we managed to generate a better full year performance than the majority of traditional fixed income strategies.

The Group's asset allocations and credit ratings generally remained similar to the prior year, though the cash allocation increased towards the end of the year as we reduced exposure to lower grade structured credit. We have recently appointed two new investment managers to manage all of our US and non-US assets respectively, who will assist in optimal allocation according to market conditions. We will continue with low interest rate duration and a structured credit focus though there will be reductions in the ABS and CLO allocations. We expect the average yield to increase modestly post the proposed reallocations to above 2.5%.

Divisional Performance

£000s	2014	2013
Live income	10,093	5,472
Run-off income	18,465	15,624
Total Income	28,558	21,096
Live operating loss	(2,566)	(2,011)
Run-off operating (loss)/profit	(1,823)	12,344
Operating (loss)/profit	(4,389)	10,333
Net claims releases/(increases)		
– Europe	3,131	5,278
– US	(2,241)	(1,440)
– Bermuda	73	(223)
– Run-off Syndicates	1,397	4,698
	2,360	8,313
Acquired through portfolio transfers	(7,393)	–
Total	(5,033)	8,313
Goodwill on bargain purchase		
– Europe	2,560	7,404
– Bermuda	3,539	825
– Other	2,510	250
Total	8,609	8,479
Live Syndicates (The Group's share)		
– Live operating loss	(2,566)	(2,011)
RQLM		
– Fair value of debt	10,629	16,033
– Movement in fair value of debt	1,700	4,257
Investment return on free assets		
– Percentage	2.5%	3.3%
– Net investment income	5,079	7,118

- A further £2,498k goodwill on bargain purchase was generated on the Accredited acquisition (shown in UMD) and £3,485k goodwill on bargain purchase was generated on the Oval acquisition (shown in ISD)
- Investment return % is calculated as net investment income over average total investments. Investment return is stated after fees of £547k and £581k in 2014 and 2013 respectively

Investments (including Funds at Lloyd's)

Asset Class	Share of Portfolio
ABS	20%
CLO	24%
Bonds/Treasuries	11%
Equity	9%
Funds	14%
Cash	22%
	100%

Credit Rating	Share of Portfolio
Cash	22%
AAA	10%
AA	18%
A	24%
BBB	2%
BB	9%
Unrated *	15%
Total	100%

* 'Unrated' includes cash held within our Funds at Lloyd's

Divisional Review Insurance Services

The quality of income and profit improved significantly and the operating margin remained above 20%.

Total income and operating profit in the Insurance Services Division fell slightly in 2014 against 2013, but the quality of income and profit improved significantly and the operating margin remained comfortably above our 20% target.

Run-off services

Run-off services performed strongly during 2014, with income and especially operating profit increasing significantly. Our broker services in the UK were the primary driver of the improved performance, in part due to the goodwill on bargain purchase arising on the acquisition of a broker and financial services run-off. In addition, we expanded the broker service contracts with a number of insurers. Whilst credit write backs continued, they were lower than the prior year, reflecting an improved underlying quality in third party income.

Live services

The 2014 income and operating result in live services was impacted by a weak result in the US, although the non-US business saw improved profitability especially in liquidity services in the UK. Indeed, UK income grew by more than 20% and the operating margin improved to 11% from a negative figure in 2013, as our status as preferred premium credit control supplier awarded by the Lloyd's Market Association helped us win new contracts and gain scale. Elsewhere, whilst third party income in captive management grew, operating profit was impacted by the cost of new senior hires aimed at driving future revenue growth, as well as a lower contribution from internally generated fees from acquiring new captives in run-off against 2013.

Following a continued disappointing performance in US services, we have decided to continue only with third party accounting and reinsurance collection services, Workers' Compensation support systems, as well as RTU, our legacy broking facility, and the Healthcare initiative referenced below. Whilst this restructuring will benefit the Divisional result in the future, the current year will be muted after restructuring charges. It should also be noted that the 2013 result benefited from a significant credit write back in one of the subsidiary operations, as detailed at the time.

Whilst income from the US Healthcare initiative was negligible during 2014, we expect programme management services to develop into a source of new profit and revenue during the latter part of 2015 and beyond. There is also potential to provide a combined service and exit solution for captives, self-insurers and carriers looking to bring more certainty to portfolios of Workers' Compensation claims.

Financial Summary

Total revenue (£000s)

£36,899

14	£36,899
13	£39,399

Operating profit (£000s)

£8,321

14	£8,321
13	£9,839

Operating profit margin

22.6%

14	22.6%
13	25.0%

Insurance Management

Within our Insurance Services Division, our Insurance Management business operates in many captive domiciles worldwide. Our strength is the ability to offer truly independent and balanced advice to clients, uncluttered by any consideration of ownership or domicile.

We focus on only the most responsive solutions to our clients' objectives. Our exit solutions for captives and other risk retention vehicles address business critical issues in a manner that has proven to be a key competitive advantage.

Divisional Performance

£000s	2014	2013
Total revenue	36,899	39,399
– of which intercompany	15,385	16,829
– of which third party	21,514	22,570
Operating profit *	8,321	9,839
Operating profit margin **	22.6%	25.0%

* Operating profit is defined as profit before income tax and finance costs
** Operating profit margin is defined as operating profit divided by total income

Run-off services

£000s	2014	2013
Total income	21,214	19,363
Operating profit *	10,760	5,949
Operating profit margin **	50.7%	30.7%
Operating profit margin excluding goodwill on bargain purchase **	41.0%	30.7%

* Operating profit is defined as profit before income tax and finance costs
** Operating profit margin is defined as operating profit divided by total income

Live services

£000s	2014	2013
Total income	15,685	20,036
– of which non-US	8,591	8,893
– of which US	7,094	11,143
Operating (loss)/profit *	(2,439)	3,890
– of which non-US	333	100
– of which US	(2,772)	3,790
Operating profit margin **	(15.5%)	19.4%

* Operating profit is defined as profit before income tax and finance costs
** Operating profit margin is defined as operating profit divided by total income

Divisional Review Underwriting Management

The Underwriting Management result was strong for the year.

The Underwriting Management result was strong for the year, somewhat flattered by goodwill on bargain purchase of £2.5m in relation to Accredited, as well as credit write backs in one of the division's operating subsidiaries. Adjusting for these items, the underlying result was a little ahead of the prior year with both management fee and MGA commission increasing, albeit at a slower rate than hoped, due to the competitive underwriting environment. Profit commissions increased, primarily in R&Q Marine Services Limited.

We were delighted to announce that we were selected by XL Catlin to provide back office support for Syndicate 2088, which is managed by XL Catlin and backed by China Re.

The acquisition of the Accredited group of companies, including an A- rated US admitted carrier, was an important addition to the division and the wider Group's infrastructure. Acquired by the Group on 26 November 2014, there is only one month of results included in the 2014 consolidated financial statements, being revenue of £791k and profit before tax of £228k. As planned at the time of acquisition, we are in the process of applying for new licences to expand Accredited's underwriting reach nationwide and we are pleased to announce that we have now received such approval in the company's home state, Florida. This should provide valuable new business flows to Syndicate 1991 and other authorised reinsurer markets, whilst generating a valuable source of commission income for the Group. Whilst the completion of the regulatory approval process across other US states and the development of the additional resource to write this new business will take some time, we hope to write our first new programme before the end of the year.

The MGA operations generated a positive contribution in the year with all units growing premium and commissions despite challenging markets. In early 2015, the sale of R&Q Marine Services Limited to Hiscox was completed, with total consideration rising to a potential maximum of £6.9m for our 75% share of the business. The Board believed that the future growth of the business would be optimised under new ownership at Hiscox and that the value of this underwriting portfolio was much greater to a carrier, making a sale the most effective means of generating shareholder value. Our remaining MGA business units have continued to grow top line income in 2015, although the potential for bottom line profit will not be realised until they have achieved greater scale.

Financial Summary

Total revenue (£000s)

£20,161

Operating profit/(loss) (£000s)

£2,820

Operating profit margin

14.0%

Divisional Performance

£000s	2014	2013
Total revenue	20,161	15,944
Operating profit/(loss) *	2,820	(177)
Operating profit/(loss) margin **	14.0%	(1.1%)
Key metrics		
Management fee revenue	9,684	9,132
MGA commission revenue	3,520	3,374
Profit commissions	958	523
Accredited ***		
– Profit before tax	1,076	N/A
– Return on net tangible equity	6.52%	N/A

* Operating profit/(loss) is defined as profit/(loss) before income tax, finance costs and share of loss of associate

** Operating profit/(loss) margin is defined as operating profit/(loss) divided by total income

*** Acquired on 26 November 2014. These metrics are presented as if Accredited were owned by the Group for the entire year

Risk Management

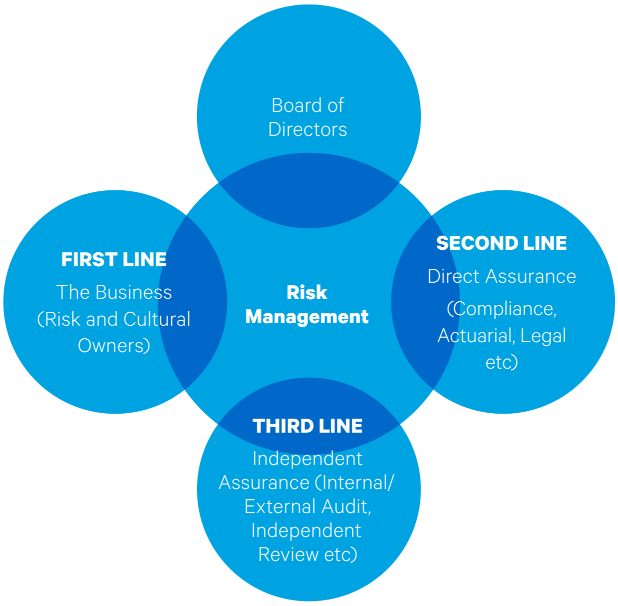
R&Q is a diverse Group and accordingly, is exposed to a variety of risks and uncertainties. The challenge for the Group is to identify, assess, treat and monitor those risks and uncertainties it considers to be critical, and develop and maintain proportionate action to mitigate these risks to an acceptable level.

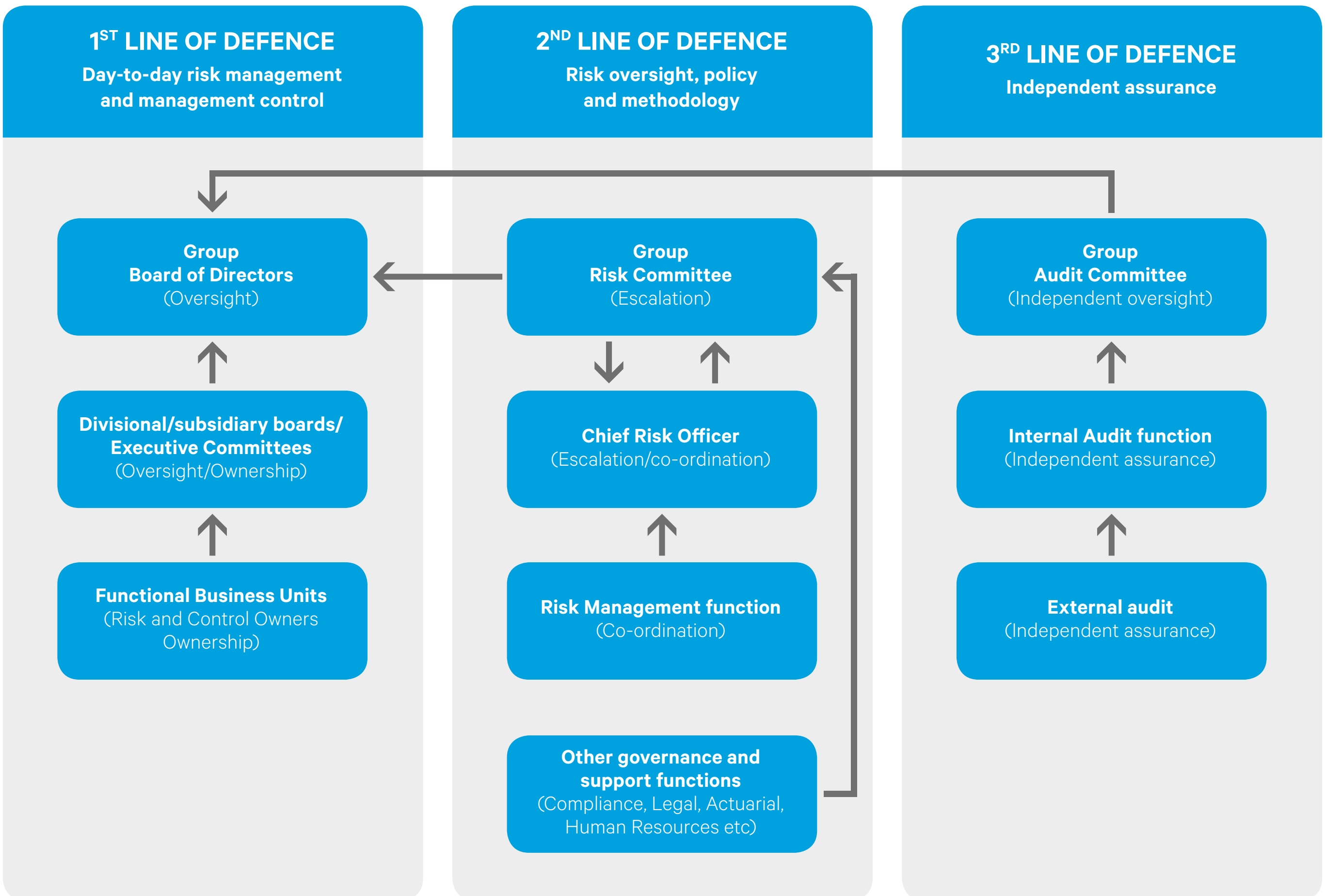
Overall Responsibility for Risk Management

The Board is responsible for ensuring that the Group has an appropriate approach to Risk Management and Internal Control, and that this approach is properly aligned with the Group's overall corporate strategy. It is recognised that the risks facing the Group will evolve and increase/decrease in potential impact and probability of crystallisation over time. As such, the management of risk and uncertainty remains an iterative process. It is also recognised that Risk Management is pervasive to all the Group's activities and that this is reflected in the Risk Management governance framework outlined opposite.

Three Lines of Defence

The Group's overall Governance Framework, which encompasses its Risk Management Framework, has regard to the principles of the "Three Lines of Defence" model, comprising first line operational and functional management of risk, second line control and oversight, and third line internal and external audit function, as shown overleaf.





"The key areas of focus of the Risk Committee during 2014 have been to ensure that the Risk Management Framework and oversight arrangements are appropriate to effectively direct and oversee the risk management activity within the Group"

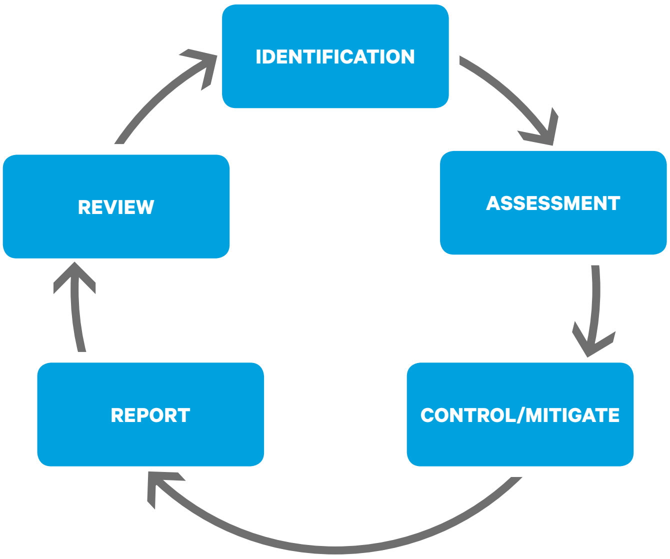
Group Risk Committee

The Group has a Risk Committee which is a formal Committee of the Board. The Committee has responsibility for maintaining, on behalf of the Board, the effectiveness of the Group's Risk Management Framework, systems of Internal Control, Risk Policies and Procedures and adherence to Risk Appetite. The Committee is chaired by an independent Non Executive Director, Philip Barnes. The Committee meets at least quarterly and provides a report on its activity to the Board.

