RANDALL & QUILTER INVESTMENT HOLDINGS LTD.

ANNUAL REPORT 2019

DELIVERING ON OUR STRATEGY
DELIVERING GROWTH

We are a unique global speciality insurance company

Program Management and Legacy insurance businesses are both well positioned to capitalise on favourable market dynamics

CONTENTS

2019 HIGHLIGHTS

Financial, strategic and operational

Group

Financial Highlights

Continuing business PBT

£40.1m

2019	40.1
2018	14.3

Underlying profit growth of

180%

After-tax Profit

£38.9m

2019	38.9
2018	7.8

After-tax profit growth

399%

Earnings per share

21.4p

2019	21.4
2018	9.2

Investment return

3.6%

2019	3.6
2018	1.2

Net asset value per share

148.1p

2019	148.1
2018	139.4

Cash and investments

£832.2m

2019	832.2
2018	638.7

Operational and post period end highlights

- Successfully raised £103.5m of equity in March 2019
- £76.9 million ($100m) of new equity raised in May 2020 to fund further growth
- Announced William Spiegel as Executive Director and Deputy Group Chairman in January 2020
- Announced Mike Walker as Head of Legacy Operations in January 2020
- Announced Tom Solomon as Executive Director and Chief Financial Officer in May 2020
- Announced Eamonn Flanagan as Non-Executive Director in May 2020

Outlook

- Existing strong pipeline of opportunities in both Program Management and Legacy, enhanced by 'hard' market created by Covid-19

Covid-19

- Limited impact on existing business and investment portfolio expected from Covid-19
- Business continuity plan successfully implemented

Program Management

Financial Highlights

Gross written premium

$369.3m

2019	369.3
2018	149.4

Premium growth of

147%

Economic EBITDA

$1.8m

2019	1.8
2018	(1.9)

Economic commission revenue

$12.9m

2019	12.9
2018	5.2

Commission growth of

148%

Operational

- Actioned a Brexit solution through the creation of a UK Branch of our Malta program insurer.

Legacy

Financial Highlights

Growth in reserves

31%

2019	31
2018	(15)

Operating return on capital

19.6%

2019	19.6
2018	16.7

Operational

- 16 transactions completed, including the largest acquisition to date with the purchase of Global Re at a cost of $80.5m.

All $ shown are US Dollars

STRATEGIC REPORT

Commentary on the Results for the Year

2019 was an outstanding year for R&Q and in 2020 our opportunity set continues to grow.

Ken Randall
Executive Chairman

We are pleased to report that 2019 was a record year for the Group. Our pre-tax profit was £40.1 million, our after-tax profit was £38.9 million and our net asset value per share (including return to shareholders) increased by 13% to 148.1p per share.

At £40.1 million, our pre-tax profit was a Group record and almost three times the equivalent result in 2018. This was the result of the continued growth in both our Program Management and Legacy businesses as we successfully executed against our strategy and capitalised on the significant opportunities in both segments.

Our Legacy business continued to thrive in 2019 as we completed 16 transactions including executing on two of the largest transactions in R&Q's history. Our 16 transactions contributed £332.2 million of new cash and investments and £276.2 million of additional net reserves. Moreover, our Legacy Operations team continued to achieve claims and reserve savings from portfolios acquired in prior years, while our investments returned 3.6% on £832.2 million of cash and investments at year end. Our investment portfolio continued to be conservatively managed and at year end 2019, we maintained a high quality (90% investment grade) and short average duration of 1.7 years. In 2019, our Legacy business generated an operating return on capital of 19.6% and over the past three years we are proud to report that our operating return on capital has averaged 17.6%. We believe operating return on capital is one of the most appropriate metrics to measure the profitability and value of our Legacy business. In any given year this metric records the profits on new deals, the reserve changes from prior year deals and the investment income (excluding unrealised gains or losses) associated with our total legacy portfolio.

Since late 2016, we have used our Legacy business infrastructure to support the growth of our nascent Program Management business. Program Management is a fee-based annual recurring commission revenue business that is highly scalable. In 2019, our gross premium written grew by 147%, from $149.4 million in 2018 to $369.3 million in 2019. This led to record Economic Commission Revenue which grew by 148% from $5.2 million in 2018 to $12.9 million in 2019. We are pleased to report that in 2019, we achieved a critical milestone as we generated positive Economic EBITDA of $1.8 million compared with an Economic EBITDA Loss of $3.8 million in 2018. We believe Economic Commission Revenue and Economic EBITDA are two of the most important metrics measuring the underlying profitability and value of our Program Management business. During periods of high growth, we focus on economic metrics more than IFRS metrics because they reflect the economic value of business already bound, regardless of the length of the underlying policy period. When growth in our business levels off, economic and IFRS figures will converge.

