



**Randall & Quilter
Investment Holdings Ltd.**

Annual Report 2018

2018 was a year of successful
delivery on our plan



2018 Highlights

Financial, strategic and operational

Financial highlights

Continuing business PBT

£14.3m



Pre-tax profit

£11.7m



ROCE

10.8%



Net tangible assets per share

123.6p



Underlying profit growth of

45%

Total distributions per share

9.2p



Investment return

1.2%



Cash and investments

£638.7m



Operational highlights

- Successful corporate restructuring to simplify the business
- Successful launch of Program Management business in the US and Europe with 30 contracts secured with expected GWP of \$500m per annum
- Accredited Europe rated A- (Excellent) by AM Best
- Accredited US upgraded to A- VIII by AM Best
- Successfully completed 17 new Legacy acquisitions and reinsurances
- Agreed acquisition of Global Re – our largest ever Legacy transaction costing \$80.5m and expected to complete in H1 2019
- Strong contribution through commutations and net claims releases from existing Legacy portfolios
- Excellent pipeline of new business opportunities in both Legacy and Program Management
- Ideally positioned for Brexit regardless of final outcomes
- Oversubscribed new share issue in March 2019 of £103.5m (after costs and expenses)
- Issue and public listing of \$70m subordinated debt

* Including profit on disposal of R&Q's Lloyd's managing agency of £11.8m (net of costs).

Contents

Strategic Report

- 04 Chairman's Statement
- 08 Risk Management
- 10 Principal Risks and Uncertainties
- 14 Corporate Social Responsibility

Corporate Governance

- 18 Board of Directors
- 20 Governance
- 27 Audit Committee Report
- 29 Remuneration & Nominations Committee Report
- 30 Risk Committee Report
- 32 Statement of Directors' Responsibilities

Financial Statements

- 36 Independent Auditor's Report
- 40 Consolidated Income Statement
- 41 Consolidated Statement of Comprehensive Income
- 42 Consolidated Statement of Changes in Equity
- 43 Consolidated Statement of Financial Position

44 Consolidated Cash Flow Statement

- 45 Notes to the Consolidated Financial Statements

At a Glance

Our Mission

The overall mission of R&Q is to:

- Generate profits and capital extractions from expert management of legacy non-life insurance acquisitions/reinsurances, including in Lloyd's; and
- Grow commission income from its licensed (and rated) carriers in the US and EU/UK, writing niche and profitable program business, largely on behalf of highly rated reinsurers.

Our aim is to continue to grow sustainable profit streams to support our business model and increase book value and cash distributions to shareholders.

Program Management

R&Q's Program Management business is centred on fee generation through its licensed and rated platforms Accredited Surety and Casualty Company Inc. in the US and Accredited Insurance (Europe) Limited, in Europe, where the Group acts as a conduit for capital providers, typically well-rated reinsurers, and niche underwriting businesses, predominantly MGAs.

Both platforms are AM Best A- (Excellent) rated for financial strength making R&Q the only dedicated program partner to provide A- rated capacity on both sides of the Atlantic.

In 2018 we successfully contracted 12 additional programs which together with the previously contracted programs are estimated to generate future annualised gross written premiums of \$500m.

Investment Case

R&Q's two core operations offer investors the benefits of a stable fee income from its Program Management (fronting) business, combined with capital extraction and growth in book value opportunities from its acquisition and management of Legacy (run-off) insurance businesses.

Legacy Acquisitions

Providing creative financial solutions to owners of discontinued ("run-off") insurance business has been at the heart of the R&Q Group and its predecessor companies for nearly 30 years.

2018 was an exceptionally busy year for the Group's Legacy business. Notably, in September, the Company announced its largest Legacy Acquisition. In 2018 the Group completed 17 legacy transactions (19 legacy deals in 2017). Our range of solutions was reflected in the different types of transactions (two acquisitions, 11 novations, three reinsurance transactions and one Lloyd's Reinsurance to Close transaction).

Strategic Report

- 04** Chairman's Statement
 - 08** Risk Management
 - 10** Principal Risks and Uncertainties
 - 14** Corporate Social Responsibility
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Chairman's Statement

"I am pleased to report a 45% increase in the pre-tax profit for our continuing operations."



Ken Randall
Group Chairman and Chief Executive Officer

Summary Financial Performance

£000	2018	2017
Group results		
Operating profit (continuing)	18,596	14,318
Profit before tax (continuing)	14,251	9,830
Profit before tax	11,693	23,461
Profit after tax	7,822	22,970
Earnings per share (basic)	5.8p	25.4p
Balance sheet information		
Total assets	1,197,573	1,065,791
Cash and Investments	638,672	602,753
Total gross reserves	699,078	722,535
Amounts owed to credit institutions	140,243	55,889
Shareholders' equity	175,638	166,772
Key statistics		
Investment return	1.2%	1.6%
Return on tangible equity	5.0%	17.3%
Net tangible assets per share	123.6p	105.3p
Net asset value per share	139.4p	132.5p
Distribution per share	9.2p	8.9p

Commenting on the results for the year, Ken Randall, Group Chairman and CEO said:

"I am pleased to report a 45% increase in the pre-tax profit for our continuing operations which was achieved despite the deferral of significant Legacy transactions, now expected to complete in 2019 (including Global Re).

The current year has begun positively with regulatory approval received for the change of control of Global Re, which will complete in the next few days, and our investment portfolio having fully recovered the unrealised losses experienced in December 2018.

Accredited, our Program Management business in the US and Europe is benefiting from AM Best rating upgrades and by the end of 2018 had secured contracts with MGAs which are anticipated to generate annualised written premiums of \$500m. The strong growth momentum seen throughout 2018 has continued into 2019 although, as previously indicated, there will be a natural time lag before the Group's results will reflect full credit for earned commissions on the premiums underwritten.

The upheaval caused by Brexit is also benefiting Accredited Europe which is domiciled in Malta and has regulatory approval to establish a UK branch office. Accredited thus is well placed to provide "Brexit solutions" whatever the final Brexit outcome.

Our Legacy pipeline remains very active with continuing evidence that insurers are increasingly turning to run-off specialists to offload discontinued portfolios of insurance business in order to improve their capital efficiency and reduce costs of managing non-core activities.

Our ability to grow the business has been significantly enhanced by the issue of \$70m subordinated debt in December 2018 and the oversubscribed new equity raise of £103.5m in March 2019."

Financial Results

I am pleased to report that the Group generated pre-tax profits for continuing operations of £14.3m (a 45% increase over 2017). This result was achieved despite the deferral into 2019 of a number of Legacy transactions – most notably the delayed acquisition of Global Re, our largest ever deal, which will now complete in H1 2019 – and a £2.9m reduction in our anticipated investment return as a consequence of turbulence in global investment markets in the final weeks of 2018.

2019 has started positively with our investment portfolio fully recovering the £2.9m investment return in the early weeks of 2019; our Program Management business – which fully met its ambitious targets for 2018 – showing continued growth momentum; and the acquisition of Global Re for which change of control approval has now been received.

Whilst none of us yet knows the final direction of travel as regards Brexit, we believe that R&Q is well positioned to be a net beneficiary, regardless of the outcome. Our European Program Management and principal Legacy

consolidators are domiciled in Malta and regulatory arrangements have already been agreed for the establishment of a UK branch office of Accredited Europe. This will enable the Group to continue underwriting and servicing business in the UK as well as throughout all EU member states.

Execution of the Business Strategy

2018 was a year of successful delivery on our plan to simplify the business and focus on the high growth prospects within Legacy Acquisitions and Program Management.

We have also been simplifying our internal corporate structures to optimise the utilisation of capital and reduce costs of management. As an acquisitive business, we accumulate Legacy assets in many different entities and jurisdictions. During 2018 we made excellent progress in consolidating surplus assets into our three principal operating subsidiaries; Accredited Surety and Casualty Company Inc., Accredited Insurance (Europe) Limited and R&Q Re (Bermuda) Limited. This will be an ongoing process due to the nature of the business model and the need to meet regulatory requirements in the multiple jurisdictions in which we operate. We are already seeing clear operational and financial benefits as we build these three principal pools of capital.

We delivered on our commitment to streamline the business around two high-growth and complementary revenue streams

In 2017 we disposed of our Lloyd's Managing Agency and withdrew capacity from "active" Syndicate participation at Lloyd's. 2018 began with R&Q disposing of non-core insurance services and captive management operations to the Davies Group. Since year end, we have divested our non-core US Bail Bond Business and, as part of the terms of the sale, have negotiated a reinsurance to protect against adverse claims development on bail business underwritten up to the point of sale. This disposal will have a neutral impact on future Group results.

All of our energies are now focused on Program Management and Legacy Acquisitions.

We delivered on our commitment to invest in our core business lines

We have reinvested all of the proceeds from asset disposals in 2017 and 2018 into supporting the growth of our core business streams. We also raised \$70m in a subordinated debt issue in December 2018 and, in the First Quarter of 2019, we raised £103.5m (after expenses) by way of an over-subscribed equity offer. These actions ensure that we have the balance sheet strength in 2019 to continue growing by acquiring more Legacy portfolios and signing up more Program contracts with MGAs.

The Group's regulatory and working capital requirements are closely monitored. The business is appropriately capitalised to support the foreseeable growth of Program Management and near term Legacy Acquisitions. Looking further ahead, the Board's current view is that funding for small- and medium-sized Legacy Acquisitions will come from internally generated cash flows. Larger Legacy deals will be funded externally or through some form of "side car" partnership arrangement.

We demonstrated our ability to position R&Q for larger transactions

R&Q has decades of experience in acquiring smaller Legacy portfolios. We now have the opportunity and scalable infrastructure to acquire and manage larger portfolios where the returns justify the investment. The agreement to acquire Global Re demonstrates our ability to source and execute larger deals whilst still maintaining our pricing discipline and focus on prospects where we have a competitive edge and proven experience.

Demand from owners of discontinued businesses to divest their run-off portfolios and free up capital and management time remains high. In the years ahead, we expect to complete more transactions of the scale of Global Re and we also expect to secure larger-sized Program contracts.

We are delivering on the wisdom of our 2017 transformation strategy

2018 saw R&Q continue to execute on its long-standing core business of acquiring discontinued portfolios and managing down their liabilities. However, our other – and much newer – Program Management business also flourished in 2018, affirming our decision to enter this market.

2018 was the first full year of R&Q agreeing Program underwriting contracts with MGAs in the US and Europe. We set ourselves a target of signing contracts with MGAs which would produce future annualised premiums of \$500m p.a. – an ambitious goal considering the high standards of corporate governance and counterparty scrutiny that we apply to each agreement. I am pleased to report that we met this target – signing contracts with MGAs on both sides of the Atlantic.

We are confident about our prospects in 2019 and beyond. There is demand for both of our core services and we have taken a number of actions this year and last – including additional investment in systems and personnel – to ensure we can deliver on this demand without jeopardising our high standards. Our recent £107m equity raise, combined with December's \$70m subordinated debt issue, provides R&Q with the balance sheet strength to continue growing in 2019.

Below I comment on the performances of our two core operations in 2018: Program Management

R&Q uses its AM Best A- (Excellent) rated Insurance companies in the US and EU to provide much-in-demand high-quality Program capacity for MGAs. We delegate the issue of licensed insurance policies to carefully selected MGAs thereby acting as a conduit between them and the reinsurance market, which assumes the ultimate risk exposure. We set and expect high standards of governance and business practice before we contract with MGAs; and continue to do so throughout the relationship with the MGA.

We achieved our goal of securing contracts with estimated future GWP of \$500m per annum. R&Q retains a commission on each premium transaction which we view as high-quality, annually renewable fee income. We have retained a modest share of the risk on a small number of Programs but generally speaking we have a low risk appetite and do not seek to retain insurance risk on the business being generated via these Programs. In those cases where we do retain risk, we normally seek to protect our exposure through the purchase of appropriate excess of loss reinsurance.

R&Q enjoyed strong demand for its Program Management on both sides of the Atlantic in 2018 – validating our strategic decision to focus on both continents.

As momentum builds and we have definitive data on the actual GWP, we aim to provide more detail on our expectations as regards the timing of future growth in our earned commissions. We also continue to see potential to build meaningful business volume from "InsureTech" initiatives.

Europe:

In Europe, Brexit uncertainty was a factor fuelling the strong interest in our services. R&Q's European insurance company – which we renamed as Accredited Insurance (Europe) Limited in 2018 – is domiciled in Malta which means it retains full EU "passporting" rights regardless of the UK's future status. It is also approved to underwrite all 18 principal non-life classes of insurance business.

Throughout 2018, MGAs in the UK, Ireland and continental Europe approached us for help in ensuring that they could operate regardless of the Brexit outcome. We have devised a comprehensive "Brexit solution" and agreed 18 Program contracts with MGAs in the UK, Ireland, Italy and Spain in 2018.

We have received approval to open a UK branch office of Accredited Insurance (Europe) Limited which will enable us to continue underwriting and servicing our UK clients and policyholders. But Brexit was only one factor behind our European

“The agreement to acquire Global Re demonstrates that R&Q is increasing the size threshold of the transactions we can execute.”

success in 2018. Underlying demand for our solutions is growing, as MGAs become increasingly popular in our industry, with experienced insurance entrepreneurs seeking to establish their own underwriting ventures with our help and access to the capital support of the reinsurance markets.

Last year also saw the collapse of a number of thinly capitalised European Program writers, forcing MGAs to find alternative insurance capacity. It was a reminder to intermediaries and buyers of insurance products that insurance companies can default and that it is critically important to consider the balance sheet strength and quality of management and corporate governance when buying insurance coverage. As a consequence, MGAs and their reinsurers increasingly demand high-quality insurance paper from their Program insurer and we in turn demand high underwriting, governance and professional standards from MGAs. We were delighted, therefore, when AM Best awarded our European insurance company an A- (Excellent) financial strength rating in February 2018 – mirroring that of its US sister company, Accredited Surety and Casualty Company, Inc. (“ASC”).

The AM Best rating was a significant milestone in our progress in becoming a leading provider of Program capacity in Europe. The AM Best credit rating gives our MGAs confidence in our balance sheet strength at a time when other providers failed and it was a significant factor in our success last year. We expect to continue benefiting from this in 2019 and beyond.

One other 2018 market dynamic is worth noting. The contraction by many Lloyd's insurers – in most cases encouraged by Lloyd's well-publicised 2018 performance review – led to a number of Syndicates shedding business with the result that intermediaries were seeking to transfer books of business out of Lloyd's. Paradoxically this is also creating opportunities for our Legacy division to assume the run-off of the discontinued Lloyd's business. We will update on progress on this front in our interim results later this year.

United States of America:

2018 was also a successful year for our US Program platform, ASC. In total, ASC has agreed 12 new Program arrangements.

Just as in Europe, there has been a contraction of Program capacity in the US which also coincides with growing demand from MGAs.

ASC began 2018 with its AM Best A- (Excellent) financial strength rating and it has subsequently benefited from two credit rating upgrades. In early 2018, AM Best increased ASC's rating from a VI to a VII reflecting the increased capital in the Company and its parent. This led to a notable rise in the number and size of potential discussions with MGAs and was a key factor in some of the new facilities we agreed in 2018. Following R&Q's recent successful equity and debt capital raises, AM Best further increased ASC's credit rating to A- VIII. We expect this upgrade will have a similar, positive impact.

Inevitably, the high demand from MGAs is fuelling a number of start-up Program competitors, typically financed by Private Equity. However, few possess ASC's advantages; it is approved to underwrite a comprehensive range of admitted business in all 50 US states, has decades of claims experience, a proven track record of delivery and a strong balance sheet which underpins the A- VIII financial strength rating.

ASC's integrity, professionalism and independence are highly valued by its clients.

Legacy Acquisitions

R&Q has been acquiring discontinued insurance businesses since 1992 and has accumulated decades of experience in managing often complicated run-off claims and extracting capital value for our shareholders.

Although the dynamics of the industry have evolved, one aspect remains the same. It is always difficult to predict when agreed transactions will close. Regulators, quite rightly, scrutinise these transactions to ensure policyholders are protected.

Global Re is a good example; although terms were signed in September 2018, the acquisition did not receive regulatory approval until April 2019. In addition, there are a few smaller Legacy transactions which we anticipated completing in 2018 but which have slipped and will now be completed in the first half of 2019.

The agreement to acquire Global Re demonstrates that R&Q is increasing the size threshold of the transactions we can execute. It is the largest acquisition ever undertaken by R&Q.

We anticipate repeating this approach – acquiring larger scale portfolios – but only where the estimated returns are within our pricing expectations. For very large portfolios we also anticipate entering into strategic partnerships with capital providers to share the financing risk.

We will, however, continue to acquire smaller-to-medium sized portfolios from internally generated cash flows. Overall, in 2018 we acquired 17 different portfolios or insurance companies/captives, representing £15.8m in net reserves.

During 2018 we also realised healthy reserve savings from previously acquired portfolios, notably the run-off of our Lloyd's Syndicates and a mature portfolio of US customs import bonds, together with a number of Workers' Compensation portfolios acquired from US Captive Insurers. We have also had continued success in negotiating favourable commutations with reinsurers of the former “Brandywine” reinsurance company (now known as R&Q Reinsurance Company or “R&Q Re US”) and we have utilised a large proportion of the commutation proceeds to purchase structured reinsurances where the Group benefits from the investment returns on the premiums paid.

With owners of discontinued portfolios increasingly seeing the attractions of freeing up resources by divesting their run-off businesses, we are confident that we will complete more Legacy transactions in terms of total net reserves, than in 2018.

“The foundations for profitable growth are in place.”

Investment Management

The total investments, collateral and cash held at 31 December 2018 was £639m (£603m in 2017) and total investment income generated in 2018 amounted to £5.4m. The return on invested assets was 1.2% and the blended return for investments, collateral and cash was 0.9%. Global investment markets were volatile during 2018 particularly during the last few weeks of the year when market turbulence reduced our anticipated investment return for the year by £2.9m. In the early months of 2019 we have seen the financial markets rebound with our investment portfolio fully recovering the unrealised losses incurred at the end of 2018.

Duration of the funds ranges from 0.5 years to 5.0 years (a weighted average of 1.29 years) with approximately 74% of funds having a duration of less than two years. Credit ratings are high across all investment accounts and range typically between AAA and BBB with over 83% of the funds having ratings of A+ or better.

During 2018 significant progress has been made in rationalising underperforming investments and managers. This has seen us reduce the number of managers from six to four as we focus on ensuring we have adequate liquidity in the portfolios and look to reduce the cost of investment management.

Interest rate rises in 2018 in the US (where we hold over 70% of our funds) have provided us with the opportunity to move approximately £200m of cash held as collateral into deposits and short dated Treasury Bills generating returns in excess of 2% p.a., far higher than the equivalent returns generated in prior periods which averaged less than 0.4% p.a. To benefit further, we have also increased our holdings of floating rate notes.

Distribution Policy

In the near term, the Board expects to increase distributions by a nominal amount each year, but then to increase distributions in line with the growth in profits once we see the benefit of material and consistent earned commissions from Program business.

We shall continue to take account of shareholders' views as regards continuing the current policy of making payments by return of capital or adopting a more conventional dividend approach.

Staff

The Board continues to address leadership succession issues.

The “bench strength” of the senior management team has been demonstrated by the positive progress made in successfully navigating our way through the change in business strategy.

Staff numbers have reduced by almost 50% following the disposal of non-core businesses and we continually seek to add to the pool of technical and managerial talent both through internal development and external recruitment.

As always, I am grateful for the unremitting efforts and contribution of all of our employees.

Outlook

The foundations for profitable growth are in place and the recent fund raise provides an important boost to our market profile. We are grateful for the ongoing support of our key shareholders.

In Legacy, we have an excellent pipeline of new business opportunities and the proceeds from the fund raise in March 2019 will allow us to pursue a number of previously identified opportunities for which we now have the necessary capital. The “carry over” of final stage but not completed acquisitions from 2018 – including Global Re will provide a boost to H1 2019 Group profits.

There was a time when run-off was regarded as the ugly duckling of the insurance industry; it has matured into a vibrant and respected segment of the market and is now viewed as a natural component of the underwriting life cycle requiring specialist skills. This should underpin the long-term supply of new Legacy opportunities.

In Program Management we have rapidly established R&Q as a major force on both sides of the Atlantic, evidenced by the high volumes of contracted business and the number and quality of reinsurers we are working with. The March 2019 fund raise was in large part to underpin the Group's crucial AM Best credit rating in light of premium growth which continues to outstrip original expectations. The response from AM Best was positive and immediate as they raised the credit rating of ASC within a matter of days of us announcing the successful fund raise. The swift response by business producers and MGAs has also been positive with a notable uplift in new business enquiries. As we have stressed, there will be a natural time lag before contracted business is converted into “earned commissions” and in the second half of 2019 and, especially in 2020 and subsequent years, we should start to see significant profit growth from this business segment.

US interest rate rises in 2018 and a growing investment “float” are expected to enhance investment income. In both Legacy and Program Management we see the demand and we have the capacity to continue growing. Our platforms are highly scalable; we have reliable, tried and tested high standards of corporate governance and a track record of successful deal execution.

For these reasons the Board is optimistic as regards the Group's prospects for 2019 and beyond.



Ken Randall

Group Chairman and CEO

Risk Management

The R&Q Group and its core businesses continue to take risks, in order to attain rewards in an informed and controlled manner.



Susan Young
Chief Risk Officer

The Board and senior management appreciate that ongoing success depends upon its collective understanding and management of the Group's known risks and exposures.

Overall Responsibility for Risk Management

The Board continues to have overall responsibility for ensuring that the Group has an appropriate and proportional approach to risk management and internal control across the Group, and that this approach is properly aligned with the Group's overall corporate strategy.