The key areas of focus of the Risk Committee during 2014 were to ensure that the Risk Management Framework and oversight arrangements are appropriate to effectively direct and oversee risk management activity within the Group and in particular, to formalise the approach to setting and monitoring Risk Appetite including the introduction of a suite of Key Risk Indicators.

Risk Management Process

The Group's Risk Management function, headed by the Chief Risk Officer, works closely with Divisional and Functional Heads, and meets regularly with them to monitor existing identified risks and uncertainties, identify new and emerging risks and to ensure that there are appropriate processes and procedures in place to mitigate these risks. The following overarching process is adopted:



The Risk Committee is responsible for oversight of the established Risk Management process for identifying and assessing risks, from whatever source, internal or external, and ensuring it is consistently applied. Each identified risk is considered in the context of the Group's strategic objectives and Risk Appetite, having regard to existing mitigating controls.

Internal Control System

The Group's Internal Control System comprises the following key elements:

- **Documented Governance Arrangements** continue to evolve along with the overall busisess strategy.
- **Strategic Planning Process**, setting priorities over the planning horizon, reviewed by the Board periodically to ensure the Group is focussing on its core strengths.
- **Detailed Planning/Budgeting Process**, subject to detailed and ongoing oversight and scrutiny delivering forecasts/targets for Board review and approval.
- **Management Information Systems**, including corporate reporting on financial/operating performance.
- **A Defined Risk Appetite Framework** governing management, control and oversight of key risks and issues.
- **Overall Group Capital Adequacy Planning** conducted biannually.
- **Compliance** arrangements throughout the Group.
- **Internal Audit Function** providing third line assurance to the Board via the Audit Committee following a risk-based, approved annual Audit Plan, on the effectiveness of the Group's internal controls in respect of key risks identified.
- **Risk Management Function**, as described above.

The Board considers that the controls in place during 2014 were and continue to be relevant, proportional and appropriate for the needs of the Group, and additionally are sufficiently flexible to evolve with the changing needs of the business. A number of the Group's subsidiaries are regulated and accordingly are subject to the relevant degree of local regulatory oversight. Members of the Board and Senior Management regularly meet with the Group's various regulatory supervisors, conducting the relationship in an open and constructive manner.

Principal Risks and Uncertainties

The following table highlights the "top ten" risks and uncertainties facing the Group as identified by the Board of Directors. This list is not exhaustive and comprises a brief description of those risks that the Board considers to be the major strategic risks it faces, along with the main mitigating actions in place.

RISK TITLE/DESCRIPTION	RISK CATEGORY	MITIGATION ACTION
Management of Strategic Change The Group fails to effectively manage both the overall diversification of its activities and simultaneous initiatives as it implements its range of strategic objectives. The Group fails to raise the necessary capital to finance new initiatives.	**Strategic Risk**	There is an ongoing and active process for the management of relationships with external stakeholders and, in particular, the investment community. The Board actively reviews current strategic priorities and returns on its various investments and acquisitions to ensure that the Group continues to focus on areas of core strengths and operates within its predefined Risk Appetite. Periodic reviews of operating platforms to ensure they are appropriately utilised.
Business Development and Growth The Group fails to identify and harness new business opportunities. The Group's profitability is impaired following the establishment/acquisition of new business.	**Strategic Risk/ Insurance Risk**	The Group budgeting process and Strategic Plan are subject to ongoing review and scrutiny by the Board and senior management. Active management of cash flow via the Group Treasury Function. Regular oversight and review of acquisitions pipeline. Ongoing monitoring of returns on investments and acquisitions to ensure they remain within the Risk Appetite of the Group.
Contagion Risk Events elsewhere in the Group (e.g. unauthorised underwriting activity), and individual divisional strategies, may be misaligned with the core activities of the Group and/or may have an adverse effect (notably, but not restricted to reputational) on the organisation as a whole. Failure of the Group to control and monitor internal and external communication.	**Group/Operational Risk**	This risk is actively overseen by the Group Board. All external communications are channelled via the Executive Director responsible for external communications. The Group has a dedicated Marketing function. Divisional business plans are scrutinised carefully as part of the annual and ongoing budgeting process to ensure consistency and alignment with the Group's overall strategic objectives.
Regulatory Compliance and Governance Structure – Solvency II or equivalent The Group is not Solvency II (or equivalent, e.g. BMA, MFSA) compliant in accordance with local regulatory requirements and expectations.	**Regulatory and Legal/Group Risk**	The Group has a Governance function to ensure that all second and third line control and assurance functions are more closely aligned. The Group actively manages its relationships including regular liaison with relevant regulators. Active involvement of Risk Management, Compliance, Internal Audit and Actuarial functions. Own Risk and Solvency Assessments or equivalents.

RISK TITLE/DESCRIPTION	RISK CATEGORY	MITIGATION ACTION
Ineffective Cash flow Management The Group fails to implement adequate controls over cash flow and liquidity leading to financial shortfalls.	**Liquidity Risk**	Dedicated Group cash flow, Treasury Management and Invested Assets function providing focussed effort and a tighter control regime. Detailed cash flow reporting and monitoring of banking covenants. Forward looking monitoring of the Group's cash flow projecting the likely liquidity position over a 12-month planning horizon, embedded into the cash flow monitoring mechanism. Active and ongoing seeking of alternative financing options.
Regulatory Compliance and Governance Structure – General The Group or one of its component parts breaches legal or regulatory or tax requirements of other jurisdictions in which it has a presence.	**Regulatory and Legal/Group Risk**	The Group has a Governance function to ensure that all second and third line control and assurance functions are more closely aligned. Regular liaison with local management and recruitment of local expertise where needed. Active management of relationships with all local regulators where the Group has a presence.
Retention of Key Staff and Succession Planning R&Q is reliant upon the knowledge and expertise of key directors and staff and fails to adequately plan for succession.	**Group Risk**	Development of succession plans (Group and Divisional). Competitive pay and bonus structure which is benchmarked. Performance Management process in place.
Capital Adequacy/Availability RQIH/Third parties are unable or unwilling to continue to invest in Divisional/Group activity.	**Regulatory and Legal/Group Risk**	Management of relationships with all capital providers, including the investment community. Additional sources of capital actively sought. Biannual review of overall Group Capital Adequacy. Periodic reviews of operating platforms to ensure they are appropriately utilised in the most capital efficient manner.
Investment Return R&Q fails to realise an adequate return on the invested funds under its control and/or experiences a default on investments held.	**Market Risk**	Group and subsidiary level Investment Committees. Dedicated Group, Treasury Management and Invested Assets function and embedded Key Risk Indicator to monitor investment concentration and returns. Deployment of external Investment Managers.
Inappropriate Reserving Methodology/Inappropriate Reserving R&Q adopts a reserving methodology that produces incorrect reserving.	**Insurance Risk**	Internal Actuarial best estimates utilised in conjunction with annual Independent Statements of Actuarial Opinion as well as independent actuarial reviews on more significant reserves. Board review of Actuarial best estimates.

Corporate Governance

Board of Directors

Ken Randall

Group Chairman and Chief Executive Officer (67)

Ken Randall is a Certified Accountant and has worked in the Insurance industry for almost 40 years. During the early 1980s, Ken was Head of Regulation at Lloyd's which was then a self-regulated institution. From 1985 until 1991 Ken served as Chief Executive of the Merrett Group, which managed a number of prominent Syndicates at Lloyd's.

In 1991, Ken left Merrett to set up his own business in partnership with Alan Quilter. Over the next 8 years they developed the Eastgate Group into the UK's largest third party provider of insurance services with 1,300 employees and a turnover of over £80m per annum. Eastgate was sold to Capita plc in November 2000.

Alan Quilter

Group Chief Operating Officer and Deputy Group Chief Executive Officer (64)

Alan Quilter is a Chartered Accountant and has worked in the London insurance market since 1969.

Between 1980 and 1987, he headed the Market Financial Services Group at Lloyd's before having several senior roles within investment management companies focused on insurance markets in the UK.

In 1992, Alan joined Ken Randall to form Randall & Quilter. He was Chief Financial Officer for the Group, with overall responsibility of the Group's finance functions until June 2011.

Tom Booth

Group Chief Financial Officer (40)

Tom Booth joined the Randall & Quilter Group in October 2009 and was appointed to the Board of Randall & Quilter Investment Holdings Ltd. in May 2013.

With over 10 years of experience in the insurance sector, Tom held the position of Corporate Finance Director at Numis Securities Limited between 2006 and 2009 where he was responsible for an extensive client base ranging from Lancashire and JLT (with market caps of £850m and £1.1bn respectively) to Abbey Protection and THB.

The Board of Directors met 10 times in 2014, as well as approving a number of resolutions in writing. Board attendance was 100%. The number of meetings was slightly higher than in an average year, due primarily to the Group's acquisition of the Accredited group of companies. The Board also held a strategy meeting in October 2014.

Michael Smith

Non-Executive Director (70)

Michael Smith is a solicitor, having spent his professional career at City solicitors Titmuss Sainer & Webb (now international law firm Dechert) of which he was senior partner from 1990 to 1998, retiring from legal practice in 2001.

He was a corporate lawyer, having specialised from the mid 1980's in the London and international insurance markets, with a concentration on capital transactions of all types.

Philip Barnes

Non-Executive Director (54)

Philip Barnes is a Chartered Accountant and has worked in the insurance industry for almost 30 years.

After qualifying with a national firm of accountants in the UK, Philip moved to Bermuda in 1984 where he continued his career with Deloitte. In 1986, Philip joined the Insurance management operations of Alexander & Alexander which was subsequently acquired by Aon.

During his 25 year career with Aon, Philip oversaw the growth and development of the Bermuda office into the leading manager of captives and reinsurance companies on the island. Philip currently holds a number of non-executive directorships of Bermuda insurance and reinsurance companies.

Alastair Campbell

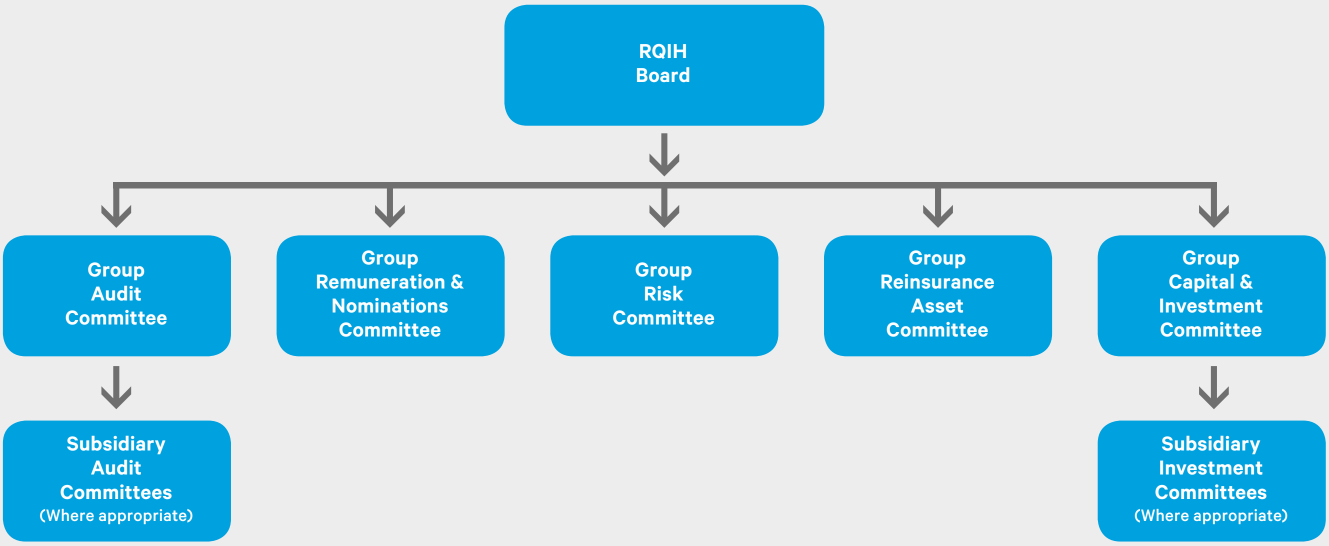
Non-Executive Director (70)

Alastair Campbell qualified as a Chartered Accountant in 1968. After qualifying, he worked with PKF Littlejohn LLP, becoming a partner in 1970. Between 1984 and 1998 he acted as the Senior Partner and Chairman of the firm.

During his 40 years as a partner, he acted for a wide range of commercial entities, mainly in the service sector. Throughout his career he has been involved in the London Insurance Market and has extensive experience in the non-life insurance industry, acting for insurers, brokers and agents as auditor and adviser. Following his retirement in 2010, he has worked as a consultant and expert witness on a number of accounting related projects.

Governance Report

Committee Structure



Alastair Campbell
Chair of Audit Committee

Audit Committee

The Audit Committee consists of the three Non-Executive Directors, and is chaired by Alastair Campbell. The Executive Directors are attendees and members of the Finance, Actuarial and Internal Audit functions are invited where appropriate. The Group's auditors, PKF Littlejohn LLP, attend at least two meetings per year. The Audit Committee met six times in 2014 and attendance was 100%.

Activities

During 2014, the Audit Committee reviewed the Group's full-year and half-year financial statements and associated disclosures and also considered, among other things, the appropriateness of the Group's accounting policies. The Committee received reports from the Head of Internal Audit including the three-year internal audit plan and progress against internal audit recommendations. The Committee reports its findings to the Board at each regularly scheduled Board meeting.

Tom Booth
Chair of Capital & Investment Committee

Capital & Investment Committee ("InvestCo")

The InvestCo (re-named the Capital & Investment Committee during 2015) consists of the Executive Directors and is chaired by the CFO. The Chief Actuary and Deputy Group CFO attend as appropriate.

Activities

In 2014, the InvestCo considered twenty-two transactions and investment opportunities, as well as reviewing and making recommendations with regard to the Group's investment policy. The InvestCo's primary purpose is to make recommendations to the Board as to the Group's strategy for the management of corporate, insurance and syndicate assets and to assess the strategic value of proposed acquisitions. Going forward, the InvestCo will also maintain oversight of the Group's capital adequacy and ensure that a suitable capital management governance framework is in place.

Michael Smith
Chair of Remuneration & Nominations Committee and Reinsurance Asset Committee

Remuneration & Nominations Committee ("RemCo")

The RemCo consists of the Non-Executive Directors and is chaired by Michael Smith. The CEO is an attendee and other members of the Executive and senior management attend by request. The RemCo met nine times during 2014 and attendance was 100%.

Activities

The RemCo's primary focus is on setting the Group's Executive and senior management remuneration policy, in collaboration with the Board as a whole. The RemCo also considers share plans, option grants and other incentivisation initiatives as well as approving management's general approach to employee annual bonuses and pay rises, specific awards for senior management and making recommendations as to succession planning. During 2014, recommendations were made in relation to the following senior appointments: Chief Information Officer, Deputy Group CFO and Group HR Director.