In the first quarter of 2020, our Program Management business continued to expand with growth in our existing programs and the addition of new programs, increasing gross written premium to $478.4 million (on an annualised basis), an increase of 30% from year end 2019. Moreover, in the first quarter of 2020, our Economic Commission Revenue grew to $19.6 million (on an annualised basis), an increase of 51% from year end 2019. Our Program Management business has significant built-in growth with its existing distribution partners with whom we have secured contracts which are expected to generate up to $842 million of contracted premium as of year-end 2019. Program Management is highly scalable, and with its current scale largely absorbing its fixed overhead (on both an Economic and IFRS basis), we expect a large portion of our future commissions from new business to show up as profit in 2020 and beyond.

In the first quarter of 2020, Covid-19 shut down the world economy likely leading to one of the largest insurance loss events on record. This large capital event is likely to accelerate the strong secular growth we were already seeing in our two specialist businesses, Program Management and Legacy, as these businesses become a core and growing part of the insurance industry. In order to proactively capitalise on the 'hard' market in our two business lines, in May 2020, we raised $100 million of new capital. In our Legacy business we are already witnessing increased opportunities from insurance companies seeking to free-up capital by divesting insurance reserves. In our Program Management business we believe we will be able to forge new origination partnerships as existing insurance capacity may not be able to continue to provide capital support. Moreover, due to current market conditions, we are bringing forward our entry into the US Excess & Surplus (E&S) Lines Program Management market, a large addressable market in which we do not presently compete.

Over the next few years we expect our Legacy business to continue to provide strong and consistent operating returns on capital. Our key goal for the Legacy business is to add a recurring fee component to its income by managing legacy business on behalf of third parties. There is a growing demand from alternative capital providers, such as pension funds, sovereign wealth funds and family offices, for access to the legacy insurance business we originate and service. The demand is driven because insurance liabilities are generally non-correlated to other securities, such as stocks and bonds. In our Program Management business, which is already largely fee-based, we expect to continue its rapid growth and benefit from its scalable business model to drive a large portion of future commission revenue from new business, straight to the bottom line. Our goals for the Program Management business are by 2022/2023 to have gross written premium of $1.5 billion to $2 billion, to achieve approximately 80% pre-tax margins and to generate Economic EBITDA in excess of $50 million. We are excited about the future of both of our businesses and believe we are well positioned to achieve our goals.

£000	2019	2018
Group results		
Operating profit (continuing)	49,662	18,596
Profit before tax (continuing)	40,125	14,251
Profit before tax	40,126	11,693
Profit after tax	38,845	7,822
Earnings per share (basic)	21.4p	5.8p
Balance sheet information		
Total assets	1,780,873	1,197,573
Cash and investments	832,208	638,672
Total gross reserves	1,072,208	699,078
Amounts owed to credit institutions	142,693	140,243
Shareholders' equity	290,246	175,638
Key statistics		
Investment return	3.6%	1.2%
Return on equity (average)	13.9%	4.7%
Return on tangible equity (average)	15.9%	5.4%
Net tangible assets (closing) per share	124.6p	123.6p
Net assets value (closing) per share	148.1p	139.4p
Net tangible assets (closing) + distribution per share	134p	132.6p
Net assets (closing) + distribution per share	157.5p	148.4p
Distribution per share (including bonus shares)	9.9p	9.2p

2019 was an outstanding year for R&Q and in 2020 our opportunity set continues to grow. We will continue, as is our tradition, to be patient and disciplined as we continue to grow our businesses.

Ken Randall
Executive Chairman

Report of the Executive Directors

Our business has grown consistently year over year, and we are unique as the only program carrier that has an AM Best A- credit rating in the US, the UK and Europe.

Ken Randall
Executive Chairman

William Spiegel
Deputy Executive Chairman

Alan Quilter
Chief Executive Officer

Financial Results

2019 was an exceptional year for R&Q both financially and strategically. Financially, we had our most profitable year ever, increasing pre-tax profits by 180% to £40.1 million, growing earnings per share by 269% to 21.4p and increasing net assets per share (including distributions) by 13% to 148.1p.