The risks facing the Group continue to evolve and increase/decrease in potential impact and probability of crystallisation over time. Accordingly, the management of risk and uncertainty remains an iterative process. Risk management is pervasive to all the Group's activities and this is reflected in the Risk Management governance framework outlined below.

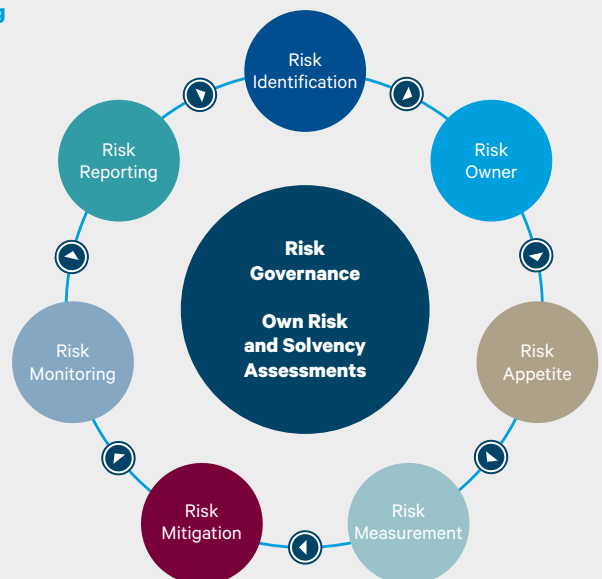
Risk Management Framework and Risk Management Function

The R&Q Group has a mature Risk Management Framework and Risk function headed by the Group Chief Risk Officer.

The Group Risk function is responsible for designing, overseeing, implementing and improving the Risk Management Framework, and works closely with Group and business unit senior management, meeting 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 Risk function is also responsible for monitoring that the business meets regulatory expectations around enterprise risk management and reporting on risk to the Board and the Risk Committee.

The following overarching process is adopted.



Risk Governance

Risk management within the Group adopts an enterprise-wide approach and accordingly, has regard to the “Three Lines of Defence” model at both Group and individual business unit level, as shown on the right.

Group Risk Committee

The Group Risk Committee is a formally constituted committee of the Group Board. A report from the Group Risk Committee Chair on its role, governance, activities, discharging of responsibilities, self-evaluation and plans for 2019 appears on pages 30 and 31.

Risk Appetite

The Group Risk Appetite Framework sets the boundaries within which risk taking should remain in order to meet the expectations of the capital providers and other stakeholders. For R&Q, it is articulated via a series of quantitative and qualitative statements covering all defined categories of risk.

Risk **Appetite** reflects the amount of risk taking which is acceptable to the Group. Accordingly, risk appetite refers to the Group’s attitude to risk taking and whether it is willing or able to tolerate a high or low level of exposure to specific risks or risk categories.

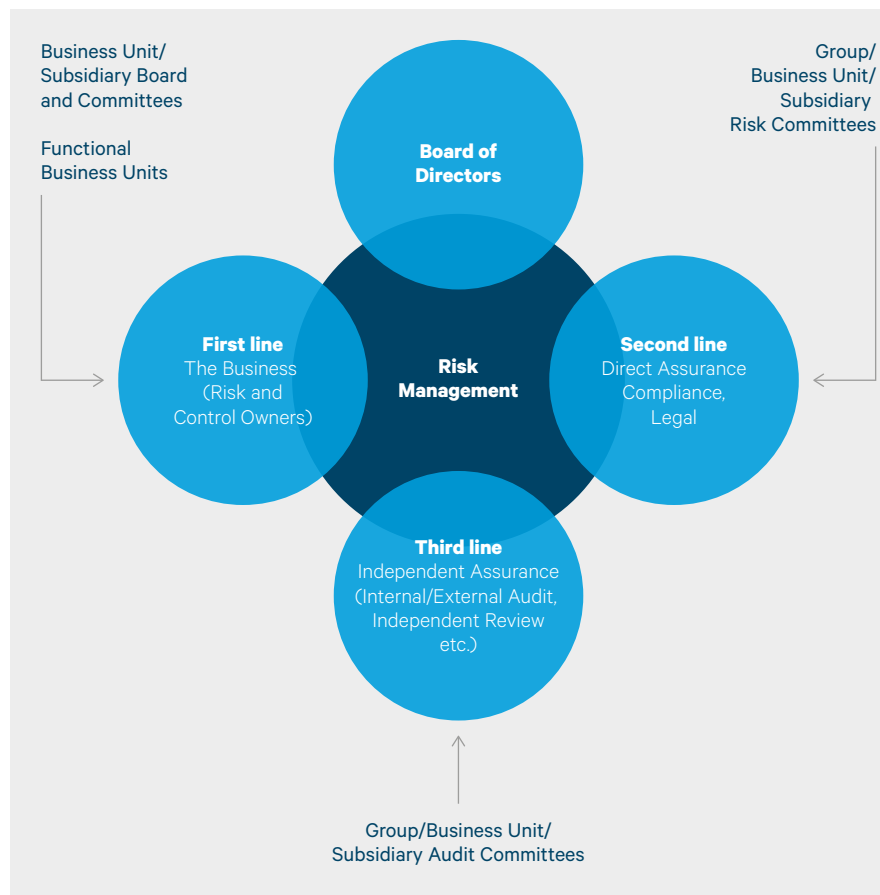
Risk **Tolerance** represents the Group’s ability and willingness to bear risk. When considering this, factors such as the availability of capital, ability to raise capital, strength of underlying operational processes and procedures and strength of the organisation’s operational culture are all relevant.

The Risk Appetite Framework, which is set both at the Group level and for each of the key business units, is reviewed annually and/or when there are material changes to the overall risk profile of the Group or business unit.

Own Risk and Solvency Assessments and Equivalents

The Own Risk and Solvency Assessment or Equivalent (“ORSA”) is defined as “the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long-term risks a firm faces or may face and to determine the own funds necessary to ensure that overall solvency needs are met at all times”.

The Group’s ORSA and equivalent processes are well embedded within the individual business units and at the Group level. They have continued to evolve from the Group’s established Risk Management and Capital Assessment processes. These processes comprise the self-evaluation of the risk mitigation and capital resources needed to achieve the Group’s strategic objectives on a current and forward-looking basis, given their risk profiles.



Internal Control System

The Group’s internal control system comprises the following key elements:

- **Documented Governance Arrangements** continue to evolve along with the overall business strategy
- **Strategic Planning Process**, setting priorities for the forthcoming planning horizon, reviewed by the Board periodically to ensure the Group is focusing on its core strengths
- **Detailed Planning/Budgeting Process**, subject to detailed and ongoing oversight and scrutiny delivering forecasts and targets for Board review and approval
- **Management Information Systems**, including corporate reporting on financial and 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 2018 were and continue to be relevant, proportional and appropriate for the needs of the Group, and in addition 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 and receiving senior management attention. This list is not exhaustive and comprises a brief description of those risks and uncertainties 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	Mitigating Action	Focus in 2018	Movement in 2018
<p>Management of Strategic Change/ Business Development and Growth</p> <p>The Group fails to effectively manage both the focus on its core competencies and simultaneous initiatives as it simplifies and streamlines its business model.</p> <p>The Group fails to identify and harness new business opportunities.</p> <p>The Group fails to raise the necessary capital/funds to finance its business growth.</p> <p>The Group's profitability is impaired following the establishment/ acquisition of new business.</p>	Strategic Risk	<ul style="list-style-type: none"> • There is a regular and active process for the management of relationships with external stakeholders and in particular, the investment community, which involves the Board and key members of the senior management team • The Board actively reviews budgets, current strategic priorities and returns on its various investments and initiatives to ensure that the Group continues to focus on core strengths and operates within its predefined risk appetite • AM Best public ratings for the Group and key strategic risk carrying subsidiaries • Active management of cash flow • Regular oversight and review of acquisitions pipeline including an initial screening process involving senior management • Group Capital and Investment Committee approval 		
<p>Reputational Risk/ Stakeholder Management</p> <p>Events elsewhere within the Group and individual 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.</p> <p>The Group fails to control and monitor internal and external communication, including regarding its wide range of different stakeholders.</p>	Group Risk Operational Risk	<ul style="list-style-type: none"> • Active oversight by the Group Board • All external communications are channelled via the Executive Directors • Business unit plans are scrutinised carefully as part of the annual and ongoing budgeting process to ensure consistency and alignment with the Group's strategic objectives • Regular, ongoing and active process for communications with key stakeholders 		

 Increase

 No change







Risk Title/ Description	Risk Category	Mitigating Action	Focus in 2018	Movement in 2018
<p>Exposure Management (Reserving and Reinsurance) The Group adopts a reserving methodology that produces incorrect reserving.</p> <p>The Group fails to assess the quality of its program reinsurers prior to onboarding and/or the reinsurance arrangements fail to “follow the fortunes” of the underlying direct insurance contracts.</p> <p>The Group fails to monitor the growing gross underwriting exposures/reserves and aggregate exposure to reinsurers, following the planned onboarding of new legacy and program business.</p>	<p>Insurance Risk</p> <p>Credit Risk</p>	<ul style="list-style-type: none"> Internal actuarial best estimates utilised in conjunction with an annual Independent Statement of Actuarial opinion as well as independent actuarial reviews on more significant reserves Board review of actuarial best estimates Reinsurance arrangements are individually scrutinised by Executive management and adherence to predefined risk appetite (such as rating & collateral) in terms of quality and concentration is closely monitored Active management of reinsurance aggregates by senior management 		
<p>Management of Free Funds The Group fails to implement adequate control over cash flow and liquidity leading to financial shortfalls.</p>	<p>Liquidity Risk</p>	<ul style="list-style-type: none"> Dedicated Group Cash Flow and Treasury Management and Invested Assets capability, further enhanced in 2018, providing focused effort and a tighter control regime Detailed cash flow reporting and monitoring of adherence to 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 for deal funding Ongoing and proactive liaison and relationship management with the Group's bankers 		

Principal Risks and Uncertainties continued

Risk Title/ Description	Risk Category	Mitigating Action	Focus in 2018	Movement in 2018
<p>Capital and Solvency Management The Group/subsidiary companies is/ are not Solvency II (or equivalent, such as BMA, MFSA, NAIC) compliant in accordance with local regulatory requirements and expectations.</p>	<p>Strategic Risk</p> <p>Regulatory and Legal/ Group Risk</p>	<ul style="list-style-type: none"> The Group actively manages its relationships with all regulators within whose jurisdictions it operates Oversight by, and active involvement of, the Group Actuary Active involvement of Risk Management, Compliance and Internal Audit functions Ongoing and iterative development of a fully integrated Group Capital Model 		
<p>Investment Returns The Group fails to realise an adequate/optimal return in its investment float under its control and/or experiences a default on investments held.</p>	<p>Market Risk</p>	<ul style="list-style-type: none"> Group and subsidiary level investment committees, investment guidelines (where appropriate) and/or oversight by the relevant Board Dedicated Group Cash Flow, Treasury Management and Invested Assets Function (further enhanced in 2018) and embedded Key Risk Indicator to monitor investment concentration and returns Asset and liability matching where relevant 		
<p>Legislative/Economic and Regulatory Change The Group or one of its component parts breaches legal or regulatory requirements of jurisdictions in which it operates.</p> <p>The Group fails to implement/adapt to emerging new regulatory/political/legislative changes (for example GDPR, Brexit, Modern Slavery).</p>	<p>Regulatory/ Legal Risk</p> <p>Operational Risk</p>	<ul style="list-style-type: none"> Dedicated Governance and Regulatory function 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 Internal working and steering groups to analyse interpret and oversee the implementation of all emerging external changes Active oversight by Group Risk Committee 		

 Increase

 No change

Risk Title/ Description	Risk Category	Mitigating Action	Focus in 2018	Movement in 2018
<p>Target Operating Model The Group fails to embed its new business as usual operational structure alongside its expansion and growth initiatives.</p> <p>The Group is reliant upon the knowledge and expertise of its key Directors and staff and fails to adequately plan for succession.</p> <p>The Group fails to manage its expense base following recent core disposals.</p> <p>The Group fails to deploy appropriate financial and management reporting mechanisms to inform key business decisions.</p>	Operational Risk	<ul style="list-style-type: none"> • Realignment of senior management responsibilities • Development of succession plans and management training at Group and business unit level • Development of reward strategy commensurate with the Group's overall strategic objectives • Performance management process • Ongoing strategic review of expenses and costs allocations • Fit for purpose reporting mechanisms mirroring the new Group structure 		
<p>Cyber Risk The Group fails to properly protect information compromising the confidentiality, availability or integrity of our data.</p> <p>The Group fails to keep abreast of increasing regulatory scrutiny in this area (for example NAIC Model Law).</p>	Operational Risk	<ul style="list-style-type: none"> • Chief Information Security Officer • Information Security Governance Structure including Corporate Information Risk Policies, compliance, where practical, with relevant ISO/IEC 27000 series of standards • A "life cycle approach" adopted to ensure that the process takes account of ongoing business change • Cyber liability insurance 		
<p>Taxation Risk R&Q fails to identify its tax exposures arising from emerging UK and overseas legislation (Corporate Criminal Offences Act, FACTA) and/or fails to implement appropriate controls and processes to ensure compliance with all relevant laws.</p>	Operational Risk Legal/ Regulatory Risk	<ul style="list-style-type: none"> • Head of Group Tax and in-house tax function • Tax review of all initiatives and deals • Risk assessments against all emerging legislation 		

Corporate Social Responsibility

As an international business, we take our corporate responsibility seriously. This is reflected by the actions and behaviour of our employees who understand the importance of the right values and behaviours when carrying out their roles.

In 2018 we refreshed and re-issued all our Group policies on Conduct Risk, Financial Crime, Data Protection, Information Technology and Risk Management, all vital aspects of the Company's approach to business. These policies form the backbone of our culture and provide clear guidance on how all our employees are expected to behave towards colleagues, suppliers, customers and our wider responsibility to the communities in which we operate. They set out our approach to business integrity including an express prohibition on bribery and political donations along with guidance, for example, on gifts and hospitality, conflicts of interest, share dealing, compliance with anti-slavery legislation, respect for the individual and privacy.

We updated our Modern Slavery Statement to reflect the progress we made in 2017, however, we recognise that we need to do more to be completely confident that there is no modern slavery in the supply chain of our overseas entities.

We are focused on encouraging and empowering young people from disadvantaged backgrounds to consider a career in insurance and we are working with:

- The Brokerage, a charity founded in the insurance sector that provides practical support to disadvantaged teenagers in the City of London to realise their potential through work experience, mentoring and other hands on initiatives

- Young Enterprise, the UK's largest business, enterprise and financial education charity with the mission of "Empowering young people to discover, develop and celebrate their skills and potential"

We also recognise our responsibility to increase the diversity of staff across all levels of our organisation, particularly in view of the high percentage of men employed across the insurance industry as a whole. This principle is embedded in our Group diversity policy and, introduced in 2018, an additional Board diversity policy specifically targeting Board appointments where we confirm the benefits of greater diversity in achieving a well-balanced Board and set out the criteria we will apply to encourage the emergence of Board candidates of varied backgrounds. We are pleased that during the 2018 financial year we reduced our gender pay gap by 8%, whilst accepting that there is more to be achieved in this regard.

The Board has overall responsibility for Corporate Social Responsibility ("CSR"). It considers and approves our key policies, including our employee-focused policies such as Health & Well-being, Dignity at Work, Health & Safety and a suite of family-related matters. These policies set a standard for all divisions and employees worldwide and are central to our approach.

The Board has delegated the coordination of our CSR efforts to the Support Services Executive Group. Measures adopted include the monitoring of the areas outlined above and ensuring regular training of employees is occurring so that they are fully informed of the standards required.



Employee Engagement

At R&Q we aim to provide our employees with an engaging and stimulating environment. Our success is dependent on the performance of our people. The Group has gone through considerable change throughout 2018, with the introduction of a new management team formed through internal promotions and the realignment of roles. This has provided consistency and familiarity to the organisation whilst implementing the strategic changes required for the Group to achieve its goals and objectives.

20

Average hours of professional training for UK employees



The Group strategy is communicated to management and the wider senior employee group via our twice-yearly management forums. There are opportunities for the global team to meet, discuss and explore how the Group's objectives can be achieved. The forums actively encourage the team to explore and feed back on how they and their divisional teams can contribute to the overall success of the business.

Throughout 2018 we enhanced our Group-wide communications through our Chairman and Chief Executive Officer running regular town hall sessions, the improvement of our internal intranet content and the provision of monthly new staff updates for the whole Group. We will continue to improve communication to the Group in 2019 with the introduction of our internal R&Q newsletter, the formation of an Employee Forum and the appointment of CSR Champions.

2018 activities

We recently carried out a work experience placement with a student from the South Essex College who is studying an Enterprise & Entrepreneurship course run through the [Peter Jones Enterprise Academy](#).

The Academy was established in 2005 by Peter Jones, CBE and star of the BBC's *Dragons' Den*, his vision is to "bring the boardroom into the classroom" and help budding entrepreneurs realise their business dreams and achieve their goals. We will continue building the relationship with South Essex College with a view to arranging more work experience with students in 2019 and beyond.

Our CSR Champions will work on building our relationships with The Brokerage and Young Enterprise charity foundations with the aim of providing support to the charities by utilising the skills within our organisation to help young people to improve their chances of securing employment.

Training and Development

We encourage our employees to learn and develop in their roles and academically. We currently have ten ACII, three Actuarial, two ACCA students, and one CIPD student. We ensure that sufficient study time is given to students and encourage "study buddy groups".

We have also designed and implemented a bespoke global management development programme, which is scheduled to run throughout 2019. We have 46 participants from our global offices attending the programmes in our UK or US offices. The purpose of the programme is to:

- Help employees to be the best they can be as an individual and as part of the wider organisation
- Communicate more effectively with each other
- Build a better understanding and connection with each other
- Work together to develop innovation and new thinking

Health & Safety

The health and well-being of our employees and partners is extremely important. We are committed to promoting a positive health and safety culture throughout the Group and in improving our processes and practices to ensure safe and secure workplaces. We ensure that Health & Safety is adhered to in line with the Group's Health & Safety policy, which is available on our intranet and is also part of our induction programme.

Fundraising & Charity Involvement

We encourage active participation in fundraising events. Our employees have taken part in various personal fundraising events including the London Marathon. Additionally, we raised funds for Save the Children by participating in their Christmas Jumper day campaign, and Comic Relief through Red Nose Day activities.

In support of Suited & Booted, a charity that helps vulnerable, unemployed and low-income men into employment, we organised a successful campaign to collect unwanted business wear to enable attendance at job interviews with confidence.

R&Q sponsors the Bermuda Legends of Squash Tournament in support of the Bermuda Department of Youth and Sport.

Environment

We are conscious that as a business we have an environmental impact particularly in terms of energy consumption and travel. We encourage employees to limit air travel and whenever possible use telephony and video conferencing facilities. We also ensure that where possible we recycle waste effectively and reduce our energy consumption. We have fitted low energy lighting and timer switches in our London office and will continue to review our regional UK offices and make changes to energy efficient lighting where possible. We are currently expanding our Bermuda office and have made the decision to make the existing and new lighting low energy LED fixtures. Our London office operates within the Lloyd's Registry and we, as tenants, follow their policies on the year-on-year reduction of waste, water and energy consumption.

Corporate Governance

- 18** Board of Directors
 - 20** Governance
 - 27** Audit Committee Report
 - 29** Remuneration & Nominations Committee Report
 - 30** Risk Committee Report
 - 32** Statement of Directors' Responsibilities
-



Ken Randall
Group Chairman and Chief Executive Officer

Chairman's Introduction

I have pleasure in introducing our corporate governance statement which sets out our approach to governance and provides further information on how the Board and its committees operate. As an AIM listed company, we recognise that applying sound governance principles is essential to the success of the Group. In September 2018, the Board formally adopted the Quoted Companies Alliance Code for Small & Mid-sized Companies 2018 as the appropriate code for a business of the size and nature of R&Q.

Our business model and strategic plan, and our progress in achieving it, is described in our Strategic Report on pages 2 to 15. I am particularly pleased with our achievements with corporate social responsibility in 2018 on which we report, for the first time, on pages 14 and 15.





Board of Directors

There were six scheduled Board meetings in 2018, at which attendance was 100%. The Board approved a number of resolutions in writing and meetings were held by committees of the Board.

Ken Randall (70)

Chairman and Chief Executive Officer

© D

Skills & Experience

Ken Randall is the founding Chief Executive of the Randall & Quilter Group and has been a pioneer in the acquisition and management of discontinued business for over 25 years.

Randall & Quilter Group's antecedents go back to 1991 when Ken founded Eastgate Group with Alan Quilter after leaving the Lloyd's Market. Over the next eight years they developed Eastgate into the UK's third-party provider of insurance services with 1,300 employees and a turnover of £80m per annum. Following the sale of Eastgate to Capita plc in November 2000, Ken and Alan refocused the Randall & Quilter Group onto the acquisition of non-life legacy run-off portfolios.

Ken led the Randall & Quilter Group admission to AIM in 2007 and remains a significant shareholder. He was a driving force in the Group's new strategic focus in 2017.

A Certified Accountant, Ken has worked in the insurance industry for more than 40 years. During the early 1980s, Ken was Head of Market Regulation at Lloyd's, then a self-regulated institution, before becoming Chief Executive of a leading Lloyd's Insurance Group.

Alan Quilter (68)

Deputy Chairman and Chief Financial Officer

© D R

Skills & Experience

Alan Quilter is the co-founder of the Randall & Quilter Group. He returned to the role of Group Chief Financial Officer in 2018 and is responsible at board level for program underwriting management.