Reinsurance Asset Committee ("RAC")

The RAC is chaired by Michael Smith and consists of the Head of Claims & Reinsurance (UK), CFO, CEO-Insurance Investments Division, UK Client Services Director, Chief Actuary, Head of Group Credit Control, President of US Insurance Services Division and the US General Counsel. The RAC met four times in 2014 and attendance was 67% (on average three apologies per meeting).

Activities

The RAC monitors and reports on the Group's owned insurance company reinsurance assets and recommends actions to protect such assets. The RAC also reviews bad and doubtful debt provisions proposed by the Group's owned insurance companies, reports on reinsurance litigation/arbitration and commutation activity and makes recommendations on acceptable levels of security for the purchase of reinsurance cover.

Philip Barnes
Chair of Group Risk Committee

Group Risk Committee ("GRC")

The GRC was formed after the Group's redomicile to Bermuda.

The GRC is chaired by Philip Barnes and consists of the Head of Governance, CFO, Chief Risk Officer, Chief Actuary and the Head of Internal Audit. The CEO is an attendee. The GRC met four times during 2014 and attendance was 87.5% (two attendees missed a combined three meetings).

Activities

The GRC's activities are described in more detail on page 19 (Risk Management).

Financial Statements

Independent Auditors' Report

For the year ended 31 December 2014

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

We have audited the consolidated financial statements of Randall & Quilter Investment Holdings Ltd. ("the Company") for the year ended 31 December 2014 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, 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 auditors' 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.

Directors' Responsibilities

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 Company's financial statements under International Financial Reporting Standards as adopted by the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company'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". 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 Company'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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding assets of the Company 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.

Auditors' Responsibilities

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 Company's affairs as at 31 December 2014 and of the Company's loss 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 and Registered Auditors
1 Westferry Circus,
Canary Wharf,
London, United Kingdom

19 June 2015

Consolidated Income Statement

For the years ended 31 December 2014 and 2013

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Gross premiums written		24,751		9,121	
Written premiums ceded to reinsurers		(1,285)		(837)	
Net written premiums		23,466		8,284	
Change in provision for unearned premiums, gross		(3,996)		(2,077)	
Change in provision for unearned premiums, reinsurers' share		738		270	
Net change in provision for unearned premiums		(3,258)		(1,807)	
Earned premium, net of reinsurance			20,208		6,477
Gross investment income	6	5,626		7,699	
Other income	7	39,560		40,578	
			45,186		48,277
Total income			65,394		54,754
Gross claims paid		(46,624)		(42,241)	
Reinsurers' share of gross claims paid		26,475		21,954	
Claims paid, net of reinsurance		(20,149)		(20,287)	
Movement in gross technical provisions		8,705		14,377	
Movement in reinsurers' share of technical provisions		172		10,638	
Net change in provisions for claims		8,877		25,015	
Net claims provisions (increased)/released			(11,272)		4,728
Operating expenses	8		(69,859)		(55,904)
Result of operating activities before goodwill on bargain purchase			(15,737)		3,578
Goodwill on bargain purchase	29		14,592		8,479
Amortisation and impairment of intangible assets	14		(404)		(203)
Result of operating activities			(1,549)		11,854
Finance costs	9		(649)		(523)
Share of loss of associate			(111)		(72)
(Loss)/profit on ordinary activities before income taxes	10		(2,309)		11,259
Income tax charge	11		(437)		(2,124)
(Loss)/profit for the year			(2,746)		9,135
Attributable to:					
Shareholders of the parent			(4,509)		7,440
Non-controlling interests			1,763		1,695
			(2,746)		9,135
Earnings per ordinary share for the profit attributable to the ordinary shareholders of the Company:					
Basic	12		(6.3p)		11.9p
Diluted	12		(6.3p)		11.9p

The accounting policies and accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

For the years ended 31 December 2014 and 2013

	2014 £000	2013 £000
Other Comprehensive Income:		
Items that will not be reclassified to profit or loss:		
Pension scheme actuarial (losses)/gains	(5,027)	1,465
Deferred tax on pension scheme actuarial losses/(gains)	1,005	(285)
	(4,022)	1,180
Items that may be subsequently reclassified to profit or loss:		
Exchange gains/(losses) on consolidation	373	(1,100)
Other comprehensive income	(3,649)	80
(Loss)/profit for the year	(2,746)	9,135
Total comprehensive income for the year	(6,395)	9,215
Attributable to:		
Shareholders of the parent	(8,185)	7,490
Non-controlling interests	1,790	1,725
Total comprehensive income for the year	(6,395)	9,215

The accounting policies and accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the years ended 31 December 2014 and 2013

		Attributable to equity holders of the parent							
	Notes	**Share capital £000**	**Share option costs £000**	**Share premium £000**	**Treasury shares £000**	**Retained earnings £000**	**Total £000**	**Non-controlling interests £000**	**Total £000**
Year ended 31 December 2014									
At beginning of year		1,435	84	23,392	(54)	75,787	100,644	1,371	102,015
(Loss)/profit for the year		–	–	–	–	(4,509)	(4,509)	1,763	(2,746)
Other comprehensive income									
Exchange profits on consolidation		–	–	–	–	346	346	27	373
Pension scheme actuarial losses		–	–	–	–	(5,027)	(5,027)	–	(5,027)
Deferred tax on pension scheme actuarial losses		–	–	–	–	1,005	1,005	–	1,005
Total other comprehensive income for the year		–	–	–	–	(3,676)	(3,676)	27	(3,649)
Total comprehensive income for the year		–	–	–	–	(8,185)	(8,185)	1,790	(6,395)
Transactions with owners									
Issue of P–S shares		6,029	–	(6,029)	–	–	–	–	–
Cancellation of P&R shares		(3,015)	–	–	–	–	(3,015)	–	(3,015)
Cancellation of Q&S shares		(3,014)	–	–	–	3,014	–	–	–
Treasury shares		–	(20)	–	(121)	4	(137)	–	(137)
Dividends	13	–	–	–	–	(3,011)	(3,011)	–	(3,011)
At end of year		1,435	64	17,363	(175)	67,609	86,296	3,161	89,457

		Attributable to equity holders of the parent							
	Notes	**Share capital £000**	**Share option costs £000**	**Share premium £000**	**Treasury shares £000**	**Retained earnings £000**	**Total £000**	**Non-controlling interests £000**	**Total £000**
Year ended 31 December 2013									
At beginning of year		1,036	744	4,752	(434)	67,510	73,608	5,142	78,750
Profit for the year		–	–	–	–	7,440	7,440	1,695	9,135
Other comprehensive income									
Exchange (losses)/profits on consolidation		–	–	–	–	(1,130)	(1,130)	30	(1,100)
Pension scheme actuarial gains		–	–	–	–	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	13	–	–	–	–	(2,249)	(2,249)	–	(2,249)
Purchase of non-controlling interest		–	–	–	–	–	–	(5,064)	(5,064)
Non-controlling interest in subsidiary acquired	30	–	–	–	–	–	–	(432)	(432)
At end of year		1,435	84	23,392	(54)	75,787	100,644	1,371	102,015

The accounting policies and accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2014 and 2013

Company Number 47341

	Note	2014 £000	2013 £000
Assets			
Intangible assets	14	23,090	17,198
Investment in associate		117	228
Property, plant and equipment	15	1,528	1,440
Investment properties	16a	973	1,019
Financial instruments			
– Investments (fair value through profit and loss)	16b	163,288	155,809
– Deposits with ceding undertakings	4b	3,950	4,925
Reinsurers' share of insurance liabilities	21	171,404	157,682
Deferred tax assets	22	7,861	5,292
Current tax assets	22	3,835	4,047
Insurance and other receivables	17	114,783	80,046
Cash and cash equivalents	18	46,770	46,942
Total assets		537,599	474,628
Liabilities			
Insurance contract provisions	21	362,883	323,948
Financial liabilities			
– Amounts owed to credit institutions	20	27,117	17,572
– Deposits received from reinsurers		1,519	1,518
Deferred tax liabilities	22	3,509	2,602
Insurance and other payables	19	38,997	20,110
Current tax liabilities	22	5,855	3,845
Pension scheme obligations	26	8,262	3,018
Total liabilities		448,142	372,613
Equity			
Share capital	23	1,435	1,435
Share option costs		64	84
Share premium	23	17,363	23,392
Treasury shares	23	(175)	(54)
Retained earnings		67,609	75,787
Attributable to equity holders of the parent		86,296	100,644
Non-controlling interests in subsidiary undertakings	30	3,161	1,371
Total equity		89,457	102,015
Total liabilities and equity		537,599	474,628

The Financial Statements were approved by the Board of Directors on 19 June 2015 and were signed on its behalf by:

K E Randall **T A Booth**

The accounting policies and accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Cash Flow Statement

For the years ended 31 December 2014 and 2013

	Note	2014 £000	2013 £000
Cash flows from operating activities			
(Loss)/profit on ordinary activities before income taxes		(2,309)	11,259
Finance costs	9	649	523
Depreciation	15	676	638
Share based payments	23	213	240
Share of loss of associate		111	72
Goodwill on bargain purchase	29	(14,592)	(8,479)
Amortisation and impairment of intangible assets	14	404	203
Fair value gain on financial assets		(242)	(1,268)
Loss on net assets of pension schemes		217	123
Increase in receivables		(23,079)	(11,087)
Decrease in deposits with ceding undertakings		975	365
Increase/(decrease) in payables		8,701	(23,155)
Decrease in net insurance technical provisions		(5,620)	(22,976)
		(33,896)	(53,542)
Sale of financial assets		22,901	50,542
Purchase of financial assets		(10,574)	(33,117)
Cash used in operations		(21,569)	(36,117)
Income taxes repaid		–	194
Net cash used in operating activities		(21,569)	(35,923)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(704)	(568)
Proceeds from sale of property, plant and equipment		–	210
Purchase of intangible assets	14	(264)	(344)
Acquisition of subsidiary undertakings (offset by cash acquired)		20,398	18,923
Share of cash from reinsurance of Syndicate		530	–
Purchase of non-controlling interest in subsidiary		–	(5,064)
Net cash generated from investing activities		19,960	13,157
Cash flows to financing activities			
Repayment of borrowings		(19,328)	(2,278)
Proceeds from new borrowing arrangements		28,576	1,017
Equity dividends paid	13	(3,011)	(2,249)
Interest and other finance costs paid	9	(649)	(523)
Receipts from issue of shares		-	23,977
Cancellation of shares	13	(3,015)	(2,652)
Purchase of treasury shares		(403)	-
Sale of treasury shares		53	230
Net cash from financing activities		2,223	17,522
Net increase/(decrease) in cash and cash equivalents		614	(5,244)
Cash and cash equivalents at beginning of year		46,942	52,263
Exchange losses on cash and cash equivalents		(786)	(77)
Cash and cash equivalents at end of year	18	46,770	46,942
Share of Syndicates' cash restricted funds		1,987	1,570
Unrestricted funds		44,783	45,372
Cash and cash equivalents at end of year		46,770	46,942

The accounting policies and accompanying notes are an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1. Corporate information

Randall & Quilter Investment Holdings Ltd. (the "Company") is a company incorporated in Bermuda and listed on AIM, a sub-market of the London Stock Exchange. The Company and its subsidiaries (together forming the "Group") carry on business worldwide as owners and managers of insurance companies, live and in run off, as underwriting managers for active insurers, as participators and managers of Lloyd's Syndicates, as purchasers of insurance receivables and as service providers to the non-life insurance market. The Consolidated Financial Statements were approved by the Board of Directors on 19 June 2015.

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 the Bermuda Companies Act 1981 (as amended).

The Group Consolidated Financial Statements have been prepared under the historical cost convention, except that financial assets (including investment property), financial liabilities (including derivative instruments) and purchased reinsurance receivables are recorded at fair value through profit and loss. All amounts are stated in sterling and thousands, unless otherwise stated.

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

New and amended standards adopted by the Group

All new standards and interpretations released by the International Accounting Standards Board have been considered; of these the following new and amended standards have been adopted, where applicable, by the Group during the year:

IFRS 10, Consolidated Financial Statements
IFRS 11, Joint Arrangements
IFRS 12, Disclosure of Interests in Other Entities
IAS 27 Amendment, Separate Financial Statements
IAS 28 Amendment, Investments in Associates and Joint Ventures
IAS 32 Amendment, Offsetting Financial Assets and Financial Liabilities
IAS 36 Amendment, Recoverable Amount Disclosures for Non-financial Assets
IAS 39 Amendment, Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21, Levies

IFRS 10, Consolidated Financial Statements

IFRS 10 was effective as of 1 January 2014 and as a result the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its subsidiaries. IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion, including a review of relationships influencing the Group's associates, subsidiaries and other related parties for its investees at 1 January 2014. The Group has not changed any of its control conclusions in respect of any investments in subsidiaries or associates.

As Lloyd's Syndicates do not carry out business in their own right, they are not considered entities and therefore fall outside the scope of IFRS 10. The Syndicate structure, used by underwriters at Lloyd's, is a means for the spreading of risk where each investor provides separate and distinct collateral of its own, and has several and direct liability for losses rather than joint and several liability. The Group's consolidation conclusion in respect of its syndicates remains unchanged from previous periods. Therefore, there is no impact on the profit or loss for the current or prior year or on equity reported. There is also no impact on the total assets or liabilities in the comparative period.

IFRS 11, Joint Arrangements

IFRS 11 replaces IAS 31, Interests in Joint Ventures and SIC 13, Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 classifies joint arrangements as either joint operations or joint ventures and focuses on the nature of the rights and obligations of the arrangement. The predecessor standard, IAS 31, focused to a greater extent on the legal form to determine the presence of 'jointly controlled entities' ("JCE"), which would then have been equity accounted for or proportionately consolidated. IFRS 11 may result in some of these JCEs instead being seen as joint operations, which will be subject to a requirement for the party to directly account for its own assets and liabilities, when additional factors (other than legal form) are taken into account. All investee entities determined under the new criteria to be 'joint ventures' will be equity accounted for, with the option for the investor to proportionately consolidate being removed from the new standard. The adoption of IFRS 11 has no impact on the Consolidated Financial Statements in the current or prior periods.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 sets out more comprehensive disclosures relating to the nature, risks and financial effects of interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity or operation. The Group has included additional disclosures on unconsolidated segregated cells in Note 19 and additional disclosures on non-controlling interests in Note 30.

IAS 27 Amendment, Separate Financial Statements

IAS 27 carries forward the existing accounting requirements for separate Financial Statements; the requirements of IAS 28 and IAS 31 for separate Financial Statements have been incorporated into IAS 27. This amendment did not result in a material impact on the Consolidated Financial Statements of the Group.

IAS 28 Amendment, Investments in Associates and Joint Ventures

IAS 28 previously discussed how to apply equity accounting to associates in Consolidated Financial Statements. The revised IAS 28 continues to include that guidance but it is now extended to apply that accounting to entities that qualify as joint ventures under IFRS 11. This amendment did not result in a material impact on the Consolidated Financial Statements of the Group.

IAS 32 Amendment, Offsetting Financial Assets and Financial Liabilities

IAS 32 was amended to clarify the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. This amendment did not result in a material impact on the Consolidated Financial Statements of the Group.

IAS 36 Amendment, Recoverable Amount Disclosures for Non-financial Assets

IAS 36 was amended to reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. This amendment did not result in a material impact on the Consolidated Financial Statements of the Group.