Importantly, the strategic benefit of focusing on two complementary high growth specialty insurance sectors, Program Management and Legacy, is becoming clear. After three years of our Legacy business infrastructure supporting our rapidly growing fee-based Program Management business, in 2019 we achieved an important milestone as our Program Management business generated an Economic EBITDA of $1.8 million. During periods of rapid growth, we believe Economic EBITDA more accurately reflects the true underlying earnings power of our Program Management business than IFRS EBITDA. Unlike IFRS, Economic EBITDA reflects the economic value of business already written, regardless of the length of the underlying policy period. This result was produced by a 147% growth in gross written premium to $369.3 million for the year ended 2019 and a 148% growth in Economic Commission Revenue (commission revenue earned on gross written premium). Given the scalability of the Program Management business, we expect a large portion of additional commissions from new business to drop to the bottom line. Meanwhile, in 2019, our Legacy business continued to generate high operating returns on capital. In 2019, our Legacy business generated an operating return on capital of 19.6% and over the past three years, it has produced an average operating return on capital of 17.6%. We believe operating return on capital is the most appropriate metric to measure the profitability and value of our Legacy business. In any given year this metric records the profits on new deals, the reserve changes from prior years' deals and the investment income (excluding unrealised gains or losses) associated with our total Legacy portfolio.

Program Management

Our Program Management business operates in the US, the UK and Europe under the banner of Accredited. We began developing this business in late 2016 and our first real year of operation was 2017. We identified the importance and demand for program management as we witnessed the growth in the independent Managing General Agents (MGA) channel and the increased demand of reinsurers for premium. At the end of 2019 we produced gross written premium of $369.3 million, up from $3.9 million in 2016, and had established ourselves as a leading program management company.

Our business has grown consistently year on year, and we are unique as the only program carrier that has an AM Best A- credit rating in the US, the UK and Europe. In the US we are licensed in all 50 states and in the UK/Europe we are licensed to write all classes of non-life business. In 2020, we will set up a fully authorised UK branch to facilitate continued access to the large UK market, post Brexit. This branch will get the full benefit of Accredited Malta's A- rating from AM Best. In the US, in 2019, Accredited (US) was upgraded to an AM Best category IX Financial Strength. This positive endorsement makes Accredited one of the highest rated program managers in the US and positions us well for continued future success.

The MGA/broker market in the US, UK and Europe produces over $100 billion of annual premium. In all of these jurisdictions, the independent MGA channel, as a form of insurance distribution, continues to grow. This trend is occurring for a number of reasons. First, insurance product distribution is becoming increasingly specialised. Second, underwriters have been leaving insurance companies to own their own 'non-regulated' independent business. Finally, the InsurTech boom has created a number of new tech-enabled distribution companies. While not all of the MGA/broker market is addressable by the program management market, the independent MGA channel has been growing as a percent of the total market. This is occurring because independent MGAs seek stability in their insurance company relationships and working with a program manager, as opposed to a competing insurance company, meets that need. Independent MGAs are finding that partnering with program managers, as opposed to competing insurance companies, provides a powerful way for them to retain more control over their future growth and success. A recent example of the trend is the move by Lloyd's to cease underwriting certain classes of business, which has resulted in underwriters leaving to join existing MGAs or starting new ones.

The other major trend that is increasing demand for program managers is that reinsurers are earning less premium on large programs that are increasingly retained by primary insurers. By working with a program manager, a reinsurer can access premium directly maintaining a good source of premium growth. We partner with many of the world's largest and most important reinsurers and are pleased to be working in collaboration with such high profile partners.

In the fourth quarter of 2016, as we were just launching our Program Management business, we had partnerships with two MGA's. Over the past three years our business has grown and we now have 30 MGA partnerships in seven countries. In 2020, we expect to add programs in four more countries. As we have added partnerships we have also grown the number of business lines in which we provide coverage. From just two business lines in 2016, we now offer program management for 17 different classes of non-life Property & Casualty business in the US, UK and Europe and we expect to add more classes of business in 2020.

Given the size of the market opportunity, we currently face limited competition, in part because of the high barriers to entering the program space. To compete one needs at least an A- rating, a strong capital base, licenses and the ability to execute with both MGA and reinsurance partners. In the US, UK and Europe there are only a small number of well-capitalised program managers with the ratings and financial strength of Accredited. We believe our A- rating, our strong capital base and our reputation for robust due diligence and oversight has given both MGAs and reinsurers confidence in our business.

As discussed above, in 2020 we are actively working on the launch of our US E&S Lines Program Management business. Entering the E&S market will complete Accredited's strategic initiative to be a comprehensive program management solutions provider in all its major global markets.

Legacy M&A

Legacy business has been at the core of the Group for almost 30 years. Over the last 10 years we have completed 102 transactions in 18 countries (35 different regulatory jurisdictions) and acquired £620 million of reserves, making R&Q a market-leading solutions provider in the legacy insurance market.