A Chartered Accountant, Alan has been a driving force in the development of the Randall & Quilter Group since co-founding the business including the Company's admission to AIM in 2007.

Alan has worked in the London insurance market since 1969. Between 1980 and 1987, he headed the Market Financial Services Group at Lloyd's before becoming Managing Director of a specialist investment management company focused on investment markets in the UK. Alan joined Ken Randall as Chief Financial Officer of the Eastgate Group, the predecessor company to the Randall & Quilter Group.

Mark Langridge (55)

Executive Director, Head of Legacy

© Re

Skills & Experience

Mark has worked within the London insurance industry since 1980 when he began his career with the Prudential Corporation, qualifying as an accountant in 1987.

In 1993 he joined KWELM Management Services where, as Reinsurance Director, he was responsible for managing the legacy of the insolvent HS Weavers' underwriting pool which had liabilities of more than \$9bn, and which presented unique challenges for the P&C industry in London and internationally.

Following the closure of the KWELM estate in 2005, Mark set up and part owned KMS Group before its acquisition by R&Q in 2008.

Prior to his appointment as an Executive Director in January 2018, Mark was Chief Executive Officer of the R&Q Insurance Investments Division.



- A Audit Committee
 R Remuneration & Nominations Committee
 Ri Group Risk Committee
Re Reinsurance Asset Committee
 C Group Capital & Investment Committee
 D Group Disclosure Committee

“Experienced founder-led team.”

Philip Barnes (58)

Non-Executive Director

- A R Ri

Skills & Experience

Philip Barnes is a Chartered Accountant and has worked in the insurance industry for the past 33 years. Philip is currently the president of the representative office of the Jardine Matheson Group of Companies in Bermuda.

A Fellow of the Institute of Chartered Accountants in England & Wales, Philip qualified with a national firm of accountants in the UK before continuing his career with Deloitte in Bermuda. He then joined Alexander & Alexander which was subsequently acquired by the global broker 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 has served on various industry and Government advisory committees over the years. He currently holds a number of non-executive directorships of Bermuda insurance and reinsurance companies.

Michael Smith (73)

Non-Executive Director

- A R Re

Skills & Experience

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-1980s in the London and international insurance markets, with a concentration on capital transactions of all types. Michael is also a Non-Executive Director of WR Berkley Syndicate Management Limited and a trustee of two charities, The Foyle Foundation (of which he is a chairman) and the National Hospital Development Foundation.

Alastair Campbell (74)

Non-Executive Director

- A R

Skills & Experience

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 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 of advising on acquisitions and disposals, investigation work and giving advice at board level.

Following his retirement in 2010, he has worked as an independent consultant and expert witness on accounting related projects.



Governance



Beverley Murphy
Group Company Secretary

1.

VISION AND STRATEGY

The Group's mission is to deliver on our core strategy of providing Program Management services to Managing General Agencies and their reinsurers and to create finality solutions for owners of discontinued insurance businesses. By focusing on these high-growth markets, we provide our investors with complementary revenue streams, regular and stable fee income from program business and the capital extraction from managing legacy portfolios. Our mission is underpinned by our strategic objectives.

The Group and its core businesses take risks in order to attain rewards in an informed and controlled manner. This translates into having regard to both potential upside and downside risk, in the context of the overall Group strategy, that aims to optimise return on equity and shareholder value within the Group's defined risk appetite.

The overall risk strategy is underpinned by a number of core risk objectives which set the boundaries in order to meet the expectations of capital providers and other stakeholders.

The core objectives of the Group's risk strategy are as follows:

1. To promptly identify and mitigate material risks and issues at a cost appropriate to the level of such exposure
2. To enhance value creation by recognising opportunities where risk levels may be increased, commensurate with stakeholders risk appetite, in order to optimise returns
3. To support decision-making and improve and maintain transparency and accountability for risk throughout the organisation by way of comprehensive risk reporting and controls
4. To protect the Group's capital by supporting the implementation of a Solvency II (or equivalent) compliant framework where appropriate
5. To protect the R&Q brand

The Group's strategic objectives are:

1. To acquire or reinsure run-off insurance companies and portfolios in the United States, United Kingdom and European Union to produce attractive book value growth and cash returns
2. To develop Accredited Surety & Casualty Company, our A- rated United States carrier, into a fronting platform of choice, generating substantial repeatable fee income
3. To develop Accredited Insurance (Europe) Limited, our A-rated carrier, into a conduit for niche European and United Kingdom Managing General Agency business to highly rated reinsurers, generating substantial repeatable fee income

The key challenges that the Group faces in the execution of these objectives include the identification of suitable pipeline opportunities in both core areas, quality of potential partners, appropriate due diligence and timely capital raising.

These and other risk-related matters are continually monitored by the Group's Risk Management function which reports regularly to the Group Board via the Group Risk Committee.

2.

UNDERSTANDING AND MEETING SHAREHOLDER EXPECTATIONS

Feedback from investors is obtained through direct interaction between the Chairman/Chief Executive Officer and Chief Financial Officer at at least semi-annual meetings. The voting record at the Company's general meetings is monitored and we are pleased that all resolutions proposed in 2018 have been passed by shareholders. The £107m Placing and Open Offer completed in March 2019, enjoyed wide shareholder support and was oversubscribed. There is regular dialogue through the medium of the Company's corporate brokers, Numis Securities and Shore Capital, and the Company seeks to take the pulse of shareholder expectations and reactions through its retained advisers.

To request a meeting please contact secretariat@rqih.com.

The Company believes that by communicating its strategic and financial objectives on a regular basis shareholder expectations can be adequately managed. This is particularly important because the Company's shareholders do not have uniform objectives; on the one hand, some shareholders seek long-term growth in the share price, whilst others put greater emphasis on synergies and growing dividends/distributions.

We are pleased with the level of engagement from our shareholders and the strong relationships that have developed.

3.

TAKING INTO ACCOUNT STAKEHOLDER AND SOCIAL RESPONSIBILITIES

Our approach to Corporate Social Responsibility is described in more detail on pages 14 and 15.

The Board is aware of the impact that its business activities have on the communities in which the Group's businesses operate. The Group's responsibilities to stakeholders including staff, suppliers, customers and wider society are also recognised through the Group's policies on modern slavery, data protection, whistleblowing and diversity, for example. As an insurance business, our key resources are essentially people and capital; the business model recognises the need for access to a skilled employee base, access to skilled intermediaries and a strong capital position.

Other key resources and relationships on which the business relies include regulatory authorities in various jurisdictions and US States, our joint venture partners, our primary bank, the Royal Bank of Scotland, AM Best and our auditors and external legal advisers to name a few, with whom the Group is in frequent communication.

Due to the nature of the Group's businesses, the Board considers that its impact on the environment is minimal and of low risk. However, it seeks to minimise environmental impact through good practice such as reducing paper wastage, use of electronic communications and reducing business travel by making maximum use of telephone and video conference arrangements.

4.

EMBEDDING EFFECTIVE RISK MANAGEMENT

The Group has a mature Risk Management framework and Risk Management function, headed by the Chief Risk Officer. The Group Risk Committee, a full committee of the Board, is chaired by an independent Non-Executive Director. It meets quarterly and provides a report to the Board. The Chief Risk Officer also attends the Company's Board meetings. The Risk Management function maintains detailed risk registers where appropriate at the Group and legal entity level, and there is also a risk appetite framework in place against which adherence is monitored. The Risk Management function also engages regularly with all functional areas to ensure that risks and controls are properly assessed and managed.

The Risk Management section on pages 8 to 13 provides an overview of the Group's risk management framework, including a description of what the Board does to identify, assess and manage risk in addition to the Group's principal risks and uncertainties. The Chairman of the Group Risk Committee has provided a report on the Committee's activities during 2018 on pages 30 and 31.

5.

MAINTAINING A BALANCED BOARD

The Board comprises three Non-Executive Directors and three Executive Directors. The Chairman of the Board, Ken Randall, leads the Board in the determination of its strategy and in achieving its objectives. Ken also acts as the Chief Executive overseeing the Group on a day-to-day basis and is not considered to be independent.

Mark Langridge was appointed as a Director at the beginning of the financial year. Mark has been with R&Q for more than ten years and is the Group's Head of Legacy. Directors who have been appointed to the Board have been chosen because of the skills and experience they offer. With regard to the Non-Executive Directors, this includes extensive experience in the fields of law, accountancy and insurance. The skills and experience of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance. The Company has adopted a Board diversity policy which seeks to improve the diversity amongst its members, including gender balance, in its future appointments.

The Board considers each of the Non-Executive Directors to be fully independent. The Board gives regard to the overall effectiveness of the contribution made by each Non-Executive Director and does not consider a Director's period of service in isolation to determine their independence.

The Senior Independent Director is Michael Smith, who took up this appointment in March 2019. His role is to provide a sounding board for the Chairman, to act as an intermediary for the other Directors where necessary and to provide an additional contact point for shareholder communication. Should Michael be re-appointed at our AGM in June, he will have served as a Non-Executive Director of the Company for six years and for an overall period of 11 years, taking into account time as a Non-Executive Director of the predecessor company prior to the Group's redomicile to Bermuda in 2013. The Board considers that Michael maintains his independence and brings an important contribution on legal and succession matters.

All of the Executive Directors work full time for the Company. Directors are expected to attend all meetings of the Board and the committees on which they sit, and to devote sufficient time to the Company's affairs to enable them to fulfil their duties. In the event that Directors are unable to attend a meeting, their comments on papers to be considered at the meeting will be discussed in advance with the Chairman so that their contribution can be included in the wider Board discussion.

The following table sets out the attendance of the Company's Directors at scheduled Board & Committee meetings during 2018.

	Scheduled Board Meetings	Audit Committee	Remuneration & Nominations Committee	Risk Committee	Reinsurance Asset Committee	Disclosure Committee	Capital & Investment Committee
Executive Directors							
Ken Randall	6/6					3/3	3/4
Alan Quilter	6/6			3/4	4/4	3/3	4/4
Mark Langridge	5/5				4/4		4/4
Non-Executive Directors							
Philip Barnes	6/6	5/5	6/6	4/4			
Alastair Campbell	6/6	5/5	6/6				
Michael Smith	6/6	5/5	6/6		3/4		

6.

HAVING APPROPRIATE SKILLS AND CAPABILITIES ON THE BOARD

Directors' details and biographies are on pages 18 and 19.

We encourage all Directors to keep their skills and knowledge up to date and will provide individual Directors with any training they need. In 2018, the Directors and members of the senior management team attended a full day's bespoke training provided by the Institute of Directors on the role of the director and the Board, corporate governance, the Company's legal and regulatory environment, Board structure and functioning. Sessions are held between the Board and management during which in-depth presentations covering areas of the Group's business are made. For 2019 briefings have so far been arranged on the new IFRS 17 requirements, on cyber risk and on divisional business plans for Accredited, in Malta and the US, and Healthcare, our specialist provider of inter-disciplinary programs for US Workers' Compensation patients. The Group Company Secretary provides updates during the year on any significant developments in legal, governance and compliance areas.

We have an open and transparent approach to management information, with the Chief Executive Officer providing business updates and insights in his regular report to the Board. This ensures that the Directors have a thorough understanding of the Company's operational activities, the regulatory environment that affects the Group, Group and subsidiary company performance, and investor relations.

7.

EVALUATING BOARD PERFORMANCE

In 2018, the Board undertook an internal Board evaluation using an online facility developed by Internal Audit Limited. Input on a number of key topics was obtained from every Board member and members of the senior management team that engage frequently with the Board. The Board identified specific actions which are being implemented.

The action plan from the 2018 Board evaluation is outlined in the table below.

Categories	Board Action Plan for 2019
IT	Keep the significant contribution of IT towards the delivery of the strategic model, and the security of systems, data and information, in the forefront of our thinking
Succession	Focus on leadership planning
Focus on People	Facilitate employee engagement

The frequency of further evaluations will be determined by the Board.

Agreed personal objectives and targets including financial and non-financial metrics are set out each year for the Executive Directors and performance measured against those metrics.

8.

ETHICAL VALUES AND BEHAVIOURS

We are committed to ensuring high standards of corporate and social responsibility. Our employees are key to the continued success of our business and we actively promote their development and ongoing improvement. We promote diversity in our workforce and wholly support equal opportunities in employment. Our recruitment, training and promotion processes are all done on a non-discriminatory basis.

Our ethical values of fitness and propriety, consistent with our business model, are reflected in our System of Governance and detailed in Group-wide policies including matters such as Dignity at Work, Health and Well-being, Modern Slavery, Anti-bribery and Whistleblowing. The System of Governance document explains that the Group continues to simplify and streamline its business model to promote a completely open culture where we share ideals and are open in passing information up and down through the Group. The Group accepts that the business model only works with a strong “centre” which sets the rules, delegates to the subsidiaries (with boards which include appropriate numbers of Group managers and technical specialists) but then operates Group-centric governance processes to ensure that systems and philosophy are being consistently adopted throughout the Group.

The Group’s progress with regards to promoting ethical values and a healthy culture is monitored by a team of cross-functional representatives which provides a quarterly report for the Board to review.

9.

MAINTAINING STRUCTURES AND PROCESSES

The Board is responsible for the Group's strategy and for its overall management. Our governance structure is designed to help the Board lead the Company within a framework of prudent and effective controls that enable risk to be assessed and managed. In 2018, the Board held six full meetings and scheduled seven additional meetings to discuss specific matters such as the 2019 budget, fund raising and M&A opportunities.

The operation of the Board is documented in a formal schedule of matters reserved for its approval, set out below, which was adopted in March 2019 and will be reviewed annually.

Category

Strategy and management	Approval of the Group's long-term objectives and commercial strategy; approval of the Group's annual budgets and any material changes to them; extension of the Group's activities into new business or geographic areas; cessation of the operation of all or any material part of the Group's business; overseeing the Group's operations, the risk management strategy, ensuring competent and prudent management, sound planning, and compliance with statutory and regulatory obligations.
Structure and capital	Changes relating to the Group's capital structure; major changes to the Group's corporate or management and control structure; changes to the Company's listing.
Financial reporting and controls	Approval of the following: Annual Report and Accounts, preliminary announcements of results, significant changes in accounting policies or practices, treasury policies, material unbudgeted capital or operating expenditure; declaration or recommendation of shareholder distributions.
Contracts	Contracts of the Company or any subsidiary in the ordinary course of business material strategically or by reason of size (e.g. bank borrowings and material acquisitions or disposals of fixed assets); contracts not in the ordinary course of business; major investments.
Communication	Approval of resolutions, circulars, prospectuses and press releases concerning matters decided by the Board. Ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives.
Board membership and other appointments	Changes to the structure, size and composition of the Board; ensuring adequate succession planning for the Board and senior management; Board appointments; selection of the Chairman and Chief Executive; appointment of a Senior Independent Director; membership and chairmanship of the Board committees; continuation in office of Directors; appointment or removal of the Company Secretary; appointment, reappointment or removal of the external auditor to be put to shareholders for approval.
Remuneration	Approving the remuneration policy for the Non-Executive Directors, Company Secretary and other senior executives; introduction of new share incentive plans or major changes to existing plans.
Delegation of authority	Establishing Board committees and approving their terms of reference. Receiving reports from the Board committees and their actions. Division of responsibilities between the Chief Executive and other executive officers which should be clearly established, set out in writing and agreed by the Board.
Corporate governance	Undertaking any formal and rigorous review of the Board's own performance, that of its committees and individual Directors, and the division of responsibilities; determining the independence of Non-Executive Directors; review of the Group's overall corporate governance arrangements; authorising conflicts of interest where permitted by the Company's bye-laws; considering the balance of interests between shareholders, employees, customers and the community; receiving reports on the views of the Company's shareholders to ensure they are communicated to the Board as a whole.
Policies and procedures	Approval of all Group-wide policies including those contained in the Group's System of Governance document, which includes, inter alia, policies related to aspects of the Market Abuse Regulation, anti-bribery policy, whistleblowing policy and health and safety policy.
Miscellaneous	Oversight of the Group's overall corporate governance arrangements; the prosecution, defence or settlement of major litigation other than in the ordinary course of business; major changes to the rules of the Group's pension scheme or change of trustees or changes in the fund management arrangements; approval of the overall levels of insurance for the Group (including Directors' & officers' liability insurance); any changes to this schedule of matters reserved to the Board.

At each meeting, the Board considers Directors' conflicts of interest. The Company's bye-laws provide for the Board to authorise any actual or potential conflicts of interest. The Board is aware of the other interests and commitments of its Directors and changes to these commitments and interests are reported by the Directors. A review of Directors' conflicts is conducted annually.

The Board has a schedule of regular business, financial and operational matters and each committee has compiled a schedule of work to ensure that all areas for which the Board has responsibility are addressed and reviewed during the course of the year.

The Chairman, aided by the Company Secretary, is responsible for ensuring that the Directors receive accurate and timely information. The Company Secretary compiles the Board and committee papers which are circulated to the Directors prior to the meetings. The Company Secretary also ensures that any feedback or suggestions for improvement on Board papers is fed back to management. The Company Secretary provides minutes of each meeting and every Director is aware of the right to have concerns minuted and to seek independent advice at the Group's expense where appropriate.

The Board considers that the Group's governance framework is appropriate and in line with its plans for growth. The System of Governance report, which is approved by the Board, is submitted to the Bermuda Monetary Authority on an annual basis.

Board Committees

The Board delegates certain matters to the Audit, Remuneration & Nominations, Risk, Reinsurance Asset, Capital & Investment and Disclosure Committees as well as to ad hoc committees of the Board authorised to deal with specific matters from time to time according to business need. All Board and committee members are provided with sufficient resources to undertake their duties, including access to internal and external specialist advice at the Company's expense.

The terms of reference of each committee are available on the Company website.

No independent external advice was sought by the Board or its committees during the period.

Audit Committee

The Audit Committee is chaired by Alastair Campbell and its other members are Michael Smith and Phil Barnes. The Audit Committee has primary responsibility for ensuring that the financial performance of the Group is properly measured and reported on. It receives and reviews reports from the Group's management and Auditor relating to the annual accounts and the accounting and internal control systems in use throughout the Group. It also advises the Board on the appointment of the Auditor, reviews their fees and discusses the nature, scope and results of the audit with the Auditor. The Audit Committee meets at least four times a year and has unrestricted access to the Group's Auditor. The Chief Executive Officer and Chief Financial Officer attend the committee meetings by invitation.

The Audit Committee Report on page 27 contains more detailed information on the Committee's role.

Remuneration & Nominations Committee

The Remuneration & Nominations Committee ("RemCo") is chaired by Michael Smith. Its other members are Alastair Campbell and Phil Barnes. The RemCo reviews the performance of the Executive Directors and makes recommendations relating to their remuneration and terms of employment. RemCo also has responsibility for senior management succession planning. The Chief Executive and Chief Financial Officer are invited to attend for some parts of the committee meetings where their input is required although they do not take part in any discussion on their own benefits and remuneration.

The Remuneration & Nominations Committee Report on page 29 contains more detailed information on the Committee's role.

Risk Committee

The Risk Committee is chaired by Phil Barnes and its other members are Alan Quilter and the Chief Risk Officer, Susan Young. The Chief Executive, Chief Governance Officer, Chief Actuary and the Head of Internal Audit also attend. The Risk Committee has responsibility for overseeing the management of risk across the Group, and maintaining the effectiveness of the Group's risk management framework, systems of internal control, risk policies and procedures and adherence to risk appetite. The Committee meets at least quarterly and provides a report on its activity to the Board.

The Risk Committee report on page 30 contains more detailed information on the Committee's role.

Reinsurance Asset Committee

The Reinsurance Asset Committee ("RAC") is chaired by Michael Smith and consists of the Chief Financial Officer, Head of Legacy and the Head of Claims and Reinsurance.

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, the levels of concentration of risk placed with reinsurance companies/groups and reinsurance litigation/arbitration and commutation activity.

In 2018, the RAC extended its review to incorporate Program Management business as well as the Legacy business already under review.

The RAC meets at least quarterly and provides a report on its activities to the Board. It met four times in 2018.

Capital & Investment Committee

The Group Capital & Investment Committee ("GCIC") consists of the Executive Directors and the Chief Actuary. It is chaired by the Chief Financial Officer.

The GCIC's primary purpose is to oversee the Group's capital management, to monitor Group Solvency requirements and the Group's investment strategy and implementation. The GCIC also ensures that the necessary financial, legal, regulatory, commercial and personnel due diligence has been undertaken on acquisitions, portfolio transfers and similar investments or structures.

The GCIC has a standing agenda for its quarterly meetings and also meets frequently to consider M&A transactions and investment opportunities. During 2018 the Committee reviewed 39 proposed transactions, including a significant number of Program Management proposals, received regular presentations on the performance of its portfolio of investments from Investment Managers and oversaw the repositioning of the portfolios to maximise returns in 2019.

Disclosure Committee

The Disclosure Committee comprises the Chief Executive Officer, the Chief Financial Officer and the Company Secretary. The Committee's purpose is to review the operation, adequacy and effectiveness of the Group's disclosure procedures and to assist the Board in fulfilling its responsibilities under the Market Abuse Regulation, AIM Rules and Disclosure Guidelines and Transparency Rules. The Disclosure Committee met formally on three occasions in 2018; in addition disclosure matters and share dealing applications were reviewed regularly throughout the year.

10.