IAS 39 Amendment, Novation of Derivatives and Continuation of Hedge Accounting

IAS 39 was amended to allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). This relief was introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in a consistent manner. This amendment did not result in a material impact on the Consolidated Financial Statements of the Group.

IFRIC 21, Levies

IFRIC 21 provides guidance on accounting for levies imposed by governments under legislation in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The interpretation confirms that an entity recognises a liability for a levy when and only when the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if commercially it has no realistic opportunity to avoid the triggering event. This standard did not result in a material impact on the Consolidated Financial Statements of the Group.

New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2014, and have not been applied in preparing these Financial Statements. The Group does not plan to adopt these standards early; instead it will apply them from their effective dates as determined by their dates of EU endorsement. The Group is reviewing the impact of the upcoming standards to determine their impact; however, they are not likely to have a material impact on the Consolidated Financial Statements:

- IFRS 9: Financial Instruments (1 January 2018);
- IFRS 10: Amendment: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (1 January 2016);
- IFRS 11: Amendment: Accounting for Acquisitions on Interests in Joint Operations (1 January 2016);
- IFRS 14: Regulatory Deferral Accounts (1 January 2016);
- IFRS 15: Revenue from Contracts with Customers (1 January 2017);
- IAS 1: Amendment: Disclosure Initiative (1 January 2016);
- IAS 16: Amendment: Clarification of Acceptable Methods of Depreciation and Amortisation (1 January 2016);
- IAS 19: Amendment: Defined Benefit Plans (1 July 2014)*;
- IAS 27: Amendment: Equity Method in Separate Financial Statements (1 January 2016);
- IAS 28: Amendment: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (1 January 2016);
- IAS 38: Amendment: Clarification of Acceptable Methods of Depreciation and Amortisation (1 January 2016);
- Annual Improvement to IFRSs – 2010–2012 cycle (1 July 2014)*;
- Annual Improvement to IFRSs – 2011–2013 cycle (1 July 2014)*; and
- Annual Improvement to IFRSs – 2012–2014 cycle (1 January 2016).

* Standards that have been endorsed by the EU.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

2. Accounting policies continued

b. Selection of accounting policies

Judgement, estimates and assumptions are made by the Directors in selecting each Group accounting policy. The accounting policies are selected by the Directors to present Consolidated Financial Statements that they consider provide the most relevant information. In the case of 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.

In respect of financial instruments, the Group accounting policy is to designate all financial assets as fair value through profit or loss, including purchased reinsurance receivables.

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 2014 and 2013. Control exists when the Group is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial results of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes non-controlling interests to have a deficit balance.

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 acquisition directly attributable to the acquisition. Acquisition-related costs associated are charged to the Consolidated Income Statement in the year in which they are incurred.

Certain group subsidiaries underwrite as corporate members of Lloyd’s on Syndicates managed by R&Q Managing Agency Limited. In view of the several and direct liability of underwriting members at Lloyd’s for the transactions of Syndicates in which they participate, only attributable shares of transactions, assets and liabilities of those Syndicates are included in the Consolidated Financial Statements. The Group continues to conclude that it remains appropriate to consolidate its share of the result of these Syndicates and accordingly, as the Group is the sole provider of capacity on Syndicate 3330, these Financial Statements include 100.00% of the economic interest in that Syndicate. For Syndicate 1991, the Group provides 22.77% of the capacity on the 2013 year of account and 20.01% on the 2014 year of account, and for Syndicate 1897 the Group provides 8.33% of the capacity on the 2013 year of account. These Consolidated Financial Statements include its relevant share of the result for those years. For the other Syndicate to which the Group is appointed managing agent, and where the capacity is provided wholly by third parties, these Consolidated Financial Statements reflect the Group’s economic interest in the form of agency fees and profit commission to which they are entitled.

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. Thereafter 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 Consolidated 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, receivables and payables 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 for the client 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 Consolidated Financial Statements have been prepared on a going concern basis. The Directors have assessed the position of the Group and have concluded that the Group has adequate cash resources to meet its liabilities as they fall due. On this basis, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future.

e. Premiums

Gross premiums written represent premiums on business commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates for premiums from contracts entered into during the course of the year. Gross premiums written are stated before deduction of brokerage, taxes and duties levied on premiums and other deductions.

Unearned premiums

A provision for unearned premiums represents that part of the gross premiums written that is estimated will be earned in the following financial periods. It is calculated on a time apportionment basis having regard, where appropriate, to the incidence of risk.

Reinsurance premium costs are allocated to reflect the protection arranged in respect of the business written and earned.

Acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned. Acquisition costs incurred during the period are recorded in operating expenses in the Consolidated Income Statement.

f. Claims

These include the cost of claims and related expenses paid in the year, together with 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. These are shown as net claims provisions (increased)/released in the Consolidated Income Statement.

g. Insurance contract provisions and reinsurers' share of insurance liabilities

Provisions are made in the 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, in accordance with accounting standards. Legal advice is taken where appropriate. Deductions are made for salvage and other recoveries as appropriate.

The provisions for claims incurred but not reported ("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 technical provisions) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the outstanding claims reported and IBNR. 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.

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 recorded in the Consolidated 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

2. Accounting policies continued

g. Insurance contract provisions and reinsurers' share of insurance liabilities continued

Closed years of account

At the end of the third year (36 month period), 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 and by making a provision in respect of IBNR, together with the estimated costs of administering those claims. In subsequent years any variation in the ultimate liabilities of the closed year of account provision 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 accounted for as settling the liabilities outstanding at the closure of an underwriting account. The Group has included its share of the external Reinsurance to Close premiums payable as insurance contract 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 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 claims handling costs

Provision is made for the anticipated costs of running off the business of those insurance company subsidiaries and the Group's participation in Syndicates which are in run off. Syndicates are treated as being in run off for the Consolidated 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 years of account.

Provision for run-off costs is made to the extent that the anticipated run-off administration costs exceed the estimated future investment return expected to be earned by those insurance company 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 the provision to be recognised, the investment return and claims handling and all other costs of all the insurance company subsidiaries and Syndicates treated as being in run off are considered in aggregate.

The uncertainty inherent in the process of estimating the period of run-off and the pay-out 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. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

j. 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 claimants 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 19.

k. Segmental reporting

The Group's business segments are based on the Group's management and internal reporting structures and represent the level at which financial information is reported to the Board, being the chief operating decision maker as defined in IFRS 8.

l. Foreign currency translation

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 sterling, which is the Group's presentational currency.

Transactions and balances

Transactions in foreign currencies are 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 exchange gain or loss is recognised in the Consolidated Income Statement. Non-monetary items recorded at 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.

Group translation

The assets and liabilities of overseas subsidiaries, including associated goodwill, held in functional currencies other than the Group's presentational currency are translated at the exchange rate as at the period end date. Income and expenses are translated at average rates for the period. All resulting exchange differences are recognised in other comprehensive income and accumulated in retained earnings in the Consolidated Statement of Financial Position.

On the disposal of foreign operations, cumulative exchange differences previously recognised in other comprehensive income are recognised in the Consolidated Income Statement as part of the gain or loss on disposal.

m. 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 under IFRS to classify the asset into one of the following categories: 'financial assets at fair value through 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 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 when incurred in other operating expenses in the Consolidated Income Statement. Financial assets at fair value through profit and loss are measured at fair value, and changes therein are recognised in the Consolidated Income Statement. Net changes in the fair value of financial assets at fair value through profit and loss exclude interest and dividend income, as these items are accounted for separately as set out in the investment income section 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) Investment income

Investment income consists of dividends, interest, realised and unrealised gains and losses and exchange gains and losses on financial assets at fair value through 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 amount at the reporting date, and the carrying amount at the previous period end or the purchase value during the period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

2. Accounting policies continued

m. Financial instruments continued

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 Consolidated Income Statement over the period of the borrowings.

ii) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The best evidence of fair value of a derivative at initial recognition is the transaction price. The method of recognising the resulting fair value gains or losses depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group has not designated any derivatives as fair value hedges, cash flow hedges or net investment hedges.

n. Treasury shares

The Employee Benefit Trust (EBT) held 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 waived its right to dividends and to vote on the shares it held and as a consequence those shares were deemed to be in Treasury and are recorded as Treasury Shares in the Consolidated Statement of Changes in Equity. The Company funds the expenses of the Trust and consolidates the expense statement and balance sheet of the Trust. As at the period end date the EBT did not hold any shares in the Company.

o. 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 Consolidated Income Statement on a straight-line basis over the period of the lease.

p. Property, plant and equipment

All assets included within property, plant and equipment ("PPE") are carried at historical cost less depreciation. 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	20 – 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 Consolidated Income Statement.

q. Goodwill

The Group uses the acquisition method in accounting for acquisitions. The difference between the cost of acquisition and 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 Consolidated Income Statement as goodwill on bargain purchase.

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 at the cash generating unit level, as shown in Note 14, on a biannual basis or if events or changes in circumstances indicate that the carrying amount may be impaired.

r. Other intangible assets

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

Intangible assets acquired in a business combination, and recognised separately from goodwill, are recognised initially at fair value at the acquisition date.

Amortisation is charged to other operating expenses in the Consolidated Income Statement as follows:

Purchased IT software	3 – 5 years, on a straight-line basis
On acquisition of insurance companies in run-off	Estimated pattern of run-off
On acquisitions – other	Useful life, which may be indefinite

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 Consolidated Income Statement to reduce the carrying amount to the recoverable amount.

US insurance authorisation licences

US state insurance authorisation licences acquired in business combinations are recognised initially at their fair value. The asset is not amortised, as the Directors consider that economic benefits will accrue to the Group over an indefinite period due to the stability of the US insurance market. The licences are tested annually for impairment, and any accumulated impairment losses recognised in the Consolidated Income Statement. This assumption is reviewed annually to determine whether the asset continues to have an indefinite life.

Rights to customer contractual relationships

Costs directly attributable to securing the intangible rights to customer contractual relationships are recognised as an intangible asset where they can be identified separately and measured reliably and it is probable that they will be recovered by directly related future profits. These costs are amortised on a straight-line basis over the useful economic life which is deemed to be 15 years and are carried at cost less accumulated amortisation and impairment losses.

s. 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 Consolidated Income Statement. The present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets is recognised and disclosed separately as a net pension liability in the Consolidated 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.

In addition certain of the Group's employees also participate in a defined benefit scheme where the subsidiary company is one of several participating employers. It is not possible to identify the share of the underlying assets and liabilities belonging to the individual participating employers. Therefore the scheme is accounted for as if it were a defined contribution scheme and the Consolidated Income Statement charge for the year represents the employer contribution payable.

t. 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 which are repayable on demand.

u. Finance costs

Finance costs comprise interest payable and are recognised in the Consolidated Income Statement in line with the effective interest rate on liabilities.

v. Operating expenses

Operating expenses are accounted for in the Consolidated Income Statement in the period to which they relate.

Pre-contract costs

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

Pre-contract costs are charged to the Consolidated Income Statement over the shorter of the life of the contract or five years.

Onerous contracts

Onerous contract provisions are provided for in circumstances where a legal commitment exists to provide services which exceed future income. The costs of providing the services are projected based on management's assessment of the contract.

Arrangement fees

Arrangement fees in relation to loan facilities are deducted from the relevant financial liability and amortised over the period of the facility.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

2. Accounting policies continued

w. Other income

Other income is stated excluding any applicable value added tax and includes the following items:

Management fees

Management 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.

Purchased reinsurance receivables

The Group accounts for these financial assets at fair value through profit and loss. 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 earned as the related underwriting profits 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.

Insurance commissions from Managing General Agencies

Insurance commissions comprise brokerage and profit commission arising from the placement of insurance contracts. Brokerage is recognised at the inception date of the policy, or the date of contractual entitlement, if later. Alterations in brokerage 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.

x. Share based payments

The Group issues equity settled payments to certain of its employees.

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

y. Current and deferred income tax

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

Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the Consolidated Statement of 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 tax 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 or substantively enacted by the period end date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

z. Share capital

Ordinary shares and Preference A and B 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.

aa. Distributions

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

3. Estimation techniques, uncertainties and contingencies

Estimates and judgements 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.

Significant uncertainty in technical provisions

Significant uncertainty exists as to the accuracy of the insurance contract provisions and the reinsurers' share of insurance liabilities 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. 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.

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.

The insurance contract provisions including IBNR are 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 and syndicate'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. 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 obtain a Statement of Actuarial Opinion (SAO) for the Lloyd's Syndicates that it participates on. This statement shows the booked reserves are greater than or equal to their view of best estimate. In the case of the Group's larger insurance companies in run off, independent external actuaries provide a range of acceptable estimates. 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 many years after policies have been written. Furthermore, much of the business written by these companies is reinsurance and retrocession of other insurance companies' business, 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 period end date. The gross insurance contract provisions and related reinsurers' share of insurance liabilities 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 insurance contract provisions include 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. 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 environments, which may increase or decrease the cost, frequency or reporting of claims, and because of the potential for new sources or types of claim to emerge.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. Estimation techniques, uncertainties and contingencies continued

Asbestos, pollution and health hazard claims

The estimation of the provisions for the ultimate cost of claims for asbestos, pollution, health hazard and other US liability insurance, 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, health hazard and other US liability insurance 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 practical, the exposure to these losses by contract to determine the claims provisions.

Insurance claims handling 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 IAS 19. The assets, liabilities and Consolidated 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, in the aggregate, current litigation, governmental or sectorial inquiries and pending or threatened litigation or dispute is likely to have a material impact on the Group's financial position. However, if the outcome of any individual dispute differs substantially from expectation, there could be a material impact on the Group's profit or loss, financial position or cash flows in the year in which that impact is recognised.

Changes in foreign exchange rates

The Group's Consolidated Financial Statements are prepared in sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly the Euro and US dollar, into sterling will impact the reported Consolidated Statement of Financial Position, results of operations and cash flows from year to year. These fluctuations in exchange rates will also impact the sterling value of the Group's investments and the return on its investments. Income and expenses are translated into sterling at average exchange rates. Assets and liabilities are translated at the closing exchange rates at the period end date.

Assessment of impairment of intangible assets

Goodwill and US insurance authorisation licences are deemed to have an indefinite life as they are expected to have a value in use that does not erode or become obsolete over the course of time. Consequently, they are not amortised but tested for impairment on a biannual basis or if events or changes in circumstances indicate that the carrying amount may be impaired.

The impairment tests involve evaluating the recoverable amount of the Group's cash generating units and comparing them to the relevant carrying amounts. The recoverable amount of each 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 for impairment.

Provisions

Included in Other payables in Note 19 is the Directors' estimate of the Group's exposure to the various liabilities of the Southern Illinois Land Company, as well as the compensation referred to in Note 32.

These estimates have been based on reports provided by recognised specialists as well as the Group's own internal review. These liabilities may not be settled for many years and significant judgement is involved in making an assessment of these liabilities, the period over which they will be settled and where appropriate the discount rate to be applied to assess the present value of these amounts to be settled.

4. Management of insurance and financial risks

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

The Group has a Risk Committee which is a formal Committee of the Board. The Committee has responsibility for maintaining the effectiveness of the Group's Risk Management Framework, systems of internal control, risk policies and procedures and adherence to risk appetite.

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 Group has a Capital and Investment Committee which is responsible, inter alia, for setting and recommending to the Board, an investment strategy for the management of the Group's assets owned or managed by companies within the Group. The investment of the Group's financial assets, except certain deposits with ceding undertakings, is managed by external investment managers, appointed by the Capital and Investment Committee. The Capital and Investment Committee is responsible for setting the policy to be 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, in addition to monitoring and managing foreign exchange exposures.