2019 was another busy year. We completed 16 transactions, assumed £276.2 million of net reserves and delivered a 19.6% operating return on capital. Deals were executed in Bermuda, Barbados, Ireland, UK, Sweden and several US states and included a wide array of transaction size and structure including:

- the Group's largest deal, the acquisition of Global Re, a New York domiciled carrier which has been in run-off since 2002
- a significant reinsurance deal for two Joint Power Authorities – Northern California Regional Liability Excess Fund and Statewide Association of Community Colleges
- a large loss portfolio transfer for a Lloyd's syndicate.

A significant advantage we possess in the legacy market is the breadth of our platform. We offer a full range of solutions to our clients – we have rated and fully licensed carriers in the US, UK and Europe, a Class 3 Bermudian reinsurer, a Bermudian segregated accounts company, a Lloyd's platform and consolidation vehicles in Guernsey, Isle of Man and Vermont. To broaden our platform we recently launched National Legacy Insurance Company (NLIC) in Oklahoma to benefit from the Insurance Business Transfer (IBT) legislation recently enacted in that state. IBT is similar to the Part VII transfer process that exists in the UK and is an area where we have extensive experience.

We are in the process of preparing our first application for an IBT into NLIC, with the business coming from the Excess Casualty Reinsurance Association (ECRA) pool that we manage. The ECRA pool, which we manage exclusively on behalf of the pool members, comprises $1.4 billion of gross liabilities and 150 participants, is ideal for using the IBT process to obtain finality for the ECRA pool participants.

We continue to see an increase in deal sizes, which reflects both our increased scale and the breadth of our platform. The deal pipeline remains very healthy and we envisage significant opportunities arising from the current global Covid-19 crisis with companies seeking capital efficiency through the disposal of legacy liabilities. These include commercial carriers or syndicates suffering from investment losses or unexpected claims development, or cash-strapped industrial and commercial business owners with trapped capital in their 'captive' insurance subsidiaries.

Legacy Operations

After our Legacy M&A team completes a transaction, our Legacy Operations team leverages its considerable collective experience to drive value. As well as managing the typical processes necessary in managing insurance businesses, the team provides invaluable support to the M&A team through due diligence, development of claims strategy and extracting additional value.

The Legacy Operations team has expertise in managing post acquisition integration and implementing strategies after a transaction is completed. This was illustrated in 2019 following the early May completion of the Global Re acquisition, where we successfully generated significant capital releases of $6 million in 2019 and $6 million in early 2020. Further releases from Global Re are expected in 2020. A similar result occurred following the acquisition of Sandell Re, with $5.4 million released soon after its acquisition. The team consistently reviews its acquired portfolios, identifying areas for reserve releases and strengthening, where appropriate. The Legacy Operations team is working on several other transfer and consolidation projects including the Part VII transfers of the Anglo-French portfolio and preparing the Part VII process for the UK P&I Club's industrial disease exposures. These benefit from the team's deep experience of managing such restructuring processes effectively and efficiently.

Report of the Executive Directors continued

The future is bright for R&Q. We are a unique global specialty insurance business that is well positioned for future growth and profit. We remain market leaders in both of our businesses, demand for our services is strong and increasing post Covid-19.

Cash and Investments

The investment team works closely with the Legacy M&A team, assisting with deal pricing and ensuring that new portfolios are on-boarded and invested as soon as possible after a deal closes. The management of our investment portfolio is outsourced, and during 2019 we completed a consolidation of our investment managers, reducing the number of external managers to three.

Our investment portfolio performed well in 2019, generating a net investment return of 3.6% compared with 1.2% for the year ended 2018. We earned this higher return on a larger investment portfolio as our cash and investments increased to £832.2 million at year end 2019 from £638.7 million at the end of 2018. The addition to our investment portfolio was primarily from the 16 legacy deals closed during the year as well as the £103.5 million equity raise in March of 2019.

We maintain a conservative portfolio with a minimal allocation to equities and other risk assets. As of year-end 2019, 95% of our portfolio was rated BBB or better (including 62% in AAA rated securities), the average duration was 1.7 years, 78% of the portfolio was US Dollar denominated, the book yield was 2.21% and the Yield to worst was 1.64%. An important investment metric is our investment/equity ratio. This ratio increased slightly over the year to 2.5x at year end 2019 from 2.4x at year end 2018.

This conservative positioning of the portfolio helped us weather the market volatility that resulted from the onset of Covid-19. As of 30 April 2020, the year-to-date performance of the portfolio, on a mark to market basis, was a small decline of 1.2%, representing a loss of £8.2 million, driven by unrealised losses of £13.4 million, partially offset by realised gains and income of £5.2 million. We believe we are well positioned to take advantage of opportunities generated by the current Covid-19 crisis, as well as to protect our balance sheet should there be further volatility going forward.