COMMUNICATING WITH STAKEHOLDERS

The Board recognises the importance of effective communication with its shareholders. The Group maintains communication with institutional investors through individual face-to-face meetings with Executive Directors, particularly following publication of the Group's interim and full year results. Private shareholders have the opportunity to attend the Annual General Meeting at which questions can be answered. A range of corporate information (including copies of presentations and announcements, and an overview of activities of the Group) is available on the Group's website. The Group lists contact details on its website should shareholders wish to communicate with the Board, or with its brokers Numis Securities and Shore Capital.

Audit Committee Report

I am pleased to present this report on behalf of the Audit Committee. It is the first time I have presented a report in this level of detail, which responds to the general review of governance arrangements introduced during 2018.



Alastair Campbell FCA
Chair of the Audit Committee

The report sets out the ways the Committee has discharged its responsibilities and the significant issues it has considered during the year.

Role, Responsibilities and Activities during the Reporting Period

During 2018 the Committee comprised three independent Non-Executive Directors. Their names and brief biographical details are shown on page 19. The Committee met five times in 2018.

The principal responsibility of the Committee is to monitor the integrity of the Financial Statements of the Group. In addition the Committee reviews the performance of the external auditors and makes recommendations to the Board on their appointment, is responsible for the planning and professional work of the Internal Audit team, and has oversight of the systems of internal control established throughout the Group.

Generally at each meeting the Executive Directors and relevant members of Finance attend by invitation. In addition, other senior management attend to present reports, such as the Chief Actuary, the Head of Internal Audit, the Risk Officer and the Head of Information Technology.

The Committee reserves the right to meet without management present if required. That did not prove to be necessary in 2018.

Financial Statements The year ended 31 December 2017

The Committee reviewed in detail the Financial Statements for the year ended 31 December 2017. We were satisfied that they showed a true and fair view of the profit for the year and the financial position at that date.

In our review we focused primarily on the main areas of judgement within the Financial Statements, being:

- The need for impairments of goodwill and intangibles – we received a paper from Finance supporting their view that no impairment was required.

- Evidence to support the carrying values of claims reserves and reinsurance recoveries – we received a detailed presentation from the Chief Actuary covering the entities with the more significant reserves.
- We received details of the fair values of assets and liabilities acquired with acquisitions and any negative goodwill arising. Similarly, we considered the fair values arising from legacy reinsurance contracts.
- We reviewed the accounting policies and satisfied ourselves that they are appropriate for the Group Financial Statements.
- We received a detailed report from Finance which supported the decision to adopt the going concern concept when preparing the Group Financial Statements.
- We considered a report from the legal department which sets out the legal and contractual exposures to warranties, indemnities and guarantees and concluded that there was no evidence to require any provision or specific disclosure other than as stated in the Group Financial Statements.
- We received further reports from Finance which supported their view and treatment of various other matters, such as the amount of the deferred tax asset and the adequacy of future investment income to offset future run-off costs.
- We received a report from the Head of Internal Audit which confirmed that in the course of the work of Internal Audit nothing had come to their attention to suggest that there had been any significant breakdown in the system of internal controls during the 2017 year.
- Finally, we received a detailed report and briefing from the external auditor, PKF Littlejohn LLP (“PKF”), which set out their findings from their audit work on the Group Financial Statements. They confirmed that they intended to report in unmodified terms and were satisfied that the Financial Statements showed a true and fair view. We considered and approved the letter of representation requested by the Auditors to support the Financial Statements.

Audit Committee Report continued

The Interim Results to 30 June 2018

We reviewed in detail the interim Financial Statements for the six months ended on 30 June 2018. We were satisfied that they showed a true and fair view of the result for the period and of the financial position on that date.

The nature of our enquiries was similar to the bullet points set out above. In addition we received a report and briefing from the external auditors which set out their findings from their review work. They confirmed that they intended to report in unmodified terms. We considered and approved the letter of representation requested by the Auditors to support the interim Financial Statements.

The Year Ended 31 December 2018

We received a detailed report and presentation from the external auditors on their planning for their audit of the Group financial statements. We agreed with them their assessment of the key audit matters, the significant risk areas and other areas of audit focus, together with their planned audit responses. We accepted their materiality level for their audit.

We also received a report from Finance setting out their planning for the preparation of the Consolidated Financial Statements.

Taxation

The Audit Committee has an oversight role in relation to taxation matters. During the year we received regular reports from the Head of Tax regarding developments in tax law and practice across the Group. Particular attention has been paid to the requirements of the Corporate Criminal Offence legislation to ensure compliance with HMRC Guidelines.

External Auditors

The external auditors are PKF. Their appointment was last formally considered in 2015 in the context of a rotation of the audit partner. Their re-appointment is considered each year and we recommended to the Board their re-appointment for the 2018 audit. We expect to hold a tender for the position of external auditor in 2020.

We also reviewed the appointments of other auditors of certain overseas subsidiaries.

PKF attended meetings of the Committee three times in the year and presented their audit findings and plans as set out above. As part of the discussions on their planning for the 2018 audit we approved their letter of engagement and their estimate of the likely audit fees. We discussed with PKF their independence and objectivity and were satisfied by their assurances.

The Committee has established guidelines in relation to the provision by the external auditor of non-audit services; the general principle is that such work shall be confined to assurance work and that no other work shall be carried out unless the fees involved are small or the work has been approved by the Chair of the Audit Committee. As shown at Note 9 of the Financial Statements the fee income relating to non-audit services is small.

We reviewed PKF's management letter following the 2017 audit and approved management's responses.

Internal Audit

The Company operates an Internal Audit team which is supported by co-source arrangements where they are justified by a need for specialist skills in particular areas.

Internal Audit works under a formal, written Charter and reports to the Committee on its professional work. The Head of Internal Audit reports to the Committee four times each year on its activities and on its progress against the annual work plan. He attends meetings of the Committee as required and the Chair of the Committee regularly meets with him informally to discuss any issues arising.

Internal Audit enquires into activities and internal controls across the Group both in the UK and overseas. Copies of each report are seen by the Chair of the Committee and executive summaries are forwarded to other members of the Committee. An annual work plan is prepared which seeks to review all major areas of the Group every three years. The plan is based on the principal risk areas of the business, and is prepared following discussions with senior management, chairs of the audit committees throughout the Group and the external auditors. The 2019 plan and the related budget was discussed and approved by the Committee.

Planned Activity During 2019

The current plan for 2019 pays particular attention to the developing program business to gain assurance that an appropriate internal control environment is in place and operating effectively.

In addition the Committee will monitor the Group's financial and operational plan for the impact of IFRS 17, which will be effective for the Group in its Financial Statements for the year ended 31 December 2022. The proposed standard will result in significant changes in the way the Group reports Financial information.

The Committee will continue to review the Financial Statements published during 2019 and will consider the other areas as set out above.

I look forward to meeting our shareholders at the AGM in June and will be happy to answer any questions arising from the work of the Committee.

Alastair Campbell FCA

Chair of the Audit Committee

Remuneration & Nominations Committee Report

This is my first annual report on behalf of the Remuneration & Nominations Committee. As the Company is AIM listed, the Directors are not required to prepare a remuneration report. However, this report takes account of the QCA Code introduced in 2018 and I will be happy to take any questions at the AGM.



Michael Smith
Chair of the Remuneration
& Nominations Committee

The RemCo consists of myself as the Chairman and two other independent Directors, Phil Barnes and Alastair Campbell. The Committee meets as required during the year; it met six times in 2018. The Chief Executive, Chief Financial Officer and the Head of Human Resources are invited to attend where appropriate but no Director is involved in any decisions relating to their own remuneration.

Role, Responsibilities and Activities during the Reporting Period

The Committee combines the functions of overseeing both the remuneration and the nominations policies of the Group.

This entails (inter alia) leading the Board appointment process and reviewing the balance of skills, experience, knowledge and composition of the Board and making recommendations as to any changes; approving the overall remuneration policy; determining the level and structure of remuneration for senior management; monitoring the terms of service agreements for senior management and on termination of any such agreement; keeping under continual consideration succession planning and leadership needs for all key positions; reviewing and updating its Terms of Reference for Board approval.

Aims of the Committee

In carrying out the above duties, the Committee aims to do so paying full regard to all relevant legal and regulatory requirements, taking account of non-binding guidance offered by the QCA Code, and acting in the best interests of the Company's shareholders, and the Group's employees and clients with whom it deals, seeking to align the reward and authority of key personnel with the Group's risk appetite and strategic goals.

The Group does not operate any long term incentive plan or share option scheme, nor any defined bonus scheme. All bonus arrangements are discretionary and are subject to the recommendation of the Executive Chairman and (in the case of senior management) the approval of the Committee.

Key Activities in 2018

In 2018 the Committee, in addition to routine matters:

- Reviewed the salary and bonus awards for the Executive Directors and other designated senior executives to ensure their remuneration is structured and aligned with the Group's strategic goals and to promote the long-term success of the Company and the interests of its investors.
- Assisted in the implementation of a new bonus scheme for senior managers. In line with the FCA rules relating to conduct risk, the performance criteria for each participant include non-financial metrics and criteria relating to maintaining ethical standards and values and upholding the good reputation of the Group. Senior managers are given individual performance objectives and are judged on the delivery of those objectives having regard to prevailing market conditions. Bonuses are normally deferred over a three-year period and are subject to being forfeited or clawed back on a "good leaver/bad leaver" basis.
- Approved the grant of ad hoc share awards to certain key executives.
- Advised on the re-alignment of the senior management structure following the departure of the previous CEO designate and the resulting re-definition of the Executive Chairman's role.
- Set out our approach to Board diversity in a new policy.
- Reviewed the results of the Group's gender pay gap report.
- Continued to address the future leadership of the Company and succession plans for executive and senior management roles.

Priorities for 2019

In 2019 the priority for the Committee will be the continued focus on succession planning and maintaining the appropriate balance of skills, knowledge, background and perspectives on the Board.

Michael Smith

Chair of the Remuneration & Nominations Committee

Risk Committee Report

I am happy to report a productive year for both the Committee and the Risk function as the Risk Management Framework has evolved and adapted alongside the changing risk profile of the Group.



Philip Barnes
Chair of the Group Risk Committee

Role, Responsibilities and Activities during the Reporting Period

The Committee is chaired by an Independent Non-Executive Director, Philip Barnes. The additional members are Alan Quilter and Susan Young, the Chief Risk Officer. Meetings are also attended by the Chief Executive Officer, the Group Chief Actuary, the Chief Governance Officer and the Head of Internal Audit.

The Committee meets quarterly and provides a report on its activity to the Board, including an overview of its immediate and upcoming risk management priorities. It has responsibility for the following:

- Oversight of the management of risk across the Group and its managed operations and to ensure the activities are appropriately integrated and aligned.
- Ensuring all regulatory and reporting obligations in relation to the above are met.
- Ensuring that the Group's risk management framework effectively operates in embedding risk management throughout the Group and its extended business, by:
 - identifying and addressing all risks pertinent to the delivery of the Group's strategy; and
 - determination of relevant appetites and tolerances for those identified risks and to make proposals to be put forward to the Group Board for approval.
- Reviewing Group-level summary risk management information, to suggest and approve modifications and to monitor the implementation of any remedial action.
- Formal review and approval of appropriate Group-level policies and approval of the associated processes, procedures, controls and templates established for the purpose of risk management and internal control.

A detailed description of the Group's principal risks and uncertainties appears on pages 10 to 13.

How the Committee Discharged its Responsibilities in 2018

The Committee meetings follow a standard agenda format, which includes, in addition to the normal housekeeping matters, the following items:

- A report from the Chief Risk Officer with an update on the principal risks and uncertainties of the Group.
- An update on Group Supervision and Regulatory matters.
- An update on strategic priorities from the Chief Executive Officer.

In addition, during 2018, the Committee continued to monitor the Group's evolving risk profile. This is articulated via a register of strategic risks and a suite of related risk appetite and tolerance statements, setting out the level of risk the Group is willing to accept in order to achieve its strategic objectives. The Committee reviews adherence to risk appetite and tolerance via the risk appetite dashboard at each quarterly meeting. New risks and tolerances are considered on an ongoing basis, and are added to the dashboard as appropriate. The dashboard continues to be a blend of quantitative and qualitative metrics. The risk appetite framework as a whole is reviewed at least annually alongside the comparative risk appetite frameworks and dashboards elsewhere in the Group.

As noted in the Risks section on page 8, the Group has a process for managing its principal risks and uncertainties at Group and major subsidiary level.

The Committee has further developed interaction with risk committees elsewhere in the Group. A meeting was held between the chairs of the relevant subsidiary committees and the Group Risk Committee chair in June 2018 to share information and ensure consistency of approach.

Deployment and embedding of the Group's Risk Management Policy and Framework continued across the business during 2018. The Group Risk Function, overseen by the Group Risk Committee, has worked to ensure that all new and existing business processes and internal control systems are aligned with the Group's risk policy. During 2018, the self-certification process (where functional heads and other first line staff review their risks and controls and provide a certification that the risks and corresponding mitigating controls are in place and working as assessed) has been streamlined and modified.

The Group acknowledges operational risk inherent in its business and in particular the ever-increasing cyber threat, and this comprised an area of focus during 2018. The Committee heard a presentation from the Group Chief Information Security Officer as to how this risk is being actively managed and ongoing improvements being made to the control environment to counter this ongoing threat.

Other specific, topical areas of focus during 2018 from the legal, regulatory and political arenas included risks associated with Brexit, General Data Protection Regulations and UK Corporate Criminal Offences legislation.

Emerging and strategic risks are reviewed by the Committee on an ongoing basis. The Risk Function draws on dialogue with the business heads to identify potential risks which may have not yet crystallised.

Committee Effectiveness Review

Overall, the Committee considered that it operated effectively during 2018. However, during 2019, this process will be formalised under the requirements of the new QCA Governance Code. The Committee plans to carry out this review during Q4 2019 and has timetabled it accordingly.

Planned Activity for 2019

In 2019 the Committee plans to:

- Formalise the identification and reporting of emerging risks.
- Complete the Group-wide review of the risk appetite frameworks and dashboards.
- Review the overall register of strategic risks.
- Conduct "deep dives" into risk areas of strategic importance risk such as Investment and Market Risk, Credit and Counterparty risks.

Philip Barnes

Chair of the Group Risk Committee

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. AIM rules require the Directors to prepare consolidated Financial Statements for each financial year. Under those rules they have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU.

The Financial Statements are required to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for the year. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the Financial Statements comply with the AIM rules. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

Financial Statements

- 36** Independent Auditor's Report
 - 40** Consolidated Income Statement
 - 41** Consolidated Statement of Comprehensive Income
 - 42** Consolidated Statement of Changes in Equity
 - 43** Consolidated Statement of Financial Position
 - 44** Consolidated Cash Flow Statement
 - 45** Notes to the Consolidated Financial Statements
-





Independent Auditor's Report to the Members of Randall & Quilter Investment Holdings Ltd

Opinion

We have audited the Financial Statements of Randall & Quilter Investment Holdings Ltd. (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position and the Consolidated Cash Flow Statement and notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of the Group's profit for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been prepared in accordance with the requirements of the AIM Rules for Companies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- the Directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, either individually or in aggregate, could reasonably be expected to influence the economic decisions of users that are taken on the basis of the Financial Statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements. The application of these key considerations gives rise to the following level of materiality, the quantum and purpose of which is tabulated below.

Materiality measure	How we determined it	Key considerations and benchmarks	Quantum £
Financial statement materiality	10% of average profit before tax for the current year and the previous two years for continuing operations.	We used average profit before tax for the current year and previous year.	1,200,000

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £60,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We reassessed materiality at the end of the audit and did not find it necessary to revise our planning materiality.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Group's activities, taking into account the geographic structure of the Group, the key subjective judgements made by the Directors, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain, and the overall control environment.

Based on this understanding we assessed those aspects of the Group's transactions and balances which were most likely to give rise to a material misstatement and were most susceptible to irregularities including fraud or error. Specifically, we identified what we considered to be key audit matters and planned our audit approach accordingly.

The Group operates in a number of overseas locations. In establishing the overall approach to the Group audit we determined the type of work that needed to be performed by us, as the Group auditors, or the auditors of the overseas subsidiaries.

Where the work was performed by auditors of the overseas subsidiaries, we determined the level of involvement we needed as the Group auditors to have in the audit work to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the Financial Statements as a whole. We carried out detailed reviews of the audit work carried out in Bermuda, Malta and the United States of America. We also kept in regular communication with those overseas auditors, as well as those auditors operating in France, through discussions and written instructions.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the Group auditors. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Area	Reason	Audit response
Recognition of program income	<p>The Group has entered into a number of new programs in the year.</p> <p>In accordance with IFRS, the income arising from these programs should only be recognised as income within the Income Statement when the performance conditions associated with it have been met.</p> <p>It can be complex to determine the performance conditions associated with such income, giving rise to a requirement for management judgement and scope for error in accounting for such income.</p>	<p>We obtained an understanding and evaluated the design and implementation of controls that the Group has established in relation to the recognition of the new program income.</p> <p>We also performed the following procedures:</p> <ul style="list-style-type: none"> • We read the underlying program agreements; • We tested on a sample basis whether amounts recognised were accurate and recorded in the correct accounting period based on the contractual obligations of the insurance agreements. <p>Based on the procedures we performed, we found that the recognition of the program income was supported by the evidence we obtained.</p>
Valuation of insurance contract provisions	<p>Total net insurance contract provisions for the year end 31 December 2018 are £398.7m.</p> <p>The methodologies and assumptions utilised to develop insurance contract provisions involve a significant degree of judgement. The liabilities are based on the estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not. In addition, classes of business where there is a greater length of time between initial claim event and settlement (such as historic asbestosis and environmental pollution classes) also tend to display greater variability between initial estimates and final settlements. A range of methods may be used to determine these provisions. We focused on this area as the underlying methods include a number of explicit and implicit assumptions relating to the expected settlement amounts and settlement patterns of claims and are subject to complex calculations which include application of management's judgement.</p>	<p>We evaluated whether the Group's actuarial methodologies were consistent with those used generally in the industry and with prior periods. We also evaluated the governance around the overall Group reserving process, including the scrutiny applied by the Group Audit and Risk Committee, as well as Group level actuarial reviews.</p> <p>We performed the following procedures:</p> <ul style="list-style-type: none"> • We tested on a sample basis the underlying data to source documentation to assess the completeness; • We reviewed any significant prior year reserve movements by reference to any significant adverse market development; • We performed independent re-projections and sensitivity analyses on selected classes of business and compared our re-projected claims reserves to those booked by management, and challenged management to understand any significant differences; • We also tested the calculations used in identifying reinsurers' share of any claims. <p>Based on the procedures we performed, we found that the value of the insurance contract provisions was supported by the evidence we obtained.</p>

Independent Auditor's Report to the Members of Randall & Quilter Investment Holdings Ltd continued

Area	Reason	Audit response
Accounting for the acquisitions made in 2018	<p>The Group completed 14 business combinations during the year end 31 December 2018, giving rise to goodwill on bargain purchase of £6.0m.</p> <p>We focused our work on risk areas where management applies judgement in the accounting and valuation of the acquired assets and liabilities, particularly relating to the fair value of the insurance contract provisions acquired.</p> <p>The insurance contract provisions assumed on acquisition must be discounted in the fair value assessment. This gives rise to a finite-life intangible asset as a result of the difference between the discounted fair value of the insurance contract provisions and the undiscounted insurance contract provisions measured in accordance with the Group's accounting policy. The intangible asset created by this comparison is amortised over the period of time the insurance contract provisions are expected to be settled.</p>	<p>We evaluated the design and tested the operating effectiveness of controls around the acquisition accounting.</p> <p>We carried out the following testing:</p> <ul style="list-style-type: none"> • We walked through the controls in place within the accounting process and understood management's process to be in line with IFRS 3 Business Combinations. • We read contracts, agreements and Board minutes relating to the acquisitions. • We corroborated management's assumptions by comparing them to relevant available information. In particular, we challenged the discount rates and settlement patterns used to calculate the insurance contract provisions giving rise to the finite-life intangible asset. • We validated and challenged key inputs and data used in valuation models by reference to historical data and our expectations. • We evaluated the adequacy of the business combination disclosures made in Note 29 to the requirements in IFRS 3. <p>Based on the procedures we performed, we found the methodologies and the assumptions applied to be supported by the evidence we obtained. Using our knowledge of the run-off insurance industry we assessed the completeness of the identification of the assets acquired and assessed the appropriateness of the assets' useful economic lives. The assets identified and the lives assigned are consistent with our expectations.</p>
Carrying value of goodwill and intangible assets	<p>The Group has goodwill of £1.3m, and other intangible assets of £18.6m as at 31 December 2018, contained within three cash generating units ("CGUs").</p> <p>Goodwill must be tested for impairment on at least an annual basis. The determination of recoverable amount, being the higher of value-in-use and fair value less costs to dispose, requires judgement on the part of management in both identifying and then valuing the relevant CGUs. Recoverable amounts are based on management's view of variables and market conditions such as future price and volume growth rates, the timing of future operating expenditure, and the most appropriate discount and long-term growth rates.</p>	<p>We evaluated the appropriateness of management's identification of the Group's CGUs and tested the operation of the Group's controls over the impairment assessment process, which we found to be satisfactory for the purposes of our audit. Our audit procedures included challenging management on the appropriateness of the impairment models and reasonableness of the assumptions used through performing the following:</p> <ul style="list-style-type: none"> • Benchmarking R&Q's key market-related assumptions in the models, including discount rates, long-term growth rates and foreign exchange rates, against external data; • Assessing the reliability of cash flow forecasts through a review of actual past performance and comparison to previous forecasts; • Testing the mathematical accuracy and performing sensitivity analyses of the models; • Understanding the commercial prospects of the assets, and where possible comparison of assumptions with external data sources. <p>We assessed the appropriateness and completeness of the related disclosures in Note 15 of the Financial Statements. Based on our procedures, we noted no material exceptions and considered management's key assumptions to be within reasonable ranges.</p> <p>For the other intangible assets, we considered management's assessment of whether there is any indication of an impairment trigger, considering both internal and external sources of information. We assessed the sufficiency of the sensitivity analyses performed by management, focusing on what we consider to be reasonably possible changes in key assumptions.</p> <p>Based on the procedures we performed, we found that the conclusion reached by management that there was no impairment of goodwill or intangible assets, was supported by the evidence we obtained.</p>

The Directors' consideration of their key issues is set out on pages 8 to 13.