The Capital and Investment Committee is also responsible for keeping under review the investment control procedures, monitoring and amending (where appropriate) the investment policies set by the Board, monitoring Group cash flow and policies for its management, and oversight of all banking and other financial commitments and covenants across the Group, as well as any regulatory requirements in relation to Group solvency.

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

The investment allocation (including surplus cash) at 31 December 2014 and 2013 is shown below:

	2014 £000	**2013 £000**
Government and government agencies	22,972	7,544
Corporate bonds	91,753	94,153
Equities	18,539	16,899
Cash based investment funds	30,024	37,213
Cash and cash equivalents	46,770	46,942
	210,058	202,751
	%	**%**
Government and government agencies	10.9	3.7
Corporate bonds	43.7	46.5
Equities	8.8	8.3
Cash based investment funds	14.3	18.4
Cash and cash equivalents	22.3	23.1
	100.0	100.0

Corporate bonds include asset backed mortgage obligations totalling £45,328k (2013: £40,322k).

Based on invested assets at external managers of £161,624k as at 31 December 2014 (2013: £155,844k), a 1 percentage increase/decrease in market price would result in an increase/decrease in the profit before income taxes for the year to 31 December 2014 of £1,616k (2013: £1,558k).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

4. Management of insurance and financial risks continued

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

(i) Pricing risk

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

Level 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.

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

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

2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Government and government agencies	22,972	–	–	22,972
Corporate bonds	49,603	42,150	–	91,753
Equities	18,539	–	–	18,539
Cash based investment funds	30,024	–	–	30,024
Purchased reinsurance receivables (Note 17)	–	–	10,629	10,629
Total financial assets measured at fair value	121,138	42,150	10,629	173,917

2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Government and government agencies	7,544	–	–	7,544
Corporate bonds	50,006	44,147	–	94,153
Equities	16,899	–	–	16,899
Cash based investment funds	34,255	2,958	–	37,213
Purchased reinsurance receivables (Note 17)	–	–	16,033	16,033
Total financial assets measured at fair value	108,704	47,105	16,033	171,842

The following table shows the movement on Level 3 assets measured at fair value:

	2014 £000	2013 £000
Opening balance	16,033	6,598
Total net gains recognised in the Consolidated Income Statement	1,700	4,257
Purchases	353	7,246
Disposals	(8,249)	(1,965)
Exchange adjustments	792	(103)
Closing balance	10,629	16,033

Level 3 investments (purchased reinsurance receivables) have been valued using detailed models outlining the anticipated timing and amounts of future receipts. The net gains recognised in the Consolidated Income Statement in other income for the year amounted to £1,700k (2013: £4,257k). During the year the Group purchased further reinsurance receivables at a cost of £353k. Short-term delays in the anticipated receipt of these investments will not have a material impact on their valuation.

There were no transfers between Level 1 and Level 2 investments during the year under review.

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

(ii) Liquidity risk

As at 31 December 2014

Maturity date or contractual re-pricing date	Total £000	Less than one year £000	After one year but less than two years £000	After two years but less than three years £000	After three years but less than five years £000	More than five years £000
Debt securities	144,749	14,208	9,531	18,440	26,686	75,884

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	0.10–9.88	0.05–7.5	0.4–8.87	1.63–6.13	2.16–5.51

As at 31 December 2013

Maturity date or contractual re-pricing date	Total £000	Less than one year £000	After one year but less than two years £000	After two years but less than three years £000	After three years but less than five years £000	More than five years £000
Debt securities	138,910	1,144	7,879	13,008	46,958	69,921

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	0.5–9.88	0.5–5.5	0.45–6.25	1.5–7.53

Liquidity risk is managed by the Capital and Investment Committee who monitor the cash position of each entity and for the Group as a whole on a regular basis to ensure that sufficient funds are available to meet liabilities as they fall due. Liquidity risk is also managed by reference to the Group's overall tolerance for potential liquidity shortfalls, which is monitored by the Group's financial planning and treasury function's established cash flow and liquidity management processes.

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For the year ended 31 December 2014

4. Management of insurance and financial risks continued

b. Credit risk

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

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

As at 31 December 2014	A rated £000	B rated £000	Less than B £000	Other * £000	Exposures of less than £200k £000	Total £000
Deposits with ceding undertakings	1,859	281	–	–	1,810	3,950
Reinsurers' share of insurance liabilities	118,257	11,200	–	19,412	22,535	171,404
Receivables arising out of reinsurance contracts	21,546	2,602	–	2,938	14,794	41,880

As at 31 December 2013	A rated £000	B rated £000	Less than B £000	Other * £000	Exposures of less than £200k £000	Total £000
Deposits with ceding undertakings	2,323	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. Receivables arising out of reinsurance contracts are included in insurance and other receivables in the Consolidated Statement of Financial Position.

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

As at 31 December 2014	0–6 months %	6–12 months %	12–24 months %	> 24 months %
Percentage of receivables	62.0	3.1	6.8	28.1

As at 31 December 2013	0–6 months %	6–12 months%	12–24 months%	> 24 months %
Percentage of receivables	40.4	5.6	21.3	32.7

A substantial part 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.

Credit risk is managed at the Group level by way of two Committees which have been established specifically with this in mind, both of whom liaise with each other.

The first is the Group Reinsurance Asset Committee, which is chaired by a Non-Executive Director and meets quarterly. This is a Committee of the Group Board and its function is to monitor and report on the Group's non-Syndicate reinsurance assets and, where necessary, recommend action to protect the asset.

The second is the Reinsurance Committee of R&Q Managing Agency Limited ("RQMA") (a Committee of the RQMA Board), which is responsible for establishing minimum security levels for all reinsurance purchases by the managed Syndicates by reference to appropriate rating agencies, agree maximum concentration levels for individual reinsurers and intermediaries, and to deal with any other issue relating to reinsurance assets.

There are also a number of Key Risk Indicators pertaining to reinsurance security and concentration which have been developed under the auspices of the Group Risk Committee and the RQMA Risk and Capital Committee, which monitor adherence to predefined risk appetite and tolerance levels.

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 sterling and its exposure to foreign exchange risk arises primarily with respect to US dollar and Euros. This is the same as in the previous year.

The Group's main objective in managing currency risk is to mitigate exposure to fluctuations in foreign exchange rates. There have been no material changes in trading currencies during the year under review. The Group manages this risk by way of matching assets and liabilities by individual entity. Asset and liability matching is monitored by the Group's financial planning and treasury functions' established cash flow and liquidity management processes.

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 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 used to eliminate the currency exposure on individual foreign transactions. The Group will not enter into these forward contracts until a firm commitment is in place.

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

31 December 2014	Sterling £000	US dollar £000	Euro £000	Other £000	Total £000
Intangible assets	10,215	12,062	813	–	23,090
Reinsurers' share of insurance liabilities	9,577	160,085	1,742	–	171,404
Financial instruments	11,440	120,118	36,236	534	168,328
Insurance receivables	25,766	34,757	1,515	–	62,038
Cash and cash equivalents	24,594	18,094	3,756	326	46,770
Insurance liabilities including provisions	(63,455)	(288,505)	(18,407)	–	(370,367)
Other provisions	(9,793)	(1,978)	–	–	(11,771)
Trade and other (payables)/receivables	29,489	(3,436)	(28,787)	(462)	(3,196)
Total	37,833	51,197	(3,132)	398	86,296

31 December 2013	Sterling £000	US dollar £000	Euro £000	Other £000	Total £000
Intangible assets	11,839	5,262	97	–	17,198
Reinsurers' share of insurance liabilities	6,469	148,834	2,379	–	157,682
Financial instruments	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
Total	88,287	8,134	3,682	541	100,644

The Group has no significant concentration of currency risk.

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

		31 December 2014		31 December 2013	
Currency	Changes in variables	Impact on profit £000	Impact on equity* £000	Impact on profit £000	Impact on equity* £000
Euro	+10%	(98)	285	(59)	(335)
US dollar	+10%	342	(4,654)	733	(812)
Euro	-10%	118	(348)	71	409
US dollar	-10%	(420)	5,689	(894)	992

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

4. Management of insurance and financial risks continued

d. Capital management

The Group's objectives with respect to capital sufficiency are to maintain capital at a level that provides a suitable margin over that deemed by the Group's regulators and supervisors as providing an acceptable level of policyholder protection, whilst remaining economically viable. At Group level, this currently translates as maintaining Group capital at a level that provides an adequate margin over the Group's solvency capital requirements whilst maintaining local capital which meets or exceeds the relevant local minima including, where appropriate, those relating to maintenance of external ratings. This is monitored by way of a capital sufficiency assessment by the Group Risk Committee.

e. Insurance risk

The Group participates on Syndicates shown below:

Syndicate	Year of account	Capacity £000	Group capacity £000	Open / closed
1991	2014	150,000	30,019	Open
1991	2013	76,934	17,500	Open
1897	2013	70,000	5,833	Open
1897	2012	60,000	5,000	Closed
3330	2014	3,500	3,500	Open
3330	2012	3,000	3,000	Closed

(i) Underwriting risk

Underwriting risk is the primary source of risk in the Group's live underwriting operations and is reflected in the scope and depth of the risk appetite and monitoring frameworks implemented in those entities. Individual operating entities are responsible for establishing a framework for the acceptance and monitoring of underwriting risk including appropriate consideration of potential individual and aggregate occurrence exposures, adequacy of reinsurance coverage and potential geographical and demographic concentrations of risk exposure.

In the event that potential for risk concentrations are identified across operating entities, appropriate monitoring is developed to manage the overall Group exposure.

(ii) Reserving risk

Reserving risk represents a significant risk to the Group in terms of both driving required capital levels and the threat to volatility of earnings.

Reserving risk is managed through the application of an appropriate reserving approach to both live and run-off portfolios and the performance of extensive due diligence on new run-off portfolios and acquisitions prior to acceptance. Reserving exercises undertaken by the in-house actuarial team are supplemented with both scheduled and ad hoc reviews conducted by external actuaries.

Reserving risk is also mitigated through the use of reinsurance on live underwriting portfolios and through assuming the inuring reinsurance treaties in place in respect of acquired run-off acquisitions/portfolios.

Where appropriate, reserving risk is mitigated through the use of adverse loss development cover.

Claims development information is disclosed below 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 presented on an aggregate basis and show the movements on a gross and net basis, and separately identify the effect of the various acquisitions made by the Group since 1 January 2011.

The analysis of claims development in the Group's run-off insurance entities is as follows:

Gross	**Group entities at 1 January 2011 £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**	**Entities acquired by the Group during 2014 £000**
Gross claims at:					
1 January/acquisition	440,095	16,579	31,922	13,296	28,082
First year movement	(90,146)	(5,672)	(15,633)	(605)	(4,656)
Second year movement	(49,086)	(4,117)	(6,606)	(2,569)	–
Third year movement	(11,611)	(2,573)	(2,355)	–	–
Fourth year movement	13,200	(851)	–	–	–
Gross provision at 31 December 2014	302,452	3,366	7,328	10,122	23,426
Gross claims at:					
1 January/acquisition	440,095	16,579	31,922	13,296	28,082
Exchange adjustments	(1,705)	(62)	(1,500)	(207)	(1,104)
Payments	(226,209)	(8,448)	(4,368)	(1,578)	(3,990)
Gross provision at 31 December 2014	(302,452)	(3,366)	(7,328)	(10,122)	(23,426)
(Deficit)/surplus to date	(90,271)	4,703	18,726	1,389	(438)
Gross claims provisions – live business	–	–	1,243	13,482	1,464
Total gross insurance contract provisions (Note 21)	302,452	3,366	8,571	23,604	24,890

Net	**Group entities at 1 January 2011 £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**	**Entities acquired by the Group during 2014 £000**
Net claims at:					
1 January/acquisition	223,488	12,483	29,175	11,571	24,150
First year movement	(37,842)	(3,955)	(15,442)	(438)	(3,940)
Second year movement	(29,641)	(3,200)	(5,529)	(2,108)	–
Third year movement	(19,921)	(2,094)	(2,018)	–	–
Fourth year movement	3,149	(672)	–	–	–
Net provision at 31 December 2014	139,233	2,562	6,186	9,025	20,210
Net claims at:					
1 January/acquisition	223,488	12,483	29,175	11,571	24,150
Exchange adjustments	3,529	(19)	(1,570)	(311)	(1,225)
Payments	(76,184)	(6,748)	(2,997)	(921)	(3,255)
Net position at 31 December 2014	(139,233)	(2,562)	(6,186)	(9,025)	(20,210)
Surplus/(deficit) to date	11,600	3,154	18,422	1,314	(540)
Net claims provisions – live business	–	–	1,111	12,431	721
Total net insurance contract provisions (Note 21)	139,233	2,562	7,297	21,456	20,931

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

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For the year ended 31 December 2014

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 including bail bond business
- Other corporate activities, which primarily includes the Group holding company and other minor subsidiaries which fall outside of the segments above

Segmental results for the year ended 31 December 2014

	Insurance Investments			Insurance Services	Underwriting Management	Other Corporate	Consolidation adjustments	Total
	Live £000	Run-off £000	Total £000	£000	£000	£000	£000	£000
Earned premium net of reinsurance	10,079	9,333	19,412	–	796	–	–	20,208
Net investment income	14	6,158	6,172	954	263	5,702	(7,465)	5,626
External income	–	2,198	2,198	21,506	15,856	–	–	39,560
Internal income	–	776	776	14,439	3,246	1,391	(19,852)	–
Total income	10,093	18,465	28,558	36,899	20,161	7,093	(27,317)	65,394
Claims paid, net of reinsurance	(2,458)	(17,691)	(20,149)	–	–	–	–	(20,149)
Net change in provision for claims	(3,781)	12,658	8,877	–	–	–	–	8,877
Net insurance claims (increased)/released	(6,239)	(5,033)	(11,272)	–	–	–	–	(11,272)
Operating expenses	(6,420)	(23,656)	(30,076)	(31,983)	(19,723)	(7,929)	19,852	(69,859)
Result of operating activities before goodwill on bargain purchase	(2,566)	(10,224)	(12,790)	4,916	438	(836)	(7,465)	(15,737)
Goodwill on bargain purchase	–	8,609	8,609	3,485	2,498	–	–	14,592
Amortisation and impairment of intangible assets	–	(208)	(208)	(80)	(116)	–	–	(404)
Result of operating activities	(2,566)	(1,823)	(4,389)	8,321	2,820	(836)	(7,465)	(1,549)
Finance costs	–	(1,737)	(1,737)	(1,441)	(472)	(4,464)	7,465	(649)
Share of loss of associate	–	–	–	–	(111)	–	–	(111)
(Loss)/profit on ordinary activities before income taxes	(2,566)	(3,560)	(6,126)	6,880	2,237	(5,300)	–	(2,309)
Income tax (charge)/credit	–	1,050	1,050	(985)	(85)	1,698	(2,115)	(437)
(Loss)/profit for the year	(2,566)	(2,510)	(5,076)	5,895	2,152	(3,602)	(2,115)	(2,746)
Non-controlling interests	–	(1,615)	(1,615)	(2)	(146)	–	–	(1,763
Attributable to shareholders of parent	(2,566)	(4,125)	(6,691)	5,893	2,006	(3,602)	(2,115)	(4,509)
Segment assets	15,347	548,984	564,331	79,671	25,071	183,954	(315,428)	537,599
Segment liabilities	20,546	419,900	440,446	78,774	24,749	219,601	(315,428)	448,142