External Borrowing

In August 2019, in order to support our continued growth, we increased our bank debt facility to £62.5 million, with a five-year maturity. In addition, we also raised subordinated debt, which at year end totalled £89.6 million and matures over the next three to eight years.

Return to Shareholders

We are pleased to continue our history of paying a return to shareholders, although this year, in light of the wider macro environment and regulatory pressure, our return will be in the form of ordinary shares. The Board is recommending an award to shareholders of 1 ordinary share in the capital of the Group for every 22 ordinary shares already held, to be issued on or around 15 July 2020.

Brexit

It would be remiss not to mention Brexit and how we have prepared for the UK's split from the European Union. Accredited Europe, which is domiciled in Malta, has written a considerable volume of UK Program Management business that it would not be able to write after Brexit due to the cessation of the cross-border capabilities afforded under EU membership. In order to continue writing UK business, Accredited has set up freedom of establishment in the UK, effectively a branch operation under EU directives, and an application has been submitted to the PRA for this to become a fully authorised third country branch. This branch will get the full benefit of Accredited Malta's A- rating from AM Best. Not only will this enable Accredited to continue to write its current UK program business, but it provides opportunities for it to pick up new business from European program managers that have decided not to create a UK branch. With regard to legacy operations, the UK branch provides the platform for Accredited to continue to manage its UK legacy liabilities and utilise its financial strength rating to provide exit solutions for UK businesses that would no longer be able to access European run-off vehicles.

Management Succession and Staffing

As a leadership team we are focused on addressing management succession. We continue to recruit and attract exceptional talent, which is a sign of our thriving and vibrant business. Our team is filled with strong young insurance leaders who are making us more agile, creative and profitable.

In 2019 and 2020, as part of our succession planning, we announced that William Spiegel was joining as Executive Director and Deputy Group Chairman, Mike Walker was joining as Head of Legacy Operations and Tom Solomon was joining as Executive Director and Chief Financial Officer. William, Mike and Tom all have considerable insurance experience in their prior roles and position us well for the future.

Notwithstanding our ability to recruit new talent, we want to single out the three longstanding members of our senior management team who are stepping back: Mike Glover, Chief Governance Officer, has been with us for 17 years and will continue to provide consultancy services for a period of time; Pam Hoelsken, President of R&Q America Holdings Inc., will be retiring in June after 21 years; and Mark Langridge, who was previously a board member and Head of Legacy, will after 13 years at R&Q continue in a part-time capacity. We want to thank each of them for their contributions and role in helping shape R&Q. Mike, Pam and Mark have each set a standard of professionalism, ethical behaviour and entrepreneurialism, and that is part of their legacy.

Like most people around the world, the lives of all of us at R&Q have been upended over the last few months. We have had to quickly change the way we live – working from home and grappling with the inherent complexities that have arisen in the 'new normal'. We would like to thank all members of our R&Q family for their unrelenting effort and dedication during this difficult time. With all our offices closed, the resilience of the R&Q team has been tested, and it has passed with flying colours.

Outlook and Covid-19

Our success in 2019 was generated without the backdrop of the 'hard' market in both our businesses created by Covid-19. Covid-19 has sent shock waves through the insurance market with loss estimates in the $100 billion range, likely making Covid-19 one of the largest insurance loss events on record. Unlike a normal industry loss event, the insured losses from Covid-19 will cut across many lines. In addition to insured losses, insurance companies are suffering investment losses, adding to the magnitude of the capital losses for the insurance industry associated with the pandemic.

We believe our businesses are well positioned to withstand the impact of the pandemic. The reason for our confidence is because our existing Legacy books have limited exposure to unexpired risk, our Program Management portfolios are largely reinsured with highly rated counter-parties (93% of our reinsurance is with carriers rated A- or better and 90% is with carriers rated A or better) and our investment portfolio is conservatively positioned with a short average duration and a high quality investment-grade fixed income.

The new environment does of course present some risks. We face risks from unanticipated exposure to valid claims in respect of Covid-19, from delays in completing transactions, from reduced economic growth slowing demand for insurance, from dislocations in the capital markets, and finally from our regulators and rating agencies increasing capital requirements for our industry (as was the case in the lending industry after the great Financial Crisis).

However, we believe the capital dislocation in the insurance industry will accelerate the significant secular growth we were already seeing in both businesses. It was for this reason that we raised $100 million of new capital in May 2020. The opportunities for growth in each of Program Management and Legacy businesses are outlined below:

- Program Management:
  - Significant embedded growth from our existing 30 partnerships with