Other information

The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

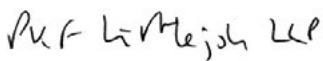
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

The engagement partner on the audit resulting in this independent auditor's report is Ian Cowan.

**PKF Littlejohn LLP**

Chartered Accountants and Registered Auditor

1 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Consolidated Income Statement

For the year ended 31 December 2018

	Note	2018		2017	
		£000	£000	£000	£000
Continuing operations					
Gross premiums written		183,838		187,947	
Written premiums ceded to reinsurers		(118,928)		(39,255)	
Net written premiums			64,910		148,692
Change in provision for unearned premiums, gross		(42,044)		16,553	
Change in provision for unearned premiums, reinsurers' share		40,583		3,425	
Net change in provision for unearned premiums			(1,461)		19,978
Earned premium, net of reinsurance			63,449		168,670
Gross investment income	7	5,430		8,187	
Other income	8	11,960		8,154	
			17,390		16,341
Total income			80,839		185,011
Gross claims paid		(161,360)		(142,013)	
Proceeds from commutations and reinsurers' share of gross claims paid	18	106,238		60,585	
Claims paid, net of reinsurance		(55,122)		(81,428)	
Movement in gross technical provisions		69,579		(10,765)	
Movement in reinsurers' share of technical provisions after adjusting for commutations		(3,759)		(16,839)	
Net change in provisions for claims		65,820		(27,604)	
Net claims provisions decrease/(increase)			10,698		(109,032)
Operating expenses	9		(77,294)		(84,418)
Result of operating activities before goodwill on bargain purchase			14,243		(8,439)
Goodwill on bargain purchase	29		5,997		24,666
Amortisation and impairment of intangible assets	15		(1,644)		(1,909)
Result of operating activities			18,596		14,318
Finance costs	10		(4,345)		(4,204)
Share of loss of associate			-		(284)
Profit from continuing operations before income taxes	11		14,251		9,830
Income tax charge	12		(3,946)		(313)
Profit for the year from continuing operations			10,305		9,517
(Loss)/profit for the period from discontinued operations	6		(2,483)		13,453
Profit for the year			7,822		22,970
Attributable to:					
Shareholders of the parent			7,341		22,914
Non-controlling interests			481		56
			7,822		22,970
	Note		2018		2017
Earnings per ordinary share from continuing and discontinued operations:					
Basic	13		5.8p		25.4p
Diluted	13		5.8p		25.4p
Earnings per ordinary share from continuing operations:					
Basic	13		7.8p		10.5p
Diluted	13		7.8p		10.5p

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 £000	2017 £000
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Pension scheme actuarial gains/(losses)	4,661	(1,002)
Deferred tax on pension scheme actuarial gains/(losses)	(792)	170
	3,869	(832)
Items that may be subsequently reclassified to profit or loss:		
Exchange gains/(losses) on consolidation	8,809	(7,416)
Other comprehensive income	12,678	(8,248)
Profit for the year	7,822	22,970
Total comprehensive income for the year	20,500	14,722
Attributable to:		
Shareholders of the parent	19,985	14,698
Non-controlling interests	515	24
Total comprehensive income for the year	20,500	14,722

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

Notes	Attributable to equity holders of the parent							
	Share capital £000	Share option costs £000	Share premium £000	Foreign currency translation reserve £000	Retained earnings £000	Total £000	Non- controlling interests £000	Total £000
Year ended 31 December 2018								
	2,517	–	62,257	901	101,097	166,772	(166)	166,606
	–	–	–	–	7,341	7,341	481	7,822
Other comprehensive income								
	–	–	–	8,372	403	8,775	34	8,809
	–	–	–	–	4,661	4,661	–	4,661
	–	–	–	–	(792)	(792)	–	(792)
	–	–	–	8,372	4,272	12,644	34	12,678
	–	–	–	8,372	11,613	19,985	515	20,500
Transactions with owners								
	–	–	212	–	–	212	–	212
24	3	–	–	–	–	3	–	3
	11,334	–	(11,334)	–	–	–	–	–
14	(11,334)	–	–	–	–	(11,334)	–	(11,334)
	2,520	–	51,135	9,273	112,710	175,638	349	175,987

Notes	Attributable to equity holders of the parent							
	Share capital £000	Share option costs £000	Share premium £000	Foreign currency translation reserve £000	Retained earnings £000	Total £000	Non- controlling interests £000	Total £000
Year ended 31 December 2017								
	1,441	64	5,563	8,285	79,015	94,368	6	94,374
	–	–	–	–	22,914	22,914	56	22,970
Other comprehensive income								
	–	–	–	(7,384)	–	(7,384)	(32)	(7,416)
	–	–	–	–	(1,002)	(1,002)	–	(1,002)
	–	–	–	–	170	170	–	170
	–	–	–	(7,384)	(832)	(8,216)	(32)	(8,248)
	–	–	–	(7,384)	22,082	14,698	24	14,722
Transactions with owners								
	–	(64)	–	–	–	(64)	–	(64)
24	1,076	–	64,308	–	–	65,384	–	65,384
	7,614	–	(7,614)	–	–	–	–	–
14	(7,614)	–	–	–	–	(7,614)	–	(7,614)
30	–	–	–	–	–	–	(196)	(196)
	2,517	–	62,257	901	101,097	166,772	(166)	166,606

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

Consolidated Statement of Financial Position

As at 31 December 2018

Company Number 47341

	Note	2018 £000	2017 £000
Assets			
Intangible assets	15	19,974	20,712
Property, plant and equipment	16	577	3,035
Investment properties	17a	1,881	426
Financial instruments			
– Investments (fair value through profit and loss)	17b	395,418	405,516
– Deposits with ceding undertakings	4b	6,331	6,674
Reinsurers' share of insurance liabilities	22	300,357	253,482
Deferred tax assets	23	3,205	10,907
Current tax assets	23	191	2,411
Insurance and other receivables	18	232,716	170,273
Cash and cash equivalents	19	236,923	173,393
Assets held for sale	6	–	18,962
Total assets		1,197,573	1,065,791
Liabilities			
Insurance contract provisions	22	699,078	722,535
Financial liabilities			
– Amounts owed to credit institutions	21	140,243	55,889
– Deposits received from reinsurers		1,139	1,170
Deferred tax liabilities	23	3,449	6,890
Insurance and other payables	20	168,488	92,269
Current tax liabilities	23	2,323	7,426
Pension scheme obligations	26	6,866	11,214
Liabilities held for sale	6	–	1,792
Total liabilities		1,021,586	899,185
Equity			
Share capital	24	2,520	2,517
Share premium	24	51,135	62,257
Foreign currency translation reserve		9,273	901
Retained earnings		112,710	101,097
Attributable to equity holders of the parent		175,638	166,772
Non-controlling interests in subsidiary undertakings	30	349	(166)
Total equity		175,987	166,606
Total liabilities and equity		1,197,573	1,065,791

The Financial Statements were approved by the Board of Directors on 26 April 2019 and were signed on its behalf by:



K E Randall



A K Quilter

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

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Profit for the year		7,822	22,970
Tax included in consolidated income statement		3,871	491
Finance costs	10	4,345	4,204
Depreciation and impairments	16	335	625
Share-based payments	24	212	419
Share of loss of associate		-	284
Loss/(profit) on divestment		215	(15,190)
Goodwill on bargain purchase	29	(5,997)	(24,666)
Amortisation and impairment of intangible assets	15	1,644	1,909
Fair value loss/(gain) on financial assets		5,754	(2,728)
Loss on revaluation of investment property	17	903	-
(Profit)/loss on net assets of pension schemes		(479)	514
(Increase)/decrease in receivables		(61,734)	8,121
Decrease/(increase) in deposits with ceding undertakings		343	(1,096)
Increase in payables		69,679	22,256
(Decrease)/increase in net insurance technical provisions		(64,359)	7,626
Net cash (used in)/generated from operating activities		(37,446)	25,739
Cash flows from investing activities			
Purchase of property, plant and equipment	16	(189)	(471)
Proceeds from sale of property, plant and equipment	16	19	-
Purchase of intangible assets	15	(92)	(419)
Sale of financial assets		69,774	6,133
Purchase of financial assets		(46,023)	(161,010)
Acquisition of subsidiary undertakings (offset by cash acquired)		(8,972)	106,186
Divestment (offset by cash disposed of)		13,387	17,773
Net cash from/(used in) investing activities		27,904	(31,808)
Cash flows from financing activities			
Repayment of borrowings		(3,000)	(62,772)
Proceeds from new borrowing arrangements		86,170	54,537
Interest and other finance costs paid	10	(4,345)	(4,204)
Cancellation of shares	14	(11,334)	(7,614)
Receipts from issue of shares		3	64,901
Net cash from financing activities		67,494	44,848
Net increase in cash and cash equivalents			
		57,952	38,779
Cash and cash equivalents at beginning of year		174,502	141,656
Exchange gains/(losses) on cash and cash equivalents		4,469	(5,933)
Cash and cash equivalents at end of year	19	236,923	174,502
Share of Syndicates' cash restricted funds		18,150	43,898
Other funds		218,773	129,495
Cash and cash equivalents relating to continuing operations		236,923	173,393
Cash and cash equivalents relating to discontinued operations		-	1,109
Cash and cash equivalents at end of year		236,923	174,502

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 2018

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 providers of program capacity, as underwriting managers for active insurers and as participators in Lloyd’s Syndicates in the non-life insurance market. The Consolidated Financial Statements were approved by the Board of Directors on 26 April 2019.

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, International Financial Reporting Interpretations Committee 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 year when the revision is made.

New and amended standards adopted by the Group

In the current year, the Group has applied amendments to IFRSs issued by the IASB that are mandatory for an accounting period that begins on or after 1 January 2018.

IFRS 15, Revenue from Contracts with Customers. (IASB effective date 1 January 2018)

IFRS 15 established a single comprehensive model for entities to use in accounting for revenue from contracts with customers. Revenue from contracts accounted for under IFRS 4 are outside the scope of IFRS 15, however the Group has applied the new revenue recognition standard to non-insurance contracts.

The Group’s existing non-insurance revenue recognition practices comply with the Standard and have not resulted in a change in policy or restatement of comparatives. No transitional provisions have been applied.

The application of the new Standard has added additional disclosures to existing notes to highlight revenue and receivable amounts derived from contracts with customers.

IFRS 2 Amendment. Classification and Measurement of Share-based Payment Transactions. (IASB effective date 1 January 2018)

The amendment involves a number of clarifications to the classification and measurement of share-based payment transactions.

The amendment covers four issues identified by the IFRS Interpretations Committee:

- Accounting for cash-settled share-based payment transactions that include a performance condition.
- Share-based payments in which the manner of settlement is contingent on future events.
- Share-based payments settled net of tax withholdings.
- Modification of share-based payment transactions from cash-settled to equity-settled.

This is a narrow scope amendment which the Group will refer to in the event of share-based payments.

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

2. Accounting policies continued

a. Basis of preparation continued

IFRS 4 Amendment, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. (IASB effective date 1 January 2018)

The amendment addresses concerns about issues arising from implementing IFRS 9, Financial Instruments, before the new insurance contracts Standard IFRS 17 comes into effect on 1 January 2022. IFRS 9 has an effective date of 1 January, 2018.

The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the “overlay approach”);
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the “deferral approach”).

The Group has taken the temporary exemption and will apply IFRS 9 and IFRS 17 with effect from 1 January 2022.

IAS 40 Amendment, Transfer of Investment Property. (IASB effective date 1 January 2018)

This amendment provides guidance on transfers to, or from, investment properties. More specifically, clarifying when a property under construction or development that was previously classified as inventory could be transferred to investment property when there was an evident change in use. A narrow scope amendment which currently does not have an impact on the Group Financial Statements.

IFRS 2014-2016 annual improvement cycle. (IASB effective date 1 January 2018)

These improvements consist of amendments to the following IFRS.

IAS 28 Investment in Associates and Joint Ventures – Confirmation that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The Group is currently not impacted by this amendment as it does not have any associates or joint ventures consolidated in the Financial Statements.

A number of new standards and interpretations adopted by the EU which are not mandatory, as well as standards and interpretations issued by the IASB but not yet adopted by the EU, 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 continues to review the upcoming standards to determine their impact.

IFRS 9, Financial Instruments (IASB effective date 1 January 2018) has not been applied under IFRS 4 Amendment option.

IFRS 16, Leases. (IASB effective date 1 January 2019)

IFRS 17, Insurance Contracts. (IASB effective date 1 January 2022)

IAS 19 Amendments, Plan Amendment, curtailment or settlement. (IASB effective date 1 January 2019)

IAS 28 Amendments, Long-term interests in Associates and Joint Ventures Sale or contribution of assets between an investor and its associate or joint venture. (IASB effective date 1 January 2019)

IFRS 2015–2017 improvement cycle. (IASB effective date 1 January 2019)

Of the upcoming accounting standard changes, the Group anticipates that IFRS 9, IFRS 16 and IFRS 17 will have the most material impact to the Financial Statements presentation and disclosures. The accounting developments and implementation timelines of these standards are being closely monitored and the impacts of the standards themselves are being reviewed. Full impact analysis in respect of these standards is in the process of being completed. A brief overview of these standards is provided below:

IFRS 9 provides a reform of financial instruments accounting to supersede IAS 39 Financial Instruments: Recognition and Measurement. The Standard contains the requirements for a) the classification and measurement of financial instruments; b) a new impairment methodology and c) general hedge accounting. IFRS 4 Amendment, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts contained an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4. The Group meets the eligibility criteria and intends to take advantage of this temporary exemption and not apply this standard until the effective date of IFRS 17.

IFRS 16 Leases specifies how to recognise, measure, prepare and disclose leases. The standard replaces IAS 17 Leases and Related Interpretations. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors will continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting being substantially unchanged from its predecessor IAS 17. Additionally, the current rental charge in the Consolidated Income Statement will be replaced with a depreciation charge for the lease assets and an interest expense for the lease liabilities.

The Group enters into few leases which exceed 12 months, and does not lease IT equipment or vehicles. The majority of additional leases recognised on the Consolidated Statement of Financial Position under the Standard will relate to property leases which the Group uses for operational purposes. A process of capturing and recording additional lease details is being implemented. Note 28 provides details of existing land and building operating leases which have a contract in excess of 12 months.

The Standard is effective for annual periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 "Revenue from Contracts with Customers" has also been applied.

IFRS 17 was issued in May 2017. It will replace IFRS 4 on accounting for insurance contracts and has an effective date of 1 January 2022. The Group expects to adopt the new Standard on this date. Under the IFRS 17 model, insurance contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk. The discount rate will reflect current interest rates. If the present value of future cash flows would produce a gain at the time a contract is issued the model would also require a "contractual service margin" to offset the day 1 gain. The contractual service margin would amortise over the life of the contract. There would also be a new income statement presentation for insurance contracts, including a revised definition of revenue, and additional disclosure requirements.

The Group is implementing an IFRS 17 project process to plan and develop the required systems and procedural changes. The project will provide clarification on the expected impact on the Financial Statements at the appropriate point in the process. It is expected the procedure and systems changes will be in place by 31 December 2020. At this point it is worth highlighting the most significant likely changes will be the deferral of gains on reinsurance arrangements and loss portfolio transfers over the period of the claims payments, and the discounting of insurance and reinsurance liabilities and assets.

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 2018 and 2017. 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 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 Coverys 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. The Group is the sole provider of capacity on Syndicate 1110, and these Financial Statements include 100.00% of the economic interest in this Syndicate. For Syndicate 1991, the Group provides 13.61% of the capacity on the 2016 year of account, 24.21% on the 2017 year of account and 0.04% on the 2018 year of account. For Syndicate 3330, the Group provides 100.00% of the capacity on the 2017 year of account and 10% on the 2018 year of account. These Consolidated Financial Statements include its relevant share of the result for those years and attributable assets and liabilities.

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.

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

2. Accounting policies continued

c. Consolidation continued

When the Group's share of losses equals or exceeds the carrying amount of the investment in 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. Where necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies. 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 Group's current financial position and forecasts for 2019 and 2020 demonstrate that it has adequate cash resources to meet its liabilities as they fall due.

The Group has made significant progress with its revised strategy, including the continuation of Legacy deals and the development of the Program Management business.

Given these factors, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future. For the purposes of these Financial Statements, this is considered to be a minimum of 12 months from the signing date.

e. 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 the foreign currency translation reserve 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.

f. 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 and commission but net of taxes and duties levied on premiums.

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.

g. 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.

h. 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 and 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.

Provision for future claims handling costs

Provision for future run-off costs relating to the Group's run-off businesses is made to the extent that the estimate of such costs exceeds the estimated future investment income expected to be earned by those businesses.

Estimates are made for the anticipated costs of running off the business of those insurance subsidiaries and the Group's participation in Syndicates which have insurance businesses in run-off. Where insurance company subsidiaries have businesses in run-off and underwrite new business, management estimates the run-off costs and the future investment income relating to the run-off business. Syndicates are treated as being in run-off for the Group's Financial Statements where they have ceased writing new business and, in the opinion of management, there is no current probable reinsurer available to close the relevant syndicate year of account.

Changes in the estimates of such costs and future investment income are reflected in the year in which the estimates are made.

When assessing the amount of any provision to be made, the future investment income and claims handling and all other costs of all the insurance company subsidiaries' and syndicates' businesses in run-off are considered in aggregate.

The uncertainty inherent in the process of estimating the period of run-off and the payout pattern over that period, the anticipated run-off administration costs to be incurred over that period and the level of investment income to be received 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.

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

continued

For the year ended 31 December 2018

2. Accounting policies continued

i. Provisions

Provisions, other than insurance 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 an 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 and will be reduced by any available reinsurance cover.

Should the Directors become aware of a claim arising from a policy holder 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, appropriate provision will be made for any such failure.

Disclosure of the position in relation to structured settlements is shown in Note 20.

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. Following the sale of significant sectors of the Group's operations, the business segments for 2018 financial year and the 2017 comparatives in Note 5, reflect the segmental reporting structure the Group has adopted for financial information going forward.

l. Financial instruments

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

Financial assets

(i) Acquisition

On acquisition of a financial asset, the Group is required 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) and 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 impairment. 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.

Financial liabilities

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.

Senior and subordinated debt

Randall & Quilter Investment Holdings Ltd. and Group subsidiaries have issued senior and subordinated debt. At Group level this is treated as a financial liability and interest charges are recognised in the Consolidated Income Statement.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured 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.

m. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classed as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Income Statement on a straight-line basis over the period of the lease.

n. Property, plant and equipment

All assets included within property, plant and equipment (“PPE”) are carried at historical cost less depreciation and assessed for impairment. Depreciation is calculated to write down the cost less estimated residual value of motor vehicles, office equipment, IT equipment, freehold property 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
Freehold property	2
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.

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

2. Accounting policies continued

o. 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 15, on a biannual basis or if events or changes in circumstances indicate that the carrying amount may be impaired.

p. Other intangible assets

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

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

Amortisation is charged to 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. 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.

q. 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.

r. 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.

s. Finance costs

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

t. 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 the Group has a present legal or constructive obligation as a result of past events to provide services, the costs of 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.

u. 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. Billing follows the supply of service and the consideration is unconditional because only the passage of time is required before the payment is due.

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.

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.

v. 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.

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

2. Accounting policies continued

w. 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 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.

x. 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.

y. 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 in that subsidiary. The Group bears no financial responsibility for any liabilities or obligations of any insurance company subsidiary in run-off, except as disclosed. 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 Group 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 Lloyd's 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.

Independent external actuaries are contracted to provide a Statement of Actuarial Opinion for the Lloyd's Syndicates that the Group participates on. This statement confirms that 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 view of best estimate reserves and confirm that the held reserves are within their range of acceptable estimates.

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 under policy wordings 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.

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 five 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.

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

3. Estimation techniques, uncertainties and contingencies continued

Recognition and de-recognition of assets and liabilities in run-off

In the course of the Group's business of managing the run-off of insurers and brokers, accounting records are initially recognised in the form provided by previous management. As part of managing run-off the Group carries out extensive enquiries to clarify the assets and liabilities of the run-off and to obtain all available and relevant information. Those enquiries may lead the Group to identify and record additional assets and liabilities relating to that run-off, or to conclude that previously recognised assets and liabilities should be increased or no longer exist and should be de-recognised. Where decisions to de-recognise liabilities are supported by an absence of relevant information there may remain a remote possibility that a third party may subsequently provide evidence of its entitlement to such de-recognised liabilities which may lead to a transfer of economic benefit to settle such entitlement. The right of a third party to such a settlement will be recognised in the accounting period in which the position is clarified.