Segmental results for the year ended 31 December 2013

	Insurance Investments			Insurance Services	Underwriting Management	Other Corporate	Consolidation adjustments	Total
	Live £000	Run-off £000	Total £000	£000	£000	£000	£000	£000
Earned premium, net of reinsurance	5,468	1,009	6,477	–	–	–	–	6,477
Net investment income	4	9,284	9,288	1,312	250	2,288	(5,439)	7,699
External income	–	4,538	4,538	22,816	13,224	–	–	40,578
Internal income	–	793	793	15,271	2,470	1,533	(20,067)	–
Total income	5,472	15,624	21,096	39,399	15,944	3,821	(25,506)	54,754
Claims paid, net of reinsurance	(1,505)	(18,782)	(20,287)	–	–	–	–	(20,287)
Net change in provision for claims	(2,080)	27,095	25,015	–	–	–	–	25,015
Net insurance claims (increased)/released	(3,585)	8,313	4,728	–	–	–	–	4,728
Operating expenses	(3,898)	(20,068)	(23,966)	(29,504)	(15,978)	(6,523)	20,067	(55,904)
Result of operating activities before goodwill on bargain purchase	(2,011)	3,869	1,858	9,895	(34)	(2,702)	(5,439)	3,578
Goodwill on bargain purchase	–	8,479	8,479	–	–	–	–	8,479
Amortisation and impairment of intangible assets	–	(4)	(4)	(56)	(143)	–	–	(203)
Result of operating activities	(2,011)	12,344	10,333	9,839	(177)	(2,702)	(5,439)	11,854
Finance costs	–	(1,737)	(1,737)	(1,540)	(436)	(2,249)	5,439	(523)
Share of loss of associate	–	–	–	–	(72)	–	–	(72)
(Loss)/profit on ordinary activities before income taxes	(2,011)	10,607	8,596	8,299	(685)	(4,951)	–	11,259
Income tax (charge)/credit	–	(1,733)	(1,733)	(379)	(37)	25	–	(2,124)
(Loss)/profit for the year	(2,011)	8,874	6,863	7,920	(722)	(4,926)	–	9,135
Non-controlling interests	–	(1,660)	(1,660)	58	(93)	–	–	(1,695)
Attributable to shareholders of parent	(2,011)	7,214	5,203	7,978	(815)	(4,926)	–	7,440
Segment assets	8,161	546,015	554,176	65,228	13,168	65,112	(223,056)	474,628
Segment liabilities	11,290	425,340	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. These 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.

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5. Segmental information continued

Geographical analysis

As at 31 December 2014

	UK £000	North America £000	Europe £000	Total £000
Gross assets	284,240	454,693	114,094	853,027
Inter-company eliminations	(178,458)	(77,821)	(59,149)	(315,428)
Segment assets	105,782	376,872	54,945	537,599
Gross liabilities	276,727	431,724	55,119	763,570
Inter-company eliminations	(200,807)	(112,679)	(1,942)	(315,428)
Segment liabilities	75,920	319,045	53,177	448,142
Revenue from external customers	41,961	10,899	12,534	65,394

As at 31 December 2013

	UK £000	North America £000	Europe £000	Total £000
Gross assets	262,928	328,862	105,894	697,684
Inter-company 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
Inter-company eliminations	(168,517)	(54,491)	(48)	(223,056)
Segment liabilities	62,895	262,814	46,904	372,613
Revenue from external customers	38,078	14,830	1,846	54,754

6. Gross investment income

	2014 £000	2013 £000
Investment income	5,384	6,449
Realised net gains on financial assets	1,246	2,491
Unrealised losses on financial assets	(1,004)	(1,241)
	5,626	7,699

7. Other income

	2014 £000	2013 £000
Management fees	33,534	33,069
Profit commission on managed Lloyd's Syndicates	432	102
Insurance commissions	4,029	3,328
Interest expense on pension scheme deficit	(135)	(178)
Purchased reinsurance receivables	1,700	4,257
	39,560	40,578

Included within management fees is £nil (2013: £3,835k) which represents amounts previously classified as liabilities which no longer meet the definition of liabilities under IFRS.

8. Operating expenses

	2014 £000	2013 £000
Costs of insurance company subsidiaries	10,097	7,538
Pre-contract costs	392	133
Employee benefits	34,804	33,398
Other operating expenses	24,566	14,835
	69,859	55,904

The costs of insurance company subsidiaries represent external costs borne by subsidiaries of the Group; intra-group charges are removed on consolidation.

Auditor remuneration

	2014 £000	2013 £000
Fees payable to the Group's auditors for the audit of the parent company and its Consolidated Financial Statements	110	120
Fees payable for the audit of the Group's subsidiaries by:		
Group auditors	407	407
Other auditors	237	178
Services relating to the relisting and redomicile	–	85
Advice on financial and accountancy matters	39	28
Other services under legislative requirements	112	76
Total	905	894

9. Finance costs

	2014 £000	2013 £000
Bank loan and overdraft interest	649	523

10. (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):

	2014 £000	2013 £000
Employee benefits (Note 25)	34,851	33,398
Costs to acquire Accredited	750	–
Legacy acquisition costs (including aborted transactions)	463	296
Depreciation of fixed assets (Note 15)	676	638
Operating lease rental expenditure	1,559	1,508
Operating lease rental income	(42)	(39)
Amortisation of pre contract costs	329	120
Amortisation and impairment of intangibles (Note 14)	404	203

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For the year ended 31 December 2014

11. Income tax charge

a. Analysis of charge in the year

	2014 £000	2013 £000
Current tax:		
Current year	–	–
Adjustments in respect of previous years	1,208	1,370
Foreign tax	1,129	539
	2,337	1,909
Deferred tax	(1,900)	215
Income tax charge	437	2,124

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:

	2014 £000	2013 £000
(Loss)/profit on ordinary activities before taxation	(2,309)	11,259
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)	(496)	2,617
Temporary differences	605	(2,471)
Capital allowances in excess of depreciation	(40)	(72)
Utilisation of tax losses	(415)	(274)
Timing differences in respect of pension schemes	102	(72)
Unrelieved losses	10	3,235
Foreign tax rate differences	(537)	(2,209)
Adjustments to the tax charge in respect of prior years	1,208	1,370
Income tax charge for the year	437	2,124

c. Factors that may affect future tax charges

In addition to the recognised deferred tax asset, the Group has other trading losses of approximately £56,587k (2013: £57,836k) 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.

	2014 £000	2013 £000
(Loss)/profit for the year attributable to ordinary shareholders	(4,509)	7,440
	No. 000's	**No. 000's**
Shares in issue throughout the year	71,708	50,133
Weighted average number of ordinary shares issued	64	12,927
Weighted average number of Treasury shares held	(92)	(489)
Weighted average number of ordinary shares	71,680	62,571
Basic earnings per ordinary share	(6.3p)	11.9p

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.

	2014 £000	2013 £000
(Loss)/profit for the year attributable to ordinary shareholders	(4,509)	7,440
	No. 000's	**No. 000's**
Weighted average number of ordinary shares in issue in the year	71,680	62,571
Dilution effect of options	–	164
	71,680	62,735
Diluted earnings per ordinary share	(6.3p)	11.9p

Potentially issuable securities that would result in a reduction in loss per share if issued are not considered to have a dilution effect. In 2014, due to the loss incurred, no potentially issuable securities are considered dilutive. As a result, there is no difference between basic and diluted earnings per ordinary share.

c. Net asset value per share

	2014 £000	2013 £000
Net assets attributable to equity shareholders as at 31 December	86,296	100,644
	No. 000's	**No. 000's**
Ordinary shares in issue as at 31 December	71,776	71,776
Less: shares held in treasury	(100)	(68)
	71,676	71,708
Net asset value per ordinary share	120.4p	140.4p

13. Distributions

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

	2014 £000	2013 £000
Dividend to Q/M shareholders	1,844	1,074
Dividend to S/O shareholders	1,167	1,175
	3,011	2,249
Distribution on cancellation of P/L shares	1,745	1,409
Distribution on cancellation of R/N shares	1,270	1,243
	3,015	2,652
Total distributions to shareholders	6,026	4,901

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14. Intangible assets

	US state licences & customer contracts £000	Arising on acquisition £000	Goodwill £000	Other £000	Total £000
Cost					
As at 1 January 2013	–	493	28,674	11	29,178
Exchange adjustments	–	(33)	(448)	–	(481)
Acquisition of subsidiaries	–	990	655	–	1,645
Additions	–	–	–	344	344
Disposals	–	–	–	(50)	(50)
As at 31 December 2013	–	1,450	28,881	305	30,636
Exchange adjustments	–	(73)	704	–	631
Acquisition of subsidiaries	5,411	623	–	–	6,034
Additions	–	–	–	264	264
Disposals	–	–	–	–	–
As at 31 December 2014	5,411	2,000	29,585	569	37,565
Amortisation/Impairment					
As at 1 January 2013	–	122	13,381	–	13,503
Exchange adjustments	–	(11)	(207)	–	(218)
Charge for the year	–	120	–	62	182
Disposals	–	–	–	(29)	(29)
As at 31 December 2013	–	231	13,174	33	13,438
Exchange adjustments	–	(23)	656	–	633
Charge for the year	–	302	–	102	404
Disposals	–	–	–	–	–
As at 31 December 2014	–	510	13,830	135	14,475
Carrying amount					
As at 31 December 2014	5,411	1,490	15,755	434	23,090
As at 31 December 2013	–	1,219	15,707	272	17,198
As at 31 December 2012	–	371	15,293	11	15,675

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.

Cash generating units

	2014 £000	2013 £000
Insurance Investments Division ("IID")	474	474
Insurance Services Division ("ISD")	14,410	14,362
Underwriting Management Division ("UMD")	871	871
Total	15,755	15,707

The recoverable amount of these cash generating units is 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% (2013: 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 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.
- Reductions in operating expenses, which are linked to management expectations 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 (2013: 10.0%).

The Directors believe that no foreseeable change in any of the above key assumptions would require an impairment of the carrying amount 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 2013	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
Exchange adjustments	11	1	5	49	66
Acquisition of subsidiaries	21	–	45	(21)	45
Additions	322	–	149	233	704
Disposals	(46)	–	(49)	–	(95)
As at 31 December 2014	1,981	35	2,145	358	4,519
Depreciation					
As at 1 January 2013	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
Exchange adjustments	9	1	5	35	50
Charge for the year	302	10	316	48	676
Disposals	(45)	–	(49)	–	(94)
As at 31 December 2014	1,259	23	1,572	137	2,991
Carrying amount					
As at 31 December 2014	722	12	573	221	1,528
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 2014, the Group had no significant capital commitments (2013: none). The depreciation charge for the year is included in operating expenses.

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For the year ended 31 December 2014

16. Investment properties and financial assets

a. Investment properties

	2014 £000	2013 £000
As at 31 December	973	1,019

The decrease in the valuation of these properties is due to exchange movements of £46k (2013: increase £15k); the change in fair value was £nil (2013: £nil).

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

	2014 £000	2013 £000
Equities	18,539	16,899
Debt securities – fixed interest rate	144,749	138,910
	163,288	155,809

In the normal course of business insurance company subsidiaries have deposited investments in 2014 of £65k (2013: £131k) in respect of certain contracts in escrow which can only be released or withdrawn with the approval of the appropriate regulatory authority.

Included in Debt securities – fixed interest rate amount is £35,915k (2013: £30,573k) pledged as Funds at Lloyd's to support the Group's underwriting activities in 2014. 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.

c. Shares in subsidiary and associate undertakings

The Company had interests in the following subsidiaries and associate at 31 December 2014:

		% of ordinary shares held via:		
Principal activity and name of subsidiaries/associate	**Country of incorporation/ registration**	**The Company**	**Subsidiary and associate undertakings**	**Overall effective % of share capital held**
Insurance Investments Division				
Randall & Quilter II Holdings Limited	England and Wales	–	100	100
Alliance Insurance Agents Limited	Cyprus	–	100	100
Alma Vakuutus OY	Finland	–	100	100
Armitage International Insurance Company, Ltd	Bermuda	100	–	100
Berda Developments Limited	Bermuda	100	–	100
Capstan Insurance Company Limited	Guernsey	–	100	100
Goldstreet Insurance Company	USA	–	100	100
Hickson Insurance Limited	Isle of Man	–	100	100
La Licorne Compagnie de Reassurances SA	France	–	100	100
La Metropole Compagnie Belge d'Assurance SA	Belgium	–	100	100
Pender Mutual Insurance Company Limited	Isle of Man	–	100	100
Principle Insurance Company Limited	England and Wales	–	100	100
R&Q Capital No. 1 Limited	England and Wales	–	95	95
R&Q Capital No. 2 Limited	England and Wales	–	100	100
R&Q Capital No. 4 Limited	England and Wales	100	–	100
R&Q Capital No. 5 Limited	England and Wales	100	–	100
R & Q Cyprus Ltd	Cyprus	100	–	100
R&Q Insurance (Guernsey) Limited	Guernsey	–	100	100
R&Q Insurance (Malta) Limited	Malta	–	100	100
R&Q Liquidity Management Limited	England and Wales	–	100	100
R&Q Malta Holdings Limited	Malta	–	100	100
R&Q Re (Bermuda) Limited	Bermuda	–	100	100
R&Q Reinsurance Company	USA	–	100	100
R&Q Reinsurance Company (UK) Limited	England and Wales	–		100
RQLM Limited	Bermuda	100	–	100
Southern Illinois Land Company	USA	–	100	60
Transport Insurance Company	USA	–	100	100

		% of ordinary shares held by:		
Principal activity and name of subsidiaries	**Country of incorporation/ registration**	**The Company**	**Subsidiary undertakings**	**Overall effective % of share capital held**
Insurance Services Division				
Randall & Quilter IS Holdings Limited	England and Wales	–	100	100
Randall & Quilter Captive Holdings Limited	England and Wales	–	100	100
A. M. Associates Insurance Services Limited	Canada	–	100	100
Callidus Secretaries Limited	England and Wales	–	100	100
Callidus Solutions Limited	England and Wales	–	100	100
Excess and Treaty Management Corporation	USA	–	100	100
Grafton US Holdings Inc.	USA	–	60	60
JMD Specialist Insurance Services Group Limited	England and Wales	–	100	100
JMD Specialist Insurance Services Limited	England and Wales	–	100	100
John Heath & Company Inc	USA	–	100	100
LBL Acquisitions, LLC	USA	–	100	60
R&Q Archive Services Limited	England and Wales	–	100	100
R&Q Broker Services Limited	England and Wales	–	100	100
R&Q Captive Management LLC	USA	–	100	100
R&Q Central Services Limited (formerly R&Q Consultants Limited)	England and Wales	–	100	100
R&Q CG Limited	England and Wales	–	100	100
R&Q Healthcare Interests LLC	USA	100	–	100
R&Q Insurance Management (Gibraltar) Limited	Gibraltar	–	100	100
R&Q Insurance Management (IOM) Limited	Isle of Man	–	100	100
R&Q Insurance Services Limited	England and Wales	–	100	100
R&Q Intermediaries (Bermuda) Limited	Bermuda	–	100	100
R&Q KMS Management Limited	England and Wales	–	100	100
R&Q Market Services Limited	England and Wales	–	100	100
R&Q Quest (SAC) Limited	Bermuda	–	100	100
R&Q Quest Insurance Limited	Bermuda	–	100	100
R&Q Quest Management Services (Cayman) Limited	Cayman Isl.	–	100	100
R&Q Quest Management Services Limited	Bermuda	–	100	100
R&Q Quest PCC, LLC	USA	–	100	100
R&Q Services Holding Inc	USA	–	100	100
R&Q Solutions LLC	USA	–	100	100
R&Q Triton AS	Norway	–	100	100
R&Q Triton Claims AS	Norway	–	100	100
R&Quiem Financial Services Limited	England and Wales	–	100	100
R&Quiem Limited	England and Wales	–	100	100
Randall & Quilter America Holdings Inc	USA	–	100	100
Randall & Quilter Bermuda Holdings Limited	Bermuda	–	100	100
Randall & Quilter Canada Holdings Limited	Canada	–	100	100
Randall & Quilter Healthcare Holdings Inc.	USA	100	–	100
Reinsurance Solutions Limited	England and Wales	–	100	100
Requiem America Inc	USA	–	100	100
Risk Transfer Underwriting Inc.	USA	–	100	60
RSI Solutions International Inc	USA	–	100	100
Syndicated Services Company Inc	USA	–	100	100