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 high quality 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. Monetary 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

Estimates are based on reports provided by recognised specialists as well as the Group's own internal review. 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 the 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 Group Capital and Investment Committee. The Group 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 Group Capital and Investment Committee is also responsible for keeping under review the investment control procedures, monitoring and amending (where appropriate) the investment policies and oversight, monitoring Group cash flow, 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 2018 and 2017 is shown below:

	2018 £000	2017 £000
Government and government agencies	63,228	141,278
Corporate bonds	202,424	159,961
Equities	24,369	21,146
Cash based investment funds	105,397	83,131
Cash and cash equivalents	236,923	173,393
	632,341	578,909
	%	%
Government and government agencies	10.0	24.4
Corporate bonds	32.0	27.6
Equities	3.8	3.6
Cash based investment funds	16.7	14.4
Cash and cash equivalents	37.5	30.0
	100.0	100.0

Corporate bonds include asset backed mortgage obligations totalling £6,833k (2017: £8,905k).

Based on invested assets at external managers of £395,418k as at 31 December 2018 (2017: £405,516k), a 1 percentage increase/decrease in market values would result in an increase/decrease in the profit before income taxes for the year to 31 December 2018 of £3,954k (2017: £4,055k).

(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 the 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

4. Management of insurance and financial risks continued

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

(i) Pricing risk continued

2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Government and government agencies	–	63,228	–	63,228
Corporate bonds	–	202,424	–	202,424
Equities	24,369	–	–	24,369
Cash based investment funds	105,397	–	–	105,397
Purchased reinsurance receivables (Note 18)	–	–	3,393	3,393
Total financial assets measured at fair value	129,766	265,652	3,393	398,811

2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Government and government agencies	–	141,278	–	141,278
Corporate bonds	–	159,961	–	159,961
Equities	19,314	1,832	–	21,146
Cash based investment funds	83,131	–	–	83,131
Purchased reinsurance receivables (Note 18)	–	–	3,750	3,750
Total financial assets measured at fair value	102,445	303,071	3,750	409,266

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

	2018 £000	2017 £000
Opening balance	3,750	5,654
Total net gains recognised in the Consolidated Income Statement	76	452
Disposals	(614)	(1,905)
Exchange adjustments	181	(451)
Closing balance	3,393	3,750

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 £76k (2017: £452k). The Group did not purchase further reinsurance receivables in 2018 (2017: nil). 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 2018

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	371,049	113,657	81,507	51,758	94,029	30,098

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	0.59-5.87	0.40-4.74	1.80-4.89	1.89-5.14	0.05-3.63

As at 31 December 2017

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	384,370	109,554	56,340	38,225	52,422	127,829

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	0.49-8.25	0.05-7.50	0.40-4.95	1.43-5.88	1.01-7.68

Liquidity risk is managed by the Group 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 monitored by the Group's financial planning and treasury function's established cash flow and liquidity management processes.

(iii) Interest rate risk

Fixed income investments represent a significant proportion of the Group's assets and the Group Capital and Investment Committee continually monitors investment strategy to minimise the risk of a fall in the portfolio's market value.

The fair value of the Group's investment portfolio of debt and fixed income securities is normally inversely correlated to movements in market interest rates. If market interest rates rise, the fair value of the Group's debt and fixed income investments would tend to fall and vice versa.

Debt and fixed income assets are predominantly invested in high-quality corporate, government and asset-backed bonds. The investments typically have relatively short durations and terms to maturity.

The Group is exposed to interest rate risk within the Group's financial liabilities. This exposure lies predominately with amounts owed to credit institutions and debentures secured over the assets of the Company and its subsidiaries.

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 2018

	A rated £000	B rated £000	Less than B £000	Other* £000	Exposures of less than £200k £000	Total £000
Deposits with ceding undertakings	3,014	299	–	1,287	1,731	6,331
Reinsurers' share of insurance liabilities	231,381	4,048	–	39,686	25,242	300,357
Receivables arising out of reinsurance contracts	57,319	4,742	–	9,970	25,275	97,306

As at 31 December 2017

	A rated £000	B rated £000	Less than B £000	Other* £000	Exposures of less than £200k £000	Total £000
Deposits with ceding undertakings	2,911	300	–	1,655	1,808	6,674
Reinsurers' share of insurance liabilities	173,629	3,228	–	40,608	36,017	253,482
Receivables arising out of reinsurance contracts	40,971	2,545	–	9,443	10,159	63,118

* Other includes reinsurers who currently have no credit rating.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

4. Management of insurance and financial risks continued

b. Credit risk continued

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:

	0-6 months %	6-12 months %	12-24 months %	> 24 months %
As at 31 December 2018				
Percentage of receivables	64.9	5.0	8.3	21.8
As at 31 December 2017				
Percentage of receivables	69.6	3.1	5.5	21.8

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.

	Neither past due nor impaired £000	Financial assets past due but not impaired		Assets that have been impaired £000	Carrying value in the balance sheet £000
		Past due 1-90 days £000	Past due more than 90 days £000		
As at 31 December 2018					
Deposits with ceding undertakings	5,877	–	–	454	6,331
Reinsurers' share of insurance liabilities	238,682			61,675	300,357
Receivables arising out of reinsurance contracts	80,589	235	288	16,194	97,306
As at 31 December 2017					
Deposits with ceding undertakings	6,278	–	–	396	6,674
Reinsurers' share of insurance liabilities	163,809			89,673	253,482
Receivables arising out of reinsurance contracts	48,504	235	288	14,091	63,118

The Directors believe the amounts past due but not impaired are recoverable in full.

Credit risk is managed by committees established by the Group and Coverys Managing Agency Limited ("Coverys").

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

Coverys is the Lloyd's Managing Agent which manages the Syndicates on which the Group participates historically and for the 2018 year of account. Coverys has established Syndicate Management Committees in relation to each managed syndicate and the Group has representation on each of these committees with the exception of the S1991 Committee on which the Group now only has a nominal participation. The committees are responsible for establishing minimum security levels for all reinsurance purchases by the managed Syndicates by reference to appropriate rating agencies for agreeing maximum concentration levels for individual reinsurers and intermediaries, and for dealing 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 Coverys 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:

	Sterling £000	US dollar £000	Euro £000	Other £000	Total £000
31 December 2018					
Intangible assets	12,495	7,331	148	–	19,974
Reinsurers' share of insurance liabilities	132,807	135,495	32,055	–	300,357
Financial instruments	67,812	307,562	28,256	–	403,630
Insurance receivables	67,019	95,047	2,636	–	164,702
Cash and cash equivalents	130,839	102,794	3,280	10	236,923
Insurance liabilities and insurance payables	(270,060)	(415,514)	(59,211)	–	(744,785)
Deferred tax and pension scheme obligations	1,680	(11,637)	(358)	–	(10,315)
Trade and other (payables)/receivables	(157,674)	(29,845)	(7,360)	31	(194,848)
Total	(15,082)	191,233	(554)	41	175,638
31 December 2017					
Intangible assets	11,236	9,159	317	–	20,712
Reinsurers' share of insurance liabilities	110,573	92,167	50,742	–	253,482
Financial instruments	68,885	313,721	29,562	448	412,616
Insurance receivables	51,489	51,172	2,758	–	105,419
Cash and cash equivalents	105,141	65,223	2,994	35	173,393
Insurance liabilities and insurance payables	10,228	6,942	–	–	17,170
Insurance liabilities and insurance payables	(294,338)	(387,819)	(81,817)	–	(763,974)
Deferred tax and pension scheme obligations	(11,436)	(6,278)	(390)	–	(18,104)
Trade and other (payables)/receivables	(6,372)	(22,084)	(5,102)	(384)	(33,942)
Total	45,406	122,203	(936)	99	166,772

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

Currency	Changes in variables	31 December 2018		31 December 2017	
		Impact on profit £000	Impact on equity* £000	Impact on profit £000	Impact on equity* £000
Euro weakening	10%	958	50	687	85
US dollar weakening	10%	(1,645)	(17,385)	(3,626)	(11,109)
Euro strengthening	10%	(1,176)	(62)	(841)	(104)
US dollar strengthening	10%	1,342	21,248	4,436	13,578

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

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

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. The Group is regulated in Bermuda by the Bermuda Monetary Authority ("BMA"). The BMA assesses the capital and solvency adequacy of the Group and requires that sufficient capital is in place to meet the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR generates a risk-based capital measure by applying capital factors to capital and solvency return elements, including investments and other assets, premiums and reserves, operational risk, and insurer-specific catastrophe exposure measures, in order to establish an overall measure of capital and surplus for statutory solvency purposes.

The Group maintains a capital 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

(i) Program Management business

The Group underwrites live business through a network of Managing General Agents (which is largely reinsured). This program underwriting business, is underwritten in the US by Accredited Surety and Casualty Inc. and in Europe by Accredited Insurance (Europe) Limited, both being AM Best A- credit rated risk carriers.

The Group guideline is for program underwriting business reinsurers to meet a minimum of the AM Best A credit rating, in order to mitigate risk and provide a high-quality reinsurance security.

(ii) Syndicate participations

The Group participates on Syndicates shown below:

Syndicate	Year of account	Syndicate Capacity £000	Group participation £000	Open/closed
1991	2019	126,750	50	Open
1991	2018	126,750	50	Open
1991	2017	126,750	30,687	Open
1991	2016	129,740	17,693	Closed
1110*	2017	280,000	280,000	Open
1110*	2016	210,000	210,000	Closed
3330	2018	3,000	300	Open
3330	2017	3,500	3,500	Open

* Syndicate 1110 benefits from reinsurance arrangements in place with New York Marine and General Insurance Company, which protects the Group from any adverse net claims development.

(iii) 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 risk concentrations are identified across operating entities, appropriate monitoring is developed to manage the overall Group exposure.

(iv) 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 2015.

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

	Group entities at 1 January 2015 £000	Entities acquired by the Group during 2015 £000	Entities acquired by the Group during 2016 £000	Entities acquired by the Group during 2017 £000	Entities acquired by the Group during 2018 £000
Gross					
Gross claims at:					
1 January/acquisition	346,694	12,147	107,121	210,979	16,842
First year movement	(9,967)	26	(2,793)	(32,808)	(1,091)
Second year movement	56,483	1,222	(26,891)	(46,528)	
Third year movement	(14,754)	(816)	(18,424)		
Fourth year movement	(42,452)	(666)			
Gross provision at 31 December 2018	336,004	11,913	59,013	131,643	15,751
Gross claims at:					
1 January/acquisition	346,694	12,147	107,121	210,979	16,842
Exchange adjustments	68,251	(9)	227	(359)	9
Payments	(243,672)	(2,213)	(37,035)	(71,818)	(878)
Gross provision at 31 December 2018	(336,004)	(11,913)	(59,013)	(131,643)	(15,751)
(Deficit)/surplus to date	(164,731)	(1,988)	11,300	7,159	222
Gross claims provisions – live business	–	–	17,157	44,004	83,593
Total gross insurance contract provisions (Note 22)	336,004	11,913	76,170	175,647	99,344
Net					
Net claims at:					
1 January/acquisition	177,216	11,283	42,540	138,547	16,120
First year movement	(14,377)	9	(1,171)	(34,793)	(874)
Second year movement	95,076	1,037	(14,444)	(40,064)	
Third year movement	18,406	(656)	(1,492)		
Fourth year movement	(33,990)	(821)			
Net provision at 31 December 2018	242,331	10,852	25,433	63,690	15,246
Net claims at:					
1 January/acquisition	177,216	11,283	42,540	138,547	16,120
Exchange adjustments	44,085	(225)	(2,447)	(2,100)	9
Payments	4,564	(2,189)	(19,787)	(52,417)	(844)
Net position at 31 December 2018	(242,331)	(10,852)	(25,433)	(63,690)	(15,246)
(Deficit)/surplus to date	(16,466)	(1,983)	(5,127)	20,340	39
Net claims provisions – live business	–	–	16,274	20,070	4,825
Total net insurance contract provisions (Note 22)	242,331	10,852	41,707	83,760	20,071

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

Foreign exchange movements shown above are offset by comparable foreign exchange movements in cash and investments held to meet insurance liabilities.

Additional information regarding movements in claims reserves are disclosed in Note 22.

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

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:

- Live – the Group delegates underwriting authority to MGAs and their reinsurance providers to provide program capacity through its licensed platforms in the US and Europe and provides capital support for the Group's participation on Lloyd's Syndicates with live business.
- Legacy – acquires legacy portfolios and insurance debt and provides capital support to the Group's managed Lloyd's Syndicates in run-off.
- Other – primarily includes the holding company and other non-core subsidiaries which fall outside of the segments above.

The segmental presentation has been updated to show how the business is reported to the Board. Following the disposal of the ISD and UMD, the business has concentrated on two key areas, which are presented as Live and Legacy segments. The comparatives for the full year 2017 have been revised to reflect the new segmental analysis.

Segmental results for continuing operations for the year ended 31 December 2018

	Live £000	Legacy £000	Other £000	Consolidation adjustments £000	Total £000
Earned premium, net of reinsurance	38,675	24,774	–	–	63,449
Net investment income	(379)	5,092	16,110	(15,393)	5,430
External income	2,956	1,830	7,174	–	11,960
Internal income	–	2,062	15,160	(17,222)	–
Total income	41,252	33,758	38,444	(32,615)	80,839
Claims paid, net of reinsurance	(11,226)	(43,896)	–	–	(55,122)
Net change in provision for claims	(9,546)	75,366	–	–	65,820
Net insurance claims (increased)/released	(20,772)	31,470	–	–	10,698
Operating expenses	(24,282)	(38,373)	(31,861)	17,222	(77,294)
Result of operating activities before goodwill on bargain purchase	(3,802)	26,855	6,583	(15,393)	14,243
Goodwill on bargain purchase	–	5,640	357	–	5,997
Amortisation and impairment of intangible assets	–	(1,597)	(47)	–	(1,644)
Result of operating activities	(3,802)	30,898	6,893	(15,393)	18,596
Finance costs	(222)	(6,268)	(13,248)	15,393	(4,345)
Profit/(loss) on ordinary activities before income taxes	(4,024)	24,630	(6,355)	–	14,251
Income tax (charge)/credit	226	(10,316)	6,144	–	(3,946)
Profit/(loss) for the period	(3,798)	14,314	(211)	–	10,305
Non-controlling interests	(248)	(300)	67	–	(481)
Attributable to shareholders of parent	(4,046)	14,014	(144)	–	9,824
Segment assets	284,965	1,050,326	219,440	(357,158)	1,197,573
Segment liabilities	224,229	711,292	443,223	(357,158)	1,021,586

Segmental results for continuing operations for the year ended 31 December 2017

	Live £000	Legacy £000	Other £000	Consolidation adjustments £000	Total £000
Earned premium, net of reinsurance	45,232	123,438	-	-	168,670
Net investment income	689	12,886	4,795	(10,183)	8,187
External income	1,890	5,018	1,246	-	8,154
Internal income	-	887	15,308	(16,195)	-
Total income	47,811	142,229	21,349	(26,378)	185,011
Claims paid, net of reinsurance	(31,017)	(50,411)	-	-	(81,428)
Net change in provision for claims	5,539	(33,143)	-	-	(27,604)
Net insurance claims (increased)/released	(25,478)	(83,554)	-	-	(109,032)
Operating expenses	(27,148)	(35,964)	(37,501)	16,195	(84,418)
Result of operating activities before goodwill on bargain purchase	(4,815)	22,711	(16,152)	(10,183)	(8,439)
Goodwill on bargain purchase	-	24,666	-	-	24,666
Amortisation and impairment of intangible assets	(750)	(1,114)	(45)	-	(1,909)
Result of operating activities	(5,565)	46,263	(16,197)	(10,183)	14,318
Finance costs	(19)	(5,297)	(9,071)	10,183	(4,204)
Share of loss of associate	(284)	-	-	-	(284)
Profit/(loss) on ordinary activities before income taxes	(5,868)	40,966	(25,268)	-	9,830
Income tax (charge)/credit	(1,047)	(4,232)	4,966	-	(313)
Profit/(loss) for the period	(6,915)	36,734	(20,302)	-	9,517
Non-controlling interests	9	117	(182)	-	(56)
Attributable to shareholders of parent	(6,906)	36,851	(20,484)	-	9,461
Segment assets	46,929	1,021,409	488,624	(510,133)	1,046,829
Segment liabilities	53,962	792,254	561,310	(510,133)	897,393

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.

Geographical analysis

As at 31 December 2018

	UK £000	North America £000	Europe £000	Total £000
Gross assets	463,918	813,038	277,775	1,554,731
Intercompany eliminations	(131,425)	(169,314)	(56,419)	(357,158)
Segment assets	332,493	643,724	221,356	1,197,573
Gross liabilities	332,349	834,004	212,391	1,378,744
Intercompany eliminations	(105,813)	(246,587)	(4,758)	(357,158)
Segment liabilities	226,536	587,417	207,633	1,021,586
Revenue from external customers	43,192	28,871	8,776	80,839

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

5. Segmental information *continued*

Geographical analysis *continued*

As at 31 December 2017

	UK £000	North America £000	Europe £000	Total £000
Gross assets	560,629	780,277	235,018	1,575,924
Intercompany eliminations	(267,377)	(190,816)	(51,940)	(510,133)
Segment assets	293,252	589,461	183,078	1,065,791
Gross liabilities	510,877	717,080	181,361	1,409,318
Intercompany eliminations	(229,871)	(275,139)	(5,123)	(510,133)
Segment liabilities	281,006	441,941	176,238	899,185
Revenue from external customers	52,335	118,548	14,128	185,011

6. Discontinued operations and disposal groups

a. The sale of R&Q Managing Agency Limited

On 23 June 2017 the Group announced that it had reached agreement to sell the entire share capital of its Lloyd's managing agency, R&Q Managing Agency Limited ("RQMA") to Coverys, a leading provider of medical professional liability insurance based in Boston, Massachusetts. The sale received regulatory change of control approval by Lloyd's and the PRA, and was completed on 30 November 2017. RQMA is presented within these Financial Statements as a discontinued operation for previous period comparatives, as it represented the sale of a major line of business within the Group.

b. The sale of Insurance Services and Captive Management Divisions

On 13 January 2018 the Group completed the sale of its Insurance Services and Captive Management Operations ("ISD") to Davies Group ("Davies") a leading operations management, consultancy and digital solutions provider. The transaction involved the sale of the entire share capital of JMD Specialist Insurance Services Group Limited and its subsidiaries, R&Quiem Limited, John Heath & Company Limited and AM Associates Insurance Services Limited as well as Randall & Quilter Bermuda Holdings Limited and its Quest subsidiaries. The sale is presented within these Financial Statements as a discontinued operation for the year-ending 31 December 2018 and for previous period comparatives, as it represented the sale of a major line of business within the Group.

Profit for the year from discontinued operations

For the year ended 31 December	RQMA 2018 £000	ISD 2018 £000	Total 2018 £000	RQMA 2017 £000	ISD 2017 £000	Total 2017 £000
Other Income	–	(183)	(183)	10,586	14,391	24,977
Operating expenses	–	(2,310)	(2,310)	(13,909)	(12,630)	(26,539)
(Loss)/profit from discontinued operations before tax	–	(2,493)	(2,493)	(3,323)	1,761	(1,562)
Income tax credit/(charge)	–	225	225	(30)	(148)	(178)
Operating (loss)/profit	–	(2,268)	(2,268)	(3,353)	1,613	(1,740)
Disposal proceeds	–	17,216	17,216	16,799	–	16,799
Net assets disposed of	–	(17,431)	(17,431)	(1,606)	–	(1,606)
(Loss)/gain on disposal	–	(215)	(215)	15,193	–	15,193
Income tax charge on disposal	–	–	–	–	–	–
(Loss)/profit on disposals	–	(215)	(215)	15,193	–	15,193
(Loss)/profit for the year from discontinued operations	–	(2,483)	(2,482)	11,840	1,613	13,453

Cash flows for the year from discontinued operations

For the year ended 31 December	RQMA 2018 £000	ISD 2018 £000	Total 2018 £000	RQMA 2017 £000	ISD 2017 £000	Total 2017 £000
Net cash (outflows)/inflows from operating activities	–	(404)	(404)	(158)	166	8
Net cash inflows from investing activities	–	16,511	16,511	16,799	–	16,799
Net cash inflows	–	16,107	16,107	16,641	166	16,807

The major classes of assets and liabilities forming the RQMA and ISD disposal groups were as follows:

	ISD On disposal 13 January 2018 £000	RQMA On disposal 30 November 2017 £000
Assets		
Intangible assets	14,408	872
Property, plant and equipment	151	-
Other financial investments	62	-
Insurance and other receivables	2,940	1,524
Cash and cash equivalents	705	14
	18,266	2,410
Liabilities		
Insurance and other payables	835	804
Current tax liabilities	-	-
	835	804
Total net assets of the disposal group	17,431	1,606

No impairment losses were recognised on the reclassification of these operations as held for sale, or at the point of sale.

The major classes of assets and liabilities of the ISD disposal group held for sale were as follows:

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Assets classified as held for sale		
Intangible assets	-	13,496
Insurance and other receivables	-	4,357
Cash and cash equivalents	-	1,109
	-	18,962
Liabilities directly associated with assets held for sale		
Insurance and other payables	-	1,792
Current tax liabilities	-	-
	-	1,792
Total net assets of the disposal group	-	17,170

No impairment losses were recognised on the reclassification of these operations as held for sale, as the sale proceeds exceeded the carrying amounts.

7. Gross investment income

	2018 £000	2017 £000
Continuing operations		
Investment income	11,184	5,459
Realised net gains on financial assets	800	1,191
Unrealised (losses)/gains on financial assets	(6,554)	1,537
	5,430	8,187

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

8. Other income

Continuing operations	2018 £000	2017 £000
Income from contracts with customers		
Management fees	8,444	6,260
Income from other sources		
Insurance commissions	3,547	1,687
Profit on divestment	–	(3)
Interest expense on pension scheme deficit	(270)	(257)
Rental income from investment properties	163	15
Purchased reinsurance receivables	76	452
	11,960	8,154

Income from contracts with customers is derived from the supply of insurance and administration-related management services to third parties. The Group derives this income from the transfer of services over time.

Rental income includes revenue from property previously used for the Group's own use but subsequently reclassified in January 2018 as an investment property following the sale of the ISD business.

9. Operating expenses

Continuing operations	2018 £000	2017 £000
Costs of insurance company subsidiaries	11,957	9,745
Costs of syndicate participations	20,190	31,800
Employee benefits	28,568	30,751
Other operating expenses	16,579	12,122
	77,294	84,418

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

Auditor remuneration

	2018 £000	2017 £000
Fees payable to the Group's auditors for the audit of the Parent Company and its Consolidated Financial Statements	138	120
Fees payable for the audit of the Group's subsidiaries by:		
– Group auditors	534	502
– Other auditors	322	341
Advice on financial and accountancy matters	–	74
Other services under legislative requirements	133	123
Total	1,127	1,160

The above include the Group's share of the audit fee payable for syndicates 1110 and 3330 audits.

Fees payable included in the above table relating to the audit of the Group's discontinued operations for 2018 amount to nil (2017: 115k)

10. Finance costs

Continuing operations	2018 £000	2017 £000
Bank loan and overdraft interest	1,346	1,419
Subordinated debt interest	2,999	2,785
	4,345	4,204

11. Profit from continuing operations before income taxes

Profit from continuing operations before income taxes is stated after charging:

	2018 £000	2017 £000
Employee benefits (Note 25)	28,568	30,751
Legacy acquisition costs (including aborted transactions)	760	2,831
Depreciation and impairment of property, plant and equipment (Note 16)	335	625
Operating lease rental expenditure	1,296	1,929
Amortisation of pre contract costs	171	226
Amortisation and impairment of intangibles (Note 15)	1,644	1,909

12. Income tax charge

a. Analysis of charge in the year

	2018 £000	2017 £000
Continuing operations		
Current tax		
Current year	-	124
Adjustments in respect of previous years	40	208
Foreign tax	(806)	336
	(766)	668
Deferred tax	4,712	(355)
Income tax charge	3,946	313

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:

	2018 £000	2017 £000
Profit on continuing operations before income taxes	14,251	9,830
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	2,708	1,892
Differences in taxation treatment	(5,551)	(6,148)
Utilisation of tax (losses)/profits	(181)	549
Timing differences in respect of pension schemes	(53)	(58)
Unrelieved losses	5,468	5,663
Foreign tax rate differences	1,515	(1,793)
Adjustments to the tax charge in respect of prior years	40	208
Income tax charge for the year	3,946	313

c. Factors that may affect future tax charges

In addition to the recognised deferred tax assets, the Group has other trading losses of approximately £109,552k (2017: £84,566k) in various Group companies available to be carried forward against future trading profits of those companies. The increase is materially due to acquisitions in the year. 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.

The Group has available capital losses of £27,976k (2017: £28,001k).

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

13. 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:

	2018 £000	2017 £000
Profit for the year attributable to ordinary shareholders from:		
Continued operations	9,824	9,461
Discontinued operations	(2,483)	13,453
	No. 000's	No. 000's
Shares in issue throughout the year	125,876	72,118
Weighted average number of Ordinary Shares issued in year	32	18,016
Weighted average number of Ordinary Shares	125,908	90,134
Basic earnings per Ordinary Share for:		
Continued operations	7.8p	10.5p
Discontinued operations	(2.0p)	14.9p

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:

	2018 £000	2017 £000
Profit/(loss) for the year attributable to ordinary shareholders		
Continued operations	9,824	9,461
Discontinued operations	(2,483)	13,453
	No. 000's	No. 000's
Weighted average number of Ordinary Shares in issue in the year	125,908	90,134
Dilution effect of options	-	-
	125,908	90,134
Diluted earnings per Ordinary Share:		
Continued operations	7.8p	10.5p
Discontinued operations	(2.0p)	14.9p

c. Net asset value per share

	2018 £000	2017 £000
Net assets attributable to shareholders as at 31 December	175,638	166,772
	No. 000's	No. 000's
Ordinary Shares in issue as at 31 December	125,984	125,876
Less: shares held in treasury	-	-
	125,984	125,876
Net asset value per Ordinary Share	139.4p	132.5p

14. Distributions

The amounts recognised as distributions to shareholders in the year are:

	2018 £000	2017 £000
Distribution on cancellation of Z(2017: X) shares	6,798	4,545
Distribution on cancellation of AA(2017: Y) shares	4,536	3,069
Total distributions to shareholders	11,334	7,614

15. Intangible assets

	US state licences & customer contracts £000	Arising on acquisition £000	Goodwill £000	Other £000	Total £000
Cost					
As at 1 January 2017	6,849	9,977	34,432	1,282	52,540
Exchange adjustments	(528)	(352)	(1,768)	(4)	(2,652)
Acquisition of subsidiaries	-	5,256	572	-	5,828
Additions	-	-	-	419	419
Disposals	-	(140)	(1,806)	(37)	(1,983)
Transfer to discontinued operations	-	-	(12,561)	(1,212)	(13,773)
As at 31 December 2017	6,321	14,741	18,869	448	40,379
Exchange adjustments	356	428	951	3	1,738
Acquisition of subsidiaries	-	1,049	-	-	1,049
Additions	-	-	-	92	92
Disposals	-	-	(913)	(1)	(914)
As at 31 December 2018	6,677	16,218	18,907	542	42,344
Amortisation/Impairment					
As at 1 January 2017	373	1,196	17,504	501	19,574
Exchange adjustments	(35)	(12)	(1,348)	(4)	(1,399)
Charge for the year	178	1,094	572	65	1,909
Disposals	-	(140)	-	-	(140)
Transfer to discontinued operations	-	-	-	(277)	(277)
As at 31 December 2017	516	2,138	16,728	285	19,667
Exchange adjustments	39	108	909	3	1,059
Charge for the year	172	1,409	-	63	1,644
As at 31 December 2018	727	3,655	17,637	351	22,370
Carrying amount					
As at 31 December 2018	5,950	12,563	1,270	191	19,974
As at 31 December 2017	5,805	12,603	2,141	163	20,712

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

	2018 £000	2017 £000
Live	-	-
Legacy	1,270	1,228
Other	-	13,474
Total	1,270	14,702

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.

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

15. Intangible assets continued

Key assumptions used in value in use calculations

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

- Discount rates, which represent the current market assessment of the risks specific to each cash generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The pre-tax discount rate applied to the cash flow projections is 10.0% (2017: 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.
- Growth rate used to extrapolate cash flows beyond the budget period, is based on published industry standards. Cash flows beyond the four-year period are extrapolated using a 10.0% growth rate (2017: 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.

16. Property, plant and equipment

	Computer equipment £000	Motor vehicles £000	Office equipment £000	Leasehold improvements £000	Freehold Property £000	Total £000
Cost						
As at 1 January 2017	1,715	41	1,677	653	2,486	6,572
Exchange adjustments	(119)	(2)	(38)	(105)	–	(264)
Additions	96	–	75	165	135	471
Disposals	(112)	–	(300)	–	–	(412)
Transferred to discontinued operations	(85)	–	(28)	(15)	–	(128)
As at 31 December 2017	1,495	39	1,386	698	2,621	6,239
Exchange adjustments	85	2	26	70	–	183
Additions	136	–	43	10	–	189
Disposals	(302)	–	(141)	–	–	(443)
Acquisition of subsidiaries	152	–	–	–	–	152
Reclassification of property to investment property	–	–	–	–	(2,621)	(2,621)
As at 31 December 2018	1,566	41	1,314	778	–	3,699
Depreciation						
As at 1 January 2017	1,436	41	1,190	509	–	3,176
Exchange adjustments	(116)	(2)	(36)	(95)	–	(249)
Charge for the year	156	–	137	64	52	409
Impairment	–	–	–	–	216	216
Disposals	(86)	–	(148)	–	–	(234)
Transferred to discontinued operations	(72)	–	(27)	(15)	–	(114)
As at 31 December 2017	1,318	39	1,116	463	268	3,204
Exchange adjustments	80	2	24	68	–	174
Charge for the year	170	–	101	64	–	335
Impairment	–	–	–	–	–	–
Disposals	(283)	–	(141)	–	–	(424)
Acquisition of subsidiaries	101	–	–	–	–	101
Reclassification of property to investment property	–	–	–	–	(268)	(268)
As at 31 December 2018	1,386	41	1,100	595	–	3,122
Carrying amount						
As at 31 December 2018	180	–	214	183	–	577
As at 31 December 2017	177	–	270	235	2,353	3,035

As at 31 December 2018, the Group had no significant capital commitments (2017: none). The depreciation charge for the year is included in operating expenses.

In January 2018 property previously used for the Group's own use was reclassified as an investment property following the sale of ISD business and the subsequent change in use.

17. Investment properties and financial assets

a. Investment properties

	2018 £000	2017 £000
As at 1 January	426	407
Reclassification of property to investment property	2,353	-
Exchange adjustment	5	19
Decrease in fair value during the year	(903)	-
As at 31 December	1,881	426

The investment properties are measured at fair value derived from the valuation work performed at the balance sheet date by independent property valuers.

In January 2018 a property previously used for the Group's own use was reclassified as an investment property following the sale of ISD business and the subsequent change in use.

Properties that are under contract for sale have been valued at the agreed sale price.

Rental income from the investment properties for the year was £163k (2017: £15k) and is included in Other Income within the Consolidated Income Statement.

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

	2018 £000	2017 £000
Equities	24,369	21,146
Debt securities – fixed interest rate	371,049	384,370
	395,418	405,516

Included in the above amounts are £23,046k (2017: £20,737k) pledged as part of the Funds at Lloyd's in support of the Group's underwriting activities in 2018. 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 permission. Also included in the above amounts are £84,015k (2017: £75,500k) of funds withheld as collateral for certain of the Group's reinsurance contracts.

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

17. Investment properties and financial assets continued

c. Shares in subsidiary and associate undertakings

The Company had interests in the following subsidiaries at 31 December 2018:

Principal activity and name of subsidiaries/associate	Country of incorporation/registration	% of Ordinary Shares held via:		
		The Company	Subsidiary and associate undertakings	Overall effective % of share capital held
Berda Developments Limited	Bermuda	–	100	100
R&Q Bermuda (SAC) Limited	Bermuda	–	100	100
R&Q Quest (SAC) Limited	Bermuda	–	100	100
R&Q Quest Insurance Limited	Bermuda	–	100	100
R&Q Re (Bermuda) Limited	Bermuda	–	100	100
RQLM Limited	Bermuda	100	–	100
R&Q Risk Services Canada Limited	Canada	–	100	100
Randall & Quilter Canada Holdings Limited	Canada	–	100	100
R&Q Quest Management Services (Cayman) Limited	Cayman Islands	–	100	100
R&Q Cyprus Ltd	Cyprus	100	–	100
Callidus Solutions Ltd	England and Wales	–	51	51
R&Q Alpha Company plc +	England and Wales	100	–	100
R&Q Beta Company plc >	England and Wales	100	–	100
R&Q Capital No. 1 Limited	England and Wales	–	100	100
R&Q Capital No. 6 Limited	England and Wales	–	100	100
R&Q Capital No. 7 Limited	England and Wales	–	100	100
R&Q Central Services Limited	England and Wales	–	100	100
R&Q Commercial Risk Services Limited	England and Wales	–	100	100
R&Q Delta Company Limited	England and Wales	100	–	100
MPS Risk Solutions Limited *	England and Wales	–	100	100
R&Q Gamma Company Limited	England and Wales	100	–	100
R&Q Insurance Services Limited	England and Wales	–	100	100
R&Q MGA Limited	England and Wales	–	100	100
R&Q Munro MA Limited	England and Wales	–	100	100
R&Q Munro Services Company Limited	England and Wales	–	100	100
R&Q Oast Limited	England and Wales	–	100	100
R&Q Reinsurance Company (UK) Limited	England and Wales	–	100	100
R&Quiem Financial Services Limited	England and Wales	–	100	100
Randall & Quilter Captive Holdings Limited	England and Wales	–	100	100
Randall & Quilter II Holdings Limited	England and Wales	–	100	100
Randall & Quilter IS Holdings Limited	England and Wales	–	100	100
Randall & Quilter Underwriting Management Holdings Limited	England and Wales	–	100	100
RQIH Limited	England and Wales	100	–	100
Trilogy Managing General Agents Limited	England and Wales	–	80	80
La Licorne Compagnie de Reassurances SA	France	–	100	100
R&Q Insurance Management (Gibraltar) Limited	Gibraltar	–	100	100
Capstan Insurance Company Limited	Guernsey	–	100	100
R&Q Ireland Claims Services Limited #	Ireland	–	100	100
R&Q Ireland Company Limited by Guarantee #	Ireland	–	100	100
Hickson Insurance Limited	Isle of Man	–	100	100
Pender Mutual Insurance Company Limited	Isle of Man	–	100	100
R&Q Insurance Management (IOM) Limited	Isle of Man	–	100	100
Accredited Insurance (Europe) Limited	Malta	–	100	100
FNF Title Company Limited	Malta	100	–	100
R&Q Alpha Malta P.L.C. +	Malta	–	100	100
R&Q Beta Malta P.L.C. >	Malta	–	100	100
R&Q Insurance (Europe) Limited	Malta	–	100	100
R&Q Malta Holdings Limited	Malta	–	100	100
Accredited Bond Agencies Inc.	US	–	100	100
Accredited Group Agency Inc.	US	–	100	100
Accredited Holding Corporation	US	–	100	100
Accredited Surety and Casualty Company, Inc.	US	–	100	100
Excess and Treaty Management Corporation	US	–	100	100
Grafton US Holdings Inc.	US	–	60	60
ICDC Ltd	US	–	100	100

Principal activity and name of subsidiaries/associate	% of Ordinary Shares held via:			Overall effective % of share capital held
	Country of incorporation/ registration	The Company	Subsidiary and associate undertakings	
LBL Acquisitions, LLC	US	–	100	60
R&Q Healthcare Interests LLC	US	–	100	100
R&Q Quest PCC, LLC	US	–	100	100
R&Q Reinsurance Company	US	–	100	100
R&Q RI Insurance Company	US	–	100	100
R&Q Services Holding Inc.	US	–	100	100
R&Q Solutions LLC	US	–	100	100
Randall & Quilter America Holdings Inc.	US	–	100	100
Randall & Quilter Bluebird Holdings Inc.	US	–	100	100
Randall & Quilter Healthcare Holdings Inc.	US	–	100	100
Randall & Quilter PS Holdings Inc.	US	–	100	100
Requiem America Inc.	US	–	100	100
Risk Transfer Underwriting Inc.	US	–	100	60
RSI Solutions International Inc.	US	–	100	100
Southern Illinois Land Company Inc.	US	–	100	60
Syndicated Services Company Inc.	US	–	100	100
Transport Insurance Company	US	–	100	100
United States Sports Insurance Company LLC ^	US	–	100	100
R&Q Oast Limited	England and Wales	–	100	100

has a November year end due to Irish Law Society connection.

+ R&Q Alpha Malta P.L.C. merged with R&Q Alpha Company plc to form a societates europaea entity, which re-domiciled to Malta in 2019. The Company subsequently changed name to R&Q Alpha Insurance Company SE.

> R&Q Beta Malta P.L.C. merged with R&Q Beta Company plc to form a societates europaea entity, which re-domiciled to Malta in 2019. The Company subsequently changed name to R&Q Beta Insurance Company SE.

^ has been merged with ICDC Ltd in 2019.

* has changed name to R&Q Eta Company Limited in 2019.

18. Insurance and other receivables

	2018 £000	2017 £000
Receivables arising from direct insurance operations	67,396	42,301
Receivables arising from reinsurance operations	97,306	63,118
Insurance receivables	164,702	105,419
Trade receivables/Receivables arising from contracts with customers	5,416	5,995
Other receivables	32,085	35,412
Purchased reinsurance receivables	3,393	3,751
Prepayments and accrued income	27,120	19,696
	68,014	64,854
Total	232,716	170,273

Included in purchased reinsurance receivables is £2,922k (2017: £2,550k) which is expected to be received within 12 months. The remainder of the balance is expected to be received after 12 months.

Included in receivables arising from contracts with customers are amounts due from customers in relation to the supply of management services which are now unconditionally due. There are no amounts due from contracts with customers which are subject to further performance or conditions before settlement.

Since 2015 the Group has entered into retroactive Reinsurance Contracts as an integral component of its strategy to actively seek commutations of the original ceded Reinsurance Program in respect of R&Q Re US. To date, the Group has received cash proceeds in excess of \$190,000k from the R&Q Re commutations strategy. The Group retains oversight and custody of the premiums and investment thereof.

Included in receivables arising from reinsurance operations is £64,000k (2017: £27,500k) in respect of amounts due under certain structured reinsurance contracts which are expected to be received after 12 months. The increase arises due the continued success of the commutations strategy, realised investment gains and 2018 US interest rate rises which have enhanced the amounts recoverable under the policies. The movement of £36,500k (2017: £1,556k) has been included in the £106,238k shown as proceeds from commutations and reinsurers' share of claims paid in the income statement.

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

18. Insurance and other receivables continued

The Group retains the right to recover any surplus assets ("experience accounts") remaining when the reinsurance reaches its natural expiry or is terminated by the Group. The estimated value of the experience accounts is reported within receivables arising from reinsurance operations. The valuation of the experience account is sensitive to movements in investment returns; any subsequent movement will be charged or credited to the income statement in the year which it arises. An increase or reduction in returns of 0.25% would result in a movement of 0.4% in total Group assets.

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

19. Cash and cash equivalents

	2018 £000	2017 £000
Cash at bank and in hand	236,923	173,393

Included in cash and cash equivalents is £581k (2017: £561k) being funds held in escrow accounts in respect of guarantees provided to the Institute of London Underwriters. The decrease is due to exchange movements.

Included in cash and cash equivalents is an amount of £1,400k (2017: £1,400k) held in respect of the defined benefit scheme.

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.

20. Insurance and other payables

	2018 £000	2017 £000
Structured liabilities	425,657	399,252
Structured settlements	(425,657)	(399,252)
	-	-
Payables arising from reinsurance operations	41,048	36,544
Payables arising from direct insurance operations	3,522	3,171
Insurance payables	44,570	39,715
Trade payables	1,839	1,859
Other taxation and social security	4,674	1,424
Other payables	105,543	43,252
Accruals and deferred income	11,862	6,019
	123,918	52,554
Total	168,488	92,269

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

Structured Settlements

No new structured settlement arrangements have been entered into during the year. The movement in these structured liabilities during the period is primarily due to exchange movements. Some Group subsidiaries have paid for annuities from third-party life insurance companies for the benefit of certain claimants. 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. In the event that any of these life insurance companies were unable to meet their obligations to these annuitants, any remaining liability may fall upon the respective insurance company subsidiaries. The Directors believe that, having regard to the quality of the security of the life insurance companies together with the reinsurance available to the relevant Group 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.

21. Financial liabilities

	2018 £000	2017 £000
Amounts owed to credit institutions	140,243	55,889

Amounts due to credit institutions are payable as follows:

	2018 £000	2017 £000
Less than one year	34,966	4,104
Between one to five years	14,500	15,500
Over five years	90,777	36,285
	140,243	55,889

As outlined in Note 31, £46,300k (2017: £18,500k) owed to credit institutions is secured by debentures over the assets of the Company and several of its subsidiaries.

The Group has issued the following debt:

Issuer	Principal	Rate	Maturity
Randall & Quilter Investment Holdings Ltd.	\$70,000k	6.35% above USD LIBOR	2028
Accredited Insurance (Europe) Limited	€20,000k	6.7% above EURIBOR	2025
Accredited Insurance (Europe) Limited	€5,000k	6.7% above EURIBOR	2027
R&Q Re (Bermuda) Limited	\$20,000k	7.75% above USD LIBOR	2023

The Group's subsidiary, Accredited Holding Corporation, provides a full and unconditional guarantee for the payment of principal, interest and any other amounts due in respect of the Notes issued by Randall & Quilter Investments Holding Ltd.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from the financing activities are those for which cash flows were, or future cash flows will be, classified in the Group Consolidated Cash Flows Statement as cash flows from financing activities.

	2018 £000	2017 £000
Balance at 1 January	55,889	65,931
Financing cash flows*	83,170	(8,235)
Non-cash exchange adjustment	1,184	(1,807)
Balance at 31 December	140,243	55,889

* Represents the net cash flows from the repayment of borrowings and the proceeds from new borrowing arrangements.