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

16. Investment properties and financial assets continued

c. Shares in subsidiary and associate undertakings continued

		% of ordinary shares held by:		
Principal activity and name of subsidiaries	**Country of incorporation/ registration**	**The Company**	**Subsidiary undertakings**	**Overall effective % of share capital held**
Underwriting Management				
Randall & Quilter Underwriting Management Holdings Limited	England and Wales	–	100	100
Accredited Holding Corporation	USA	-	100	100
Accredited Surety & Casualty Company, Inc.	USA	-	100	100
Accredited Group Agency Inc.	USA	-	100	100
Accredited Bond Agencies Inc.	USA	-	100	100
DTW 1991 Underwriting Limited	England and Wales	–	100	100
R&Q Commercial Risk Services Limited	England and Wales	–	100	100
R&Q Managing Agency Limited	England and Wales	–	100	100
R&Q Marine Services Limited	England and Wales	–	75	75
R&Q MGA Limited	England and Wales	–	100	100
R&Q Risk Services Canada Limited	Canada	–	100	100
Synergy Insurance Services (UK) Limited	England and Wales	–	100	100
Trilogy Managing General Agents Limited	England and Wales	–	30	30
Others				
RQIH Limited	England and Wales	100	–	100
R&Q (EC3) Limited	England and Wales	–	100	100
R&Q Ludgate No. 1 Limited	England and Wales	–	100	100
R&Q No 1 Limited	England and Wales	–	100	100
R&Q Oast Limited	England and Wales	–	100	100
R&Q Secretaries Limited	England and Wales	–	100	100

17. Insurance and other receivables

	2014 £000	**2013 £000**
Receivables arising from direct insurance operations	20,158	4,215
Receivables arising from reinsurance operations	41,880	37,342
Insurance receivables	62,038	41,557
Trade receivables	5,218	3,057
Other receivables	20,932	10,922
Purchased reinsurance receivables	10,629	16,033
Prepayments and accrued income	15,966	8,477
	52,745	38,489
Total	114,783	80,046

Included in purchased reinsurance receivables is £8,019k (2013: £10,068k) which is expected to be received within 12 months. The remainder of the balance is expected to be received after 12 months.

Included in other receivables is an amount of £280k (2013: £280k) held in escrow in respect of the defined benefit scheme.

The carrying amounts disclosed above reasonably approximate their fair values at the period end date.

18. Cash and cash equivalents

	2014 £000	2013 £000
Cash at bank and in hand	46,770	46,942

Included in cash and cash equivalents is £480k (2013: £458k) being funds held in escrow accounts in respect of guarantees provided to the Institute of London Underwriters. The increase 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 amounts disclosed above reasonably approximate their fair values at the period end date.

Insurance broking fiduciary funds of £22,994k (2013: £19,629k), which are used to pay premiums to underwriters and settle claims to policy holders, are not included in the above cash balances.

19. Insurance and other payables

	2014 £000	2013 £000
Structured liabilities	347,848	343,519
Structured settlements	(347,848)	(343,519)
	–	–
Payables arising from reinsurance operations	4,569	5,712
Payables arising from direct insurance operations	1,396	2,209
Insurance payables	5,965	7,921
Trade payables	2,173	1,284
Other taxation and social security	724	724
Other payables	23,567	4,865
Accruals and deferred income	6,568	5,316
	33,032	12,189
Total	38,997	20,110

The carrying amounts disclosed above reasonably approximate their fair values at the period end date.

Included in other payables is £1,379k in respect of various liabilities arising in the Southern Illinois Land Company in respect of potential subsidence and workers compensation claims. The subsidence claims have been discounted and the potential undiscounted amount of all future payments is £11,899k.

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.

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 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 2014 amount to £40,018k (2013: £51,514k).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

20. Financial liabilities

	2014 £000	2013 £000
Amounts owed to credit institutions	27,117	17,572

Amounts due to credit institutions are payable as follows:

	2014 £000	2013 £000
Less than one year	27,117	2,411
Between one to five years	–	15,161
	27,117	17,572

As outlined in Note 31 £24,879k (2013: £16,531k) owed to credit institutions is secured by debentures over the assets of the Company and several of its subsidiaries.

At the end of 2014, a technical breach occurred in the financial covenants required under the Group's banking facility. It was reported to the bank and corrected as soon as it was discovered and the bank waived the breach. However, because the waiver was received after the period end date, IAS 10 requires that all interest accrued and outstanding utilisations are disclosed as immediately due and payable on demand. This amounts to £24,879k, presented above as due in less than one year.

21. Insurance contract provisions and reinsurance balances

Gross	2014 £000	2013 £000
Insurance contract provisions at 1 January	323,948	327,973
Claims paid	(46,624)	(42,241)
Increase in provisions arising from the acquisition of subsidiary undertakings and Syndicate participations	28,082	13,996
Strengthening of provisions	41,914	29,941
Net exchange differences	15,563	(5,721)
As at 31 December	362,883	323,948

Reinsurance	2014 £000	2013 £000
Reinsurers' share of insurance contract provisions at 1 January	157,682	148,988
Reinsurers' share of gross claims paid	(26,475)	(21,954)
Increase in provisions arising from the acquisition of subsidiary undertakings and Syndicate participations	3,932	1,724
Strengthening of provisions	27,385	32,862
Net exchange differences	8,880	(3,938)
As at 31 December	171,404	157,682

Net	2014 £000	2013 £000
Net insurance contract provisions at 1 January	166,266	178,985
Net claims paid	(20,149)	(20,287)
Increase in provisions arising from the acquisition of subsidiary undertakings	24,150	12,272
Strengthening/(release) of provisions	14,529	(2,921)
Net exchange differences	6,683	(1,783)
As at 31 December	191,479	166,266

The carrying amounts disclosed above reasonably approximate their fair values at the period end date.

21. Insurance contract provisions and reinsurance balances continued

Assumptions, changes in assumptions and sensitivity

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

Provision is made at the period end 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.

As detailed in Note 3, significant uncertainty exists as to the likely outcome of any individual 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 reviews by external actuaries. The use of external actuaries provides management with additional comfort that the Group's internally produced statistics and trends are consistent with observable market information and other published data.

As detailed in Note 2 (h), when preparing these Consolidated Financial Statements, provision is made for all costs of running off the business of the insurance company subsidiaries to the extent that these costs exceed the estimated future investment return expected to be earned by those subsidiaries. Provision is also made for all costs of running 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-off, 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 the estimated future 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 £1,915k (2013: £1,662k).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

22. Current and deferred tax

Current tax

	2014 £000	2013 £000
Current tax assets	3,835	4,047
Current tax liabilities	(5,855)	(3,845)
Net current tax (liabilities)/assets	(2,020)	202

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 20% for the UK (2013: 20%) and 34% for the US (2013: 34%).

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. The movement in deferred tax is recorded in the income tax charge in the Consolidated Income Statement.

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 on a net basis.

	Deferred tax assets £000	Deferred tax liabilities £000	Total £000
As at 1 January 2013	5,383	(2,192)	3,191
Movement in year	(91)	(410)	(501)
As at 31 December 2013	5,292	(2,602)	2,690
Movement in year	2,569	(907)	1,662
As at 31 December 2014	7,861	(3,509)	4,352

The movement on the deferred tax account is shown below:

	Accelerated capital allowances £000	Trading losses £000	Pension scheme deficit £000	Other temporary differences £000	Total £000
As at 1 January 2013	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
Movement in year	(68)	1,789	1,018	(1,077)	1,662
As at 31 December 2014	34	4,255	1,652	(1,589)	4,352

Movements in the provisions for deferred taxation are disclosed in the Consolidated 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 2013	–	(87)	(128)	(286)	(501)
Movement in 2014	(1,243)	95	1,805	1,005	1,662

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

	2014 £000	2013 £000
Deferred tax assets – relating to trading losses		
Deferred tax assets to be recovered after more than 12 months	3,465	1,941
Deferred tax assets to be recovered within 12 months	790	525
Deferred tax assets	4,255	2,466

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

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

The above deferred tax assets arise mainly from temporary differences and losses arising on the Group's US insurance companies in run-off. Under local tax regulations these losses and other temporary 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 insurance companies in run-off.

The Group's total deferred tax asset includes £4,255k (2013: £2,466k) 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, arises in the US subgroup.

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

23. Share capital

	Number of shares	Ordinary shares £000	Share premium £000	Treasury shares £000	Total £000
At 1 January 2013	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
Issue of P–S shares	143,552,160	6,029	(6,029)	–	–
Redemption/Cancellation of P–S shares	(143,552,160)	(6,029)	–	–	(6,029)
Movement in treasury shares*	–	–	–	(121)	(121)
At 31 December 2014	71,776,080	1,435	17,363	(175)	18,623

* 100,190 shares (2013: 68,338)

Allotted, called up and fully paid	2014 £	2013 £
71,776,080 ordinary shares of 2p each (2013: 71,776,080 ordinary shares of 2p each)	1,435,522	1,435,522
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,435,524	1,435,524

Included in Equity	2014 £	2013 £
71,776,080 ordinary shares of 2p each (2013: 71,776,080 ordinary shares of 2p each)	1,435,522	1,435,522
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,435,524	1,435,524

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For the year ended 31 December 2014

23. Share capital continued

Cumulative Redeemable Preference Shares

Preference A and B Shares have rights, inter alia, to receive distributions in priority to ordinary shares 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 $5,000k.
- Preference B Share: one half of all distributions arising from the Company's investment in R&Q Reinsurance Company (UK) Limited up to a maximum of $10,000k.

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 P, Q, R and S shares (with an aggregate value of £6,029k) (2013: L, M, N and O shares (with an aggregate value of £4,937k)) which were all cancelled. Of these amounts, £5k (2013: £36k) was payable to the Employee Benefit Trust.

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.

Treasury shares

During 2014, the Company purchased 230,000 ordinary shares of 2.0 pence each into Treasury and subsequently transferred 129,810 ordinary shares to meet option exercises. As at the period end date the balance of shares held in Treasury is 100,190.

Movements in the number of share options and their related exercise price are as follows:

	Weighted average exercise price 2014 pence	Number of options 2014	Weighted average exercise price 2013 pence	Number of options 2013
Outstanding at 1 January	67.2	165,000	35.8	1,240,000
Exercised	19.1	(198,148)	25.5	(1,234,745)
Granted	2.0	148,148	2.0	159,745
At 31 December	66.0	115,000	67.2	165,000

The total number of options in issue during the year have given rise to a charge to the Consolidated Income Statement of £213k (2013: £240k) based on the fair values at the time the options were granted.

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

	2014 options	2013 options
Weighted average fair value	91.1 pence	73.8 pence
Weighted average share price	157.1 pence	140.2 pence
Exercise price	66.0 pence	67.2 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 2014 are all exercisable and had a weighted average remaining contractual life of 4.1 (2013: 5.0) years.

The range of prices on the outstanding share options is 40.0 pence to 70.0 pence.

24. Employee Benefit Trust

The Employee Benefit Trust has purchased no ordinary shares and released 68,338 ordinary shares deemed to be held in Treasury during the year to give a holding at the year end of £nil (2013: 68,338). The value at the year end was £nil (2013: £122k).

25. Employees and Directors

Employee benefit expense for the Group during the year	2014 £000	2013 £000
Wages and salaries	29,578	28,193
Social security costs	2,917	2,717
Pension costs	2,096	2,247
Share based payment charge	213	241
	34,804	33,398

Pension costs are recognised in operating expenses in the Consolidated Income Statement and include £2,096k (2013: £2,047k) in respect of payments to defined contribution schemes and £nil (2013: £200k) in respect of closed defined benefit schemes.

Average number of employees	2014 Number	2013 Number
Group executives & support services	72	66
Insurance Services Division	214	211
Insurance Investments Division	14	9
Underwriting Management Division	100	87
	400	373

Remuneration of the Directors and key management	2014 £000	2013 £000
Aggregate Director emoluments	1,511	1,416
Aggregate key management emoluments	1,496	1,496
Share based payments – Directors	197	235
Share based payments – key management	16	40
Director pension contributions	50	88
Key management pension contributions	97	97
	3,367	3,372
Highest paid Director		
Aggregate emoluments	800	847

Key management refers to employees who are Directors of subsidiaries within the Group but not members of the Group's Board of Directors.

T A Booth, K E Randall and P A Barnes have been remunerated in US dollars since the Group redomiciled in July 2013.

Directors' emoluments

Name	Salary £000	Pension £000	Bonus £000	Share options £000	Overseas living expenses £000	Total £000	Total $000
K E Randall	304	–	–	–	20	324	533
A K Quilter	262	13	75	–	–	350	–
T A Booth	243	37	198	197	125	800	1,262
M G Smith	150	–	–	–	–	150	–
K P McNamara	4	–	–	–	–	4	–
A H F Campbell	69	–	–	–	–	69	–
P A Barnes	61	–	–	–	–	61	100

Two Directors have retirement benefits accruing under money purchase pension schemes (2013: Two). In the year, T A Booth was granted share options in respect of qualifying services under a long-term incentive plan over 148,148 shares with a fair value of £197k (2013: 159,745 shares with a fair value of £235k) and the expense has been charged to the Consolidated Income Statement over the course of the vesting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

26. Pension commitments

The Group operates one defined benefit scheme in the UK. 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 Consolidated Statement of Financial Position

	2014 £000	2013 £000
Fair value of plan assets	25,172	25,552
Present value of funded obligations	(33,434)	(28,570)
Net defined benefit liability	(8,262)	(3,018)
Related deferred tax asset	1,652	634
Liability in the Consolidated Statement of Financial Position	(6,610)	(2,384)

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

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 2013	(28,570)	25,552	(3,018)	(3,018)
Interest income/(expense)	(1,237)	1,102	(135)	(135)
	(29,807)	26,654	(3,153)	(3,153)
Remeasurements:				
Return on plan assets, excluding amounts included in interest expense	–	(468)	(468)	(468)
Loss from changes in financial assumptions	(4,724)	–	(4,724)	(4,724)
Experience gain	165	–	165	165
	(34,366)	26,186	(8,180)	(8,180)
Employers contributions	–	(82)	(82)	(82)
Benefit payments from the plan	932	(932)	–	–
As at 31 December 2014	(33,434)	25,172	(8,262)	(8,262)

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

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

c. Significant actuarial assumptions

i) Financial assumptions

	2014	2013
Discount rate	3.4%	4.4%
RPI inflation assumption	3.2%	3.5%
CPI inflation assumption	2.4%	2.7%
Pension revaluation in deferment:		
– CPI, maximum 5%	2.4%	2.7%
Pension increases in payment:		
– RPI, maximum 5%	3.2%	3.5%

ii) Demographic assumptions

Assumed life expectancy in years, on retirement at 60	2014	2013
Retiring today		
– Males	29.5	29.3
– Females	31.8	31.7
Retiring in 20 years		
– Males	33.0	32.8
– Females	35.1	34.9

d. Sensitivity to assumptions

The results of the IAS 19 valuation at 31 December 2014 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 10%
Rate of inflation	Increase by 0.5%	Increase by 4%
Life expectancy	Increase by 1 year	Increase by 2%

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.

e. The major categories of plan assets are as follows

	Quoted	Un-quoted	As at 2014 £000 Total	Quoted	Un-quoted	As at 2013 £000 Total
Cash and cash equivalents	–	107	107	–	219	219
Investment funds:						
– equities	–	1,046	1,046	–	–	–
– bonds	–	13,583	13,583	–	3,041	3,041
– property	–	151	151	–	–	–
– cash	–	10,285	10,285	–	22,292	22,292
	–	25,172	25,172	–	25,552	25,552

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For the year ended 31 December 2014

26. Pension commitments continued

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 £280k 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 2014. 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 2014.