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

22. Insurance contract provisions and reinsurance balances

	2018			2017		
	Live £000	Run-off £000	Total £000	Live £000	Run-off £000	Total £000
Gross						
Insurance contract provisions at 1 January	75,892	646,643	722,535	42,793	510,933	553,726
Claims paid	(28,435)	(132,925)	(161,360)	(14,088)	(127,925)	(142,013)
(Decreases)/increases in provisions arising from the (disposal)/acquisition of subsidiary undertakings and Syndicate participations	(31,188)	4,906	(26,282)	–	210,979	210,979
Increases in provisions arising from acquisition of reinsurance portfolios	–	11,936	11,936	–	84,498	84,498
Increase in claims provisions	71,953	7,892	79,845	30,396	37,884	68,280
Increase/(decrease) in unearned premium reserve	52,657	(10,613)	42,044	17,785	(34,338)	(16,553)
Net exchange differences	3,875	26,485	30,360	(994)	(35,388)	(36,382)
As at 31 December	144,754	554,324	699,078	75,892	646,643	722,535
Reinsurance						
Reinsurers' share of insurance contract provisions at 1 January	25,512	227,970	253,482	3,412	199,320	202,732
Proceeds from commutations and reinsurers' share of gross claims paid	(17,210)	(89,028)	(106,238)	(4,191)	(56,394)	(60,585)
(Decreases)/increases in provisions arising from the (disposal)/acquisition of subsidiary undertakings and Syndicate participations	(1,440)	–	(1,440)	–	72,432	72,432
Increases in provisions arising from acquisition of reinsurance portfolios	–	722	722	–	771	771
Increase in claims provisions	50,609	51,148	101,757	10,319	32,656	42,975
Increase/(decrease) in unearned premium reserve	45,377	(4,794)	40,583	14,793	(11,368)	3,425
Net exchange differences	737	10,754	11,491	1,179	(9,447)	(8,268)
As at 31 December	103,585	196,772	300,357	25,512	227,970	253,482
Net						
Net insurance contract provisions at 1 January	50,380	418,673	469,053	39,381	311,613	350,994
Net (claims paid)/commutation proceeds	(11,225)	(43,897)	(55,122)	(9,897)	(71,531)	(81,428)
(Decreases)/increases in provisions arising from the (disposal)/acquisition of subsidiary undertakings and Syndicate participations	(29,748)	4,906	(24,842)	–	138,547	138,547
Increases in provisions arising from acquisition of reinsurance portfolios	–	11,214	11,214	–	83,727	83,727
Increase/(decrease) in claims provisions	21,344	(43,256)	(21,912)	20,077	5,228	25,305
Increase/(decrease) in unearned premium reserve	7,280	(5,819)	1,461	2,992	(22,970)	(19,978)
Net exchange differences	3,138	15,731	18,869	(2,173)	(25,941)	(28,114)
As at 31 December	41,169	357,552	398,721	50,380	418,673	469,053

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

Assumptions, changes in assumptions and sensitivity

The assumptions used in the estimation of provisions relating to insurance contracts are intended to result in provisions which are sufficient to settle the net liabilities from insurance contracts. The amounts presented above include estimates of future reinsurance recoveries expected to arise on the settlement of the gross insurance liabilities, including £84,015k (2017: £75,500k) in respect of the structured reinsurance contract collateralised by the funds withheld disclosed in Note 17 (b).

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. 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 programs.

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.

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 advisers 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% reduction in the net technical provisions would increase net assets by £3,987k (2017: £4,691k).

Since 2015 the Group has entered into retroactive reinsurance contracts as an integral component of its strategy to actively seek commutations of the original ceded reinsurance program in respect of R&Q Re US. To date, the Group has received cash proceeds in excess of \$190m from the R&Q Re US commutation strategy. The Group retains oversight and custody of the premiums and investment thereof. It also retains the right to recover any surplus assets ("experience account") remaining when the reinsurance reaches its natural expiry or is terminated by the Group.

The estimated value of the experience account is reported within receivables arising from reinsurance operations. The valuation of the experience account is sensitive to movement in investment returns. An increase or reduction in returns of 0.25% would result in a 2.8% movement in the assets of R&Q Re.

23. Current and deferred tax

Current tax

	2018 £000	2017 £000
Current tax assets	191	2,411
Current tax liabilities	(2,323)	(7,426)
Net current tax liabilities	(2,132)	(5,015)

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 17% for the UK (2017: 17%) and 21% for the US (2017: 21%).

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 2017	6,344	(2,893)	3,451
Movement in year	4,563	(3,997)	566
As at 31 December 2017	10,907	(6,890)	4,017
Movement in year	(7,702)	3,441	(4,261)
As at 31 December 2018	3,205	(3,449)	(244)

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

23. Current and deferred tax continued

Deferred tax continued

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 2017	(39)	3,209	1,678	(1,397)	3,451
Movement in year	–	1,042	228	(704)	566
As at 31 December 2017	(39)	4,251	1,906	(2,101)	4,017
Movement in year	–	5,780	(739)	(9,302)	(4,261)
As at 31 December 2018	(39)	10,031	1,167	(11,403)	(244)

Movements in the provisions for deferred taxation are disclosed in the Financial Statements as follows:

	Exchange adjustment £000	Deferred tax in income statement £000	Deferred tax in statement of comprehensive income £000	Total £000
Movement in 2017	(238)	634	170	566
Movement in 2018	1,243	(4,712)	(792)	(4,261)

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

	2018 £000	2017 £000
Deferred tax assets – relating to trading losses		
Deferred tax assets to be recovered after more than 12 months	7,533	1,706
Deferred tax assets to be recovered within 12 months	2,498	2,545
Deferred tax assets	10,031	4,251

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. 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.

The Group's total deferred tax asset includes £10,031k (2017: £4,251k) in respect of trading losses carried forward. The tax losses have arisen in individual legal entities and will be used as future taxable profits in those legal entities. Substantially all of the unused tax losses for which a deferred tax asset has been recognised arises in the US subgroup.

24. Share capital

	Number of shares	Ordinary Shares £000	Share premium £000	Total £000
At 1 January 2017	72,117,956	1,441	5,563	7,004
Issue of Ordinary Shares	53,758,664	1,076	64,308	65,384
Issue of X-Y shares	175,079,030	7,614	(7,614)	-
Redemption/cancellation of X-Y shares	(175,079,030)	(7,614)	-	(7,614)
At 31 December 2017	125,876,620	2,517	62,257	64,774
Issue of Ordinary Shares	107,660	3	212	215
Issue of Z-AA shares	251,874,994	11,334	(11,334)	-
Redemption/cancellation of Z-AA shares	(251,874,994)	(11,334)	-	(11,334)
At 31 December 2018	125,984,280	2,520	51,135	53,655

	2018 £	2017 £
Allotted, called up and fully paid		
125,984,280 Ordinary Shares of 2p each (2017: 72,117,956 Ordinary Shares of 2p each)	2,520,686	2,517,512
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	2,520,688	2,517,514

	2018 £	2017 £
Included in equity		
125,984,280 Ordinary Shares of 2p each (2017: 72,117,956 Ordinary Shares of 2p each)	2,520,686	2,517,512
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	2,520,688	2,517,514

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 since acquisition by either R&Q Reinsurance Company or R&Q Reinsurance Company (UK) Limited.

Shares issued

During the year the Group issued Z and AA shares (with an aggregate value of £11,334k) (2017: X and Y shares (with an aggregate value of £7,614k) which were all cancelled).

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

25. Employees and Directors

Employee benefit expense for the Group during the year

	2018 £000	2017 £000
Wages and salaries	24,374	38,433
Social security costs	2,968	4,021
Pension costs	1,014	1,384
Share based payment charge	212	366
	28,568	44,204
Continuing operations	28,568	30,751
Discontinued operations	–	13,453

Pension costs are recognised in operating expenses in the Consolidated Income Statement and include £1,014k (2017: £1,384k) in respect of payments to defined contribution schemes.

Average number of employees

	2018 Number	2017 Number
Live	80	58
Legacy	115	117
Other	74	247
	269	422

Total number of employees at 31 December 2018 was 276 (2017: 366). The total number of employees reduced in 2018 due to the sale of the ISD entities. The reduction in 2017 was due to the sale of R&Q Managing Agency Limited.

Remuneration of the Directors and key management

	2018 £000	2017 £000
Aggregate Director emoluments	2,658	1,780
Aggregate key management emoluments	1,961	2,398
Share based payments – Directors	–	331
Share based payments – Key management	169	–
Director pension contributions	–	43
Key management pension contributions	38	37
	4,826	4,589
Highest paid Director		
Aggregate emoluments	1,029	1,160

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

Directors' emoluments

Name	Salary £000	Bonus £000	Total £000	Total \$000
K E Randall	655	374	1,029	1,375
A K Quilter	476	250	726	–
M A Langridge	398	205	603	–
M G Smith	150	–	150	–
A H F Campbell	75	–	75	–
P A Barnes	75	–	75	100

K E Randall and P A Barnes have been remunerated in US dollars.

Excluded from the above table are amounts paid to T A Booth who resigned as a Director on 5 January 2018 and left the Group on 30 June 2018. He received emoluments of £1,040k during 2018.

26. Pension scheme obligations

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 actuarial valuation of the scheme is carried out every three years.

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

	2018 £000	2017 £000
Fair value of plan assets	23,571	25,279
Present value of funded obligations	(30,437)	(36,493)
Net defined benefit liability	(6,866)	(11,214)
Related deferred tax asset	1,167	1,906
Net position in the Consolidated Statement of Financial Position	(5,699)	(9,308)

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
As at 31 December 2017	(36,493)	25,279	(11,214)
Interest (expense)/income	(861)	591	(270)
	(37,354)	25,870	(11,484)
Remeasurements:			
Return on plan assets, excluding amounts included in interest expense	–	(980)	(980)
Gain from changes in financial assumptions	2,207	–	2,207
Gain from changes in demographic assumptions	1,732	–	1,732
Gain from new valuation data	1,790	–	1,790
Experience loss	(88)	–	(88)
Loss on curtailments	(121)	–	(121)
Liabilities extinguished on settlements	159	–	159
	(31,675)	24,890	(6,785)
Employer's contributions	–	(81)	(81)
Benefit payments from the plan	1,238	(1,238)	–
As at 31 December 2018	(30,437)	23,571	(6,866)
			Net defined benefit liability £000
As at 31 December 2016	(35,617)	25,749	(9,868)
Interest (expense)/income	(907)	650	(257)
	(36,524)	26,399	(10,125)
Remeasurements:			
Return on plan assets, excluding amounts included in interest expense	–	396	396
Loss from changes in financial assumptions	(1,932)	–	(1,932)
Experience gain	534	–	534
	(37,922)	26,795	(11,127)
Employer's contributions	–	(87)	(87)
Benefit payments from the plan	1,429	(1,429)	–
As at 31 December 2017	(36,493)	25,279	(11,214)

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

26. Pension commitments *continued*

c. Significant actuarial assumptions

(i) Financial assumptions

	2018	2017
Discount rate	2.8%	2.4%
RPI inflation assumption	3.3%	3.4%
CPI inflation assumption	2.5%	2.6%
Pension revaluation in deferment:		
– CPI, maximum 5%	2.5%	2.6%
Pension increases in payment:		
– RPI, maximum 5%	3.3%	3.4%

(ii) Demographic assumptions

Assumed life expectancy in years, on retirement at 60	2018	2017
Retiring today		
– Males	26.6	27.6
– Females	28.6	30.1
Retiring in 20 years		
– Males	28.1	29.0
– Females	30.2	31.6

d. Sensitivity to assumptions

The results of the IAS 19 valuation at 31 December 2018 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 8%
Rate of inflation	Increase by 0.5%	Increase by 1%
Life expectancy	Increase by 1 year	Increase by 3%

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

	Level 1	Level 2	2018 £000 Total	Level 1	Level 2	2017 £000 Total
Cash and cash equivalents	–	257	257	–	581	581
Investment funds:						
– equities	–	14,480	14,480	–	15,232	15,232
– bonds	–	5,962	5,962	–	6,230	6,230
– property	–	–	–	–	–	–
– LDI	–	2,872	2,872	–	3,236	3,236
	–	23,571	23,571	–	25,279	25,279

Definitions of Level 1 and Level 2 investments can be found in Note 4(a)(i).

f. Contributions and present value of defined benefit obligation

Funding levels are monitored on an annual basis. As at 31 December 2018 £1,400k (2017: £1,400k) was held in Escrow by the Group depending on the outcome of the next triennial valuation. No contributions have been made directly into the scheme during 2018 (2017: nil).

The table below shows an analysis by term to retirement of Scheme membership and past service liability as at the date of the last agreed actuarial valuation, 1 January 2015.

	Pensioners	Term to retirement					
		0-5 years	6-10 years	11-15 years	16-20 years	21-25 years	26+ years
Proportion of total liabilities (funding basis)	47.8%	21.6%	17.9%	10.6%	2.1%	0.0%	0.0%
Number of members	126	42	39	33	18	-	-

The duration of the liabilities of the Scheme is approximately 15 years as at 31 December 2015.

27. Related party transactions

Transactions with subsidiaries

Transactions between the Group's wholly owned subsidiary undertakings, which are related parties, have been eliminated on consolidation and accordingly not disclosed.

Transactions with Directors

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

	2018 £000	2017 £000
K E Randall and family	1,440	1,483
A K Quilter and family	375	374
M G Smith	3	3

Transactions with key management service provider

With effect from 1 July 2016 some of the Group compliance services have been provided by a Group subsidiary, Callidus Solutions Limited, of which 49% of the share capital is owned by the Chief Governance Officer.

	2018 £000	2017 £000
Fees charged for compliance services	207	426
Fees payable to service provider at end of year	13	13

28. Operating lease commitments

The Group leases a number of premises under operating leases, the total future minimum lease payments payable over the remaining terms of non-cancellable operating leases are:

	2018 £000	2017 £000
Land and buildings		
No later than one year	1,464	1,832
Later than one year but no later than five years	399	2,115

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

29. Business combinations and divestments

Business combinations

The Group made 14 business combinations during 2018, all of which involve legacy transactions and have been accounted for using the acquisition method of accounting.

Legacy entities and businesses

The following table shows the fair value of assets and liabilities (and consideration where paid) included in the Consolidated Financial Statements at the date of acquisition of the Legacy businesses:

	Intangible assets £000	Plant, property and equipment £000	Other debtors £000	Cash and investments £000	Other creditors £000	Technical provisions £000	Tax and deferred tax £000	Net assets/(liabilities) acquired £000	Consideration £000	Gross deal contribution £000
Aviabel III				7		(5)		3		3
Hawthorne	14			431	(4)	(192)	(6)	244		244
PSMAL/PSUL		39	613	270	(238)			684	(327)	357
Sitex				150				150		150
Norcan				279		–		279		279
SIMIA	519							519		519
Ashmont	8			232	(12)	(99)		129		129
PADSIP	75			980	(7)	(686)		362		362
Traffic	72			919		(680)		311		311
VOHI				195	(4)			191		191
TSIL	200			2,478		(2,044)		635		635
MPS			1	18,615	(89)	(530)	2	17,999	(16,000)	1,999
Derwent				350				350		350
Belaire	161			977		(670)		469		469
	1,050	39	614	25,884	(354)	(4,906)	(4)	22,323	(16,327)	5,997

In all instances, goodwill on bargain purchase was recorded on the transactions. Goodwill on bargain purchase arises when the consideration is less than the fair value of the net assets acquired. It 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. 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.

The Group completed the following business combinations during 2018:

Aviabel III

Effective 1 January 2018, the Group novated additional policies from Aviabel S.A. ("Aviabel") to Accredited Insurance (Europe) Limited which were not included in the two prior novations concluded with Aviabel.

Hawthorne

On 13 March 2018, the Group completed the novation of the insurance liabilities from Hawthorne Machinery Self Insured ("Hawthorne") to Accredited Surety & Casualty Company, Inc. The liabilities novated cover workers' compensation policies for the coverage years 1990-2012 which were issued by various excess carriers. External costs incurred were £45k.

PSMAL/PSUL

On 29 March 2018, the Group completed the acquisition of ProSight Specialty Managing Agency Limited and ProSight Specialty Underwriters Limited ("PSMAL" and "PSUL"), two companies which serviced Syndicate 1110, of which R&Q acquired the economic interest in 2017. External costs incurred were £29k.

Sitex

On 11 September 2018, the Group announced the novation of the employers' and public liabilities policies of the Sitex Orbis cell ("Sitex") within Windward Insurance PCC Limited, a cell company incorporated in Guernsey, to Capstan Insurance Company Limited. At the date of novation, there were no outstanding claims and no future claims anticipated.

Norcan

Effective 31 July 2018, the Group completed the novation of the commercial general liability policies of Norcan Insurance Co. Ltd. ("Norcan"), a Barbados based captive, to a cell within R&Q Bermuda (SAC) Limited. The policies were originally underwritten by Zurich and covered the period from 2004 to 2014.

SIMIA

Effective 30 September 2018, the Group completed the Part VII transfer of The Solicitors Indemnity Mutual Insurance Association Limited's ("SIMIA") professional indemnity policies, which were issued between 1987 and 2011, to R&Q Gamma Company Limited.

Ashmont

On 1 November 2018, the Group novated the workers' compensation policies of Ashmont Insurance Company ("Ashmont"), a Cayman Islands domiciled company, to a cell within R&Q Quest (SAC) Limited. The policies covered 1998 to 2002 and were fronted by Travelers.

PADSIP

On 1 November 2018, the Group novated the workers' compensation policies of Preferred Auto Dealers Self Insurance Program, Inc. ("PADSIP"), a company domiciled in California, to Accredited Surety & Casualty Company, Inc. The policies covered the period from 2003 to 2009. External costs incurred were £45k.

Traffic

Effective 1 June 2018, the Group novated the workers' compensation and auto liability policies fronted by Travelers of Traffic Insurance Ltd. ("Traffic"), a Cayman-based captive, to a cell within R&Q Quest (SAC) Limited. External costs incurred were £13k.

VOHI

On 14 December 2018, the Group novated the workers' compensation policies of VOHI Workers' Compensation Self-Insurance Corporation ("VOHI"), a Vermont-based company, to Accredited Surety & Casualty Company, Inc. The policies covered the period from 1995 to 1998. External costs incurred were £19k.

TSIL

On 18 December 2018, the Group novated the workers' compensation policies of Temporary Services Insurance Limited ("TSIL"), a Cayman domiciled captive, to a cell within R&Q Bermuda (SAC) Limited. The policies were fronted by Zurich and covered 2002 to 2009. External costs incurred were £36k.

MPS

On 31 December 2018, the Group acquired the entire issued share capital of MPS Risk Solutions Limited ("MPS"), a company incorporated in England and Wales. MPS's technical reserves relate to UK professional liability exposures in respect of policies written from 2004 to 2012. External costs incurred were £64k.

Derwent

Effective 31 March 2018, the Group novated the UK motor, employers' and public liability policies of Derwent Insurance Limited ("Derwent"), a Guernsey-based captive, to Accredited Insurance (Europe) Limited. The policies covered the period from 2005 to 2015.

Belaire

Effective 31 December 2018, the Group novated Belaire Insurance Company Limited's ("Belaire") share of contracts managed by Electricity Industry Run-off Services Limited to Accredited Insurance (Europe) Limited. The contracts provided Employers' Liability and Public Liability coverage for the UK electricity industry.

Divestment

On the 13 January 2018 the Group completed the sale of its Insurance Services and Captive Management Operations to Davies Group ("Davies"), a leading operations management, consultancy and digital solutions provider, as outlined in Note 6. The transaction involves the sale of the entire share capital of JMD Specialist Insurance Services Group Limited and its subsidiaries, R&Quiem Limited, John Heath & Company Limited and AM Associates Insurance Services Limited as well as Randall & Quilter Bermuda Holdings Limited and its Quest subsidiaries.

Notes to the Consolidated Financial Statements

continued

For the year ended 31 December 2018

30. Non-controlling interests

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

31 December 2018	2018 £000	2017 £000
Non-controlling interests		
Equity shares in subsidiaries	6	6
Share of retained earnings	282	(233)
Share of other reserves	61	61
	349	(166)
Movements in the year		
Balance at 1 January	(166)	6
Profit for the year attributable to non-controlling interests	481	56
Exchange adjustments	34	(32)
Comprehensive profit attributable to non-controlling interests	515	24
Changes in non-controlling interest in subsidiaries	-	(196)
Balance at 31 December	349	(166)

31. Guarantees and indemnities in ordinary course of business

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 2018 was £46,300k (2017: £18,500k).

The Group has given various customary warranties and indemnities in connection with the disposals of RQMA and various ISD entities (to Coverys and Davies respectively).

The Group also gives various guarantees in the ordinary course of business.

32. Contingent liabilities

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. The Company is in the process of finalising the small number of unsettled compensation payments. Whilst uncertainty still exists for the ultimate amounts payable, provision has been made for the Group's best estimate of the amounts that are expected to be paid.

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:

	2018		2017	
	Average	Year end	Average	Year end
US dollar	1.34	1.27	1.29	1.34
Euro	1.13	1.11	1.15	1.13

34. Events after the reporting date

Acquisition of Global U.S. Holdings Incorporated

On 23 April 2019 the Group announced it had received regulatory clearance to complete the acquisition of GLOBAL U.S. Holdings Inc. for a consideration of \$80.5m from AXA DBIO, SCA, a subsidiary of investment funds managed by AXA Liabilities Managers SAS ("AXA LM"). The transaction is expected to close shortly.

Global U.S. Holdings Incorporated is the 100% parent of GLOBAL Reinsurance Corporation of America ("Global Re US"). Global Re US is a New York domiciled insurance company in run-off that underwrote predominantly property and casualty pro rata treaties and facultative business for regional and specialty insurance companies on non-standard automobile, multi-peril and general liability lines in the US. In August 2002, it went into run-off and was acquired by an investment vehicle managed by AXA LM in June 2014.

Listing of senior unsecured floating rate notes

Randall & Quilter Investment Holdings Ltd announced on the 25 March 2019 that application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin for its \$70m senior unsecured floating rate notes due 2028, to be admitted to the Official List and trading on the Global Exchange Market.

Admission took place on 27 March 2019 under the ISIN XS1926956274.

The notes were issued on 28 December 2018 and will not be rated by any rating agency.

Capital raise

On 6 March 2019 Randall & Quilter Investment Holdings Ltd raised approximately £107m (before expenses) through the issue of 69,858,915 Ordinary Shares.

The purpose of the raise was to support the development of the Program Management business and maintain the AM Best ratings of the Accredited companies as the business grows, to replenish liquidity used in connection with previously announced acquisitions and to help rebalance the Group's debt: equity ratio.

35. Ultimate controlling party

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

Shareholder Information

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Notes

Notes

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