Participating defined benefit scheme

In addition, certain of the Group's employees also participate in a defined benefit scheme where the subsidiary company is one of several participating employers. It is not possible to identify the share of the underlying assets and liabilities belonging to the individual participating employers. The most recent valuation of this scheme was at 1 June 2011. The actuary used the projected unit method for determining the future costs. The deficit in the Scheme at 31 May 2014, the latest information available, was £4,432k. The subsidiary made no contributions to this scheme in 2014 or 2013, and does not expect to have to make any contributions in 2015.

27. Related party transactions

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

	2014 £000	2013 £000
K E Randall and family	1,547	1,658
A K Quilter and family	357	347
T A Booth	60	17
M G Smith	2	2

During the year, the Group recharged expenses totalling £9,842k (2013: £9,402k) to Lloyd's Syndicates 102, 3330, 1897 and 1991, which are managed by the Group.

28. 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 2014 are due to expire within one to five years of the period end date. It is anticipated that sublease income of £9k (2013: £50k) will be earned over the lease term.

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

Land and buildings	2014 £000	2013 £000
No later than one year	271	9
Later than one year but no later than five years	2,185	2,744
Later than five years	365	1,467

29. Acquisitions and divestments

Acquisitions

The Group made ten acquisitions during 2014, all of which have been accounted for using the acquisition method of accounting. Nine of these acquisitions involve legacy transactions and the tenth acquisition is of the entire issued share capital of the holding company Accredited Holding Corporation.

Legacy entities and businesses

The following table shows the fair value of assets and liabilities included in the Consolidated Financial Statements at the date of acquisition of the legacy businesses:

	SRM £000	Silco £000	Pender £000	Oval £000	Catholic £000	Armitage £000	Berda £000	Tryg £000	Aker £000	Total £000
Intangible assets	4	–	–	–	31	373	94	86	35	623
Other receivables	–	–	–	234	–	–	210	–	–	444
Cash & Investments	721	3,086	1,911	8,051	954	7,686	3,163	3,871	1,924	31,367
Other payables	–	(1,492)	(995)	(5,144)	–	(49)	(13)	–	–	(7,693)
Technical provisions	(397)	–	–	–	(611)	(4,208)	(865)	(2,252)	(1,061)	(9,394)
Deferred tax				344	–	–	–	(30)	(12)	302
Net assets/ (liabilities) acquired	328	1,594	916	3,485	374	3,802	2,589	1,675	886	15,649
Consideration paid	–	–	–	–	–	2,402	1,153	–	–	3,555
Goodwill on bargain purchase	(328)	(1,594)	(916)	(3,485)	(374)	(1,400)	(1,436)	(1,675)	(886)	(12,094)

In all instances, goodwill on bargain purchase was recorded on the transactions. Goodwill on bargain purchase is calculated after the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition. It arises because the long-tail nature of the liabilities causes significant problems for former owners such as tying up capital and a lack of specialist staff. As a specialist service provider and manager, the Group is more efficient at managing such entities and former owners are prepared to sell at a discount on the fair value of the net assets.

In order to disclose the impact on the Group as though the legacy entities had been owned the whole year, assumptions would have to be made about the Group's ability to manage efficiently the run-off of the legacy liabilities prior to the acquisition. As a result, and in accordance with IAS 8, the Directors believe it is not practicable to disclose revenue and profit before tax as if the entities had been owned for the whole year.

Where significant uncertainties arise in the quantification of the liabilities, the Directors have estimated the fair value based on the currently available information and on assumptions which they believe to be reasonable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

29. Acquisitions and divestments continued

The Group acquired the following legacy entities and businesses during 2014:

- On 20 March 2014, by way of novation, contracts from SEG Insurance Limited, in relation to its Schools Risk Management ("SRM") to the Group's owned cell in R&Q Quest (SAC) Ltd. SRM wrote business as a reinsurer of Travelers/Discover Re for various schools and SEG wished to dispose of the vehicle to free up collateral. Costs incurred in acquiring SRM were £30k.
- On 24 June 2014, Southern Illinois Land Company, Inc ("Silco") with liabilities for subsidence, black lung and workers compensation. The subsidence and black lung liabilities have been valued in accordance with external reports. The workers compensation liabilities are in relation to a single claim and are assessed to be sufficient. Costs incurred in acquiring Silco were £72k. These provisions are not classified as insurance technical provisions.
- On 27 June 2014, Pender Mutual Insurance Company Limited ("Pender") which wrote general insurance and has been in run off since April 2005. A Scheme of Arrangement was sanctioned in 2006 which operates on a received basis: a claim is only payable if the ensuring reinsurance is actually received. Therefore, the claims provisions are deemed to be benign and so are not classified as insurance technical provisions. Costs incurred in acquiring Pender were £9k.
- On 30 June 2014, Oval Financial Services Limited ("Oval"), which has since been renamed R&Quiem Financial Services Limited. The legacy business consisted of a pension administration department (with one remaining contract) and two work-streams in relation to mis-selling. Their provisions are not classified as insurance technical provisions. Costs incurred in acquiring Oval were £82k.
- On 26 August 2014, by way of novation, certain run-off business of the Bermuda domiciled Catholic Insurance Association ("Catholic") captive programme. Catholic provided reinsurance through a fronting company, Discover Re. The Group acquired the Discover Re fronted business which wrote policies in the years 2003 to 2006. Costs incurred in acquiring Catholic were £55k.
- On 11 December 2014, Armitage International Insurance Company Limited ("Armitage") and Berda Developments Limited ("Berda"), which are both Bermuda domiciled captives, were acquired from the Unilever group. They predominately wrote workers' compensation, auto liability, general liability and products liability and have been in run off since 2011 (Armitage) and 1987 (Berda). Costs incurred in acquiring Armitage were £20k and Berda were £19k.
- On 30 December 2014, by way of a loss portfolio transfer, policies written by Tryg Forsikring AS ("Tryg"), which was incorporated in Denmark, were transferred to R&Q Insurance (Malta) Limited. The policies transferred provided marine insurance cover for the years 1998 to 2010 to policyholders in Denmark, Sweden and Norway. Costs incurred in acquiring Tryg were £10k.
- On 31 December 2014, by way of a loss portfolio transfer, policies written by Aker Insurance AS ("Aker"), which is a Norwegian domiciled captive, were transferred to R&Q Insurance (Malta) Limited. The policies transferred provided workers' compensation and personal accident cover for the years 2003 to 2009. Costs incurred in acquiring Aker were £4k.

Accredited Holding Corporation and subsidiaries

On 26 November 2014, the Group acquired 100% of the issued share capital and voting rights of Accredited Holding Corporation, the holding company for Accredited Surety and Casualty Company, Inc ("Accredited Surety"), a specialist insurer, and two managing general agencies used for business distribution based in the US state of Florida. Accredited Holding Corporation together with its subsidiaries are referred to as Accredited.

Accredited Surety has active licences in 49 US States and the District of Columbia. It is the third largest bail-bond insurer in the US based on direct premium and represents more than 1,600 bail agents.

As a result of this transaction, the Group now owns an insurance platform which is rated A- by AM Best and has significantly expanded its presence in the United States.

The initial consideration paid by the Group amounted to £12,807k (US$20,000k). In addition to the initial consideration, a 20% deferred payment of £3,202k (US$5,000k) was agreed and is to be paid on 26 November 2016.

The fair value of net assets acquired and the resulting goodwill on bargain purchase is as follows:

	£000
Intangible assets	5,411
Property, plant and equipment	45
Insurance and other receivables	1,192
Cash and cash equivalents	5,393
Investments	9,806
Insurance and other payables	(750)
Technical provisions	(1,179)
Deferred tax	(1,731)
Net assets acquired	18,187
Consideration paid	12,807
Fair value of deferred consideration	2,882
Goodwill on bargain purchase	(2,498)

The identifiable intangible assets acquired comprise customer relationships, valued at £2,209k (US$3,450k), and the 50 insurance licences, valued at £3,202k (US$5,000k), gross of deferred tax.

Revenue generated after the date of acquisition amounted to £791k (US$1,235k) and profit before tax amounted to £228k (US$356k).

The Group incurred £750k of costs in acquiring Accredited. If Accredited had been owned the whole year, it would have contributed additional revenue of £7,021k (US$10,964k) and profit before tax of £1,076k (US$1,680k) to the Group.

Divestment

On 24 November 2014, the Group entered into an agreement with Phoenix UK Fund Limited ("Phoenix"). As part of the transaction, a new cell company was established in Bermuda, RQLM Limited, and the Group transferred certain reinsurance receivable portfolios from R&Q Liquidity Management Limited into the cells. Phoenix then acquired 50% of the equity of the cells for £4,432k ($6,914k).

Also as part of the transaction, Phoenix were granted a put option over their equity in the cells, which will allow them to put their shares back to the Group on 24 November 2015, the anniversary of completion, at the cost of the original transaction plus their share of the cost of any reinsurance receivable portfolio purchases in the intervening period. As a result, the transaction has not been recognised as a sale, and the Group has not derecognised the asset. The reinsurance receivables continue to be recognised in full and a liability is carried for the cost of the original transaction plus Phoenix's share of the cost of any subsequent reinsurance receivable purchases. As at 31 December 2014, the put option is valued at £125k, which represents the difference between Phoenix's share of the fair value of the reinsurance receivables less the cost of the original transaction, and is held as a liability in the Consolidated Statement of Financial Position.

The put option creates the risk to the Group that, for Phoenix's share, if the fair value of the reinsurance receivables drop below the cost of the original transaction plus the cost of subsequent debt purchases, the loss will be borne by the Group.

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30. Non-controlling interests

The following table shows the Group's non-controlling interests and movements in the year:

31 December 2014	2014 £000	2013 £000
Non-controlling interests		
Equity shares in subsidiaries	105	105
Share of retained earnings	3,055	1,265
Share of other reserves	1	1
	3,161	1,371
Movements in the year		
Balance at 1 January	1,371	5,142
Profit for the year attributable to non-controlling interests	1,763	1,695
Exchange adjustments	27	30
Comprehensive income attributable to non-controlling interests	1,790	1,725
Non-controlling interests' share of dividends declared in the year	–	(5,064)
Changes in non-controlling interest in subsidiaries	–	(432)
Balance at 31 December	3,161	1,371

During 2013, the Group purchased the non-controlling interests of R&Q Capital No. 1 Limited which had the economic benefit of 45% of the profit of the 2012 year of account of Syndicate 3330 in the 2012 financial year. The Group owns 95.01% of R&Q Capital No. 1 Limited. The accumulated non-controlling interests of R&Q Capital No. 1 Limited at the end of the reporting period are £2,862k (2013: £1,760k).

31. Guarantees and debentures

The Group has entered into a guarantee agreement and debenture arrangement with its bankers, along with several of its subsidiaries, in respect of the Group term loan facilities. The total liability to the bank at 31 December 2014 is £24,879k (2013: £16,531k).

The Group has the following external guarantees provided through subsidiaries:

- R&Q Reinsurance Company (UK) Limited guarantee to MAAF Assurances in respect of La Reassurance Intercontinentale (now part of La Licorne Compagnie de Reassurances SA) up to €1,600k.
- In December 2013, the Group entered into a guarantee with the Institute of London Underwriters in respect of old policy liabilities which had previously been guaranteed by Tryg Forsikring AS and subsequently indemnified by Chevanstell Limited (transferred into R&Q Insurance Malta Limited in December 2013). The limit of this guarantee is £1,500k.

32. Contingent liabilities

In connection with certain acquisitions, the terms are subject to potential amendment which could give rise to additional payments of up to £8,700k (2013: £8,300k).

Prior to its acquisition by the Group during 2014, a subsidiary undertook projects to advise members of defined benefit pension schemes where the members received incentivised transfer offers from their employer. Following the conclusion of an internal review earlier in the year, work continued on finalising the quantum of loss that clients of the subsidiary may have suffered and the amount of compensation that they might be entitled to, calculated actuarially, by reference to Financial Ombudsman Service guidelines. As a result of this work, and having regard to the warranties, indemnities and indemnity insurance in place at the time of acquisition, the Directors have concluded no further provision is required. As at 31 December 2014, no compensation payments had been made. After the year end, this subsidiary has also received complaints from two former clients alleging mal-administration of their respective pension schemes. These complaints are at a very early stage and are being investigated.

33. Foreign exchange rates

The Group used the following exchange rates to translate foreign currency assets, liabilities, income and expenses into sterling, being the Group's presentational currency:

	2014		2013	
	Average	Year end	Average	Year end
US dollar	1.65	1.56	1.56	1.64
Euro	1.24	1.27	1.18	1.20

34. Events after the reporting date

Funds at Lloyd's relief insurance

On 10 February 2015, the Group entered into an excess of loss reinsurance contract, through which a £10,000k letter of credit has been provided to support the Group's Funds at Lloyd's. The premium paid was £680k. As a result, £10,000k has been released from Funds at Lloyd's into the Group's available working capital.

Divestment

On 27 February 2015, the Group completed the sale of its 75% ownership of R&Q Marine Services Limited to Hiscox. The agreed cash consideration was £6,750k, of which £5,063k was for the share owned by the Group. Contingent consideration of up to £2,500k, of which £1,875k is for the share owned by the Group, is receivable in February 2016 depending on the performance of the divested business.

Acquisition

On 25 May 2015, the Group signed an agreement to acquire, subject to change of control approval from the Prudential Regulation Authority and Financial Conduct Authority, the entire issued share capital of IC Insurance Limited from its indirect owners, AstraZeneca UK Limited and Imperial Chemical Industries Limited. IC Insurance Limited was formed in 1926 as the UK registered captive insurer for Imperial Chemical Industries and ceased active underwriting in 1996.

The consideration payable by the Group is anticipated to be approximately £17,000k, and will be paid in cash from existing resources and the Group's bank facility. IC Insurance Limited had claim reserves as at 31 December 2014 amounting to £1.9m and shareholders' funds of £22.5m.

Business development – new classes of business

Following the acquisition of Accredited on 26 November 2014, a new business plan was filed on 6 April 2015 with the Florida state regulator by its subsidiary, Accredited Surety, to expand its existing nationwide surety licences to include certain property and casualty lines of business. Approval was received on 5 June 2015, following which Accredited Surety will begin filing applications to other states towards the end of June 2015.

Distribution to shareholders

On 19 June 2015, the Board approved a distribution payment of 5.0 pence per share, to be made by way of a return of capital.

35. Ultimate controlling party

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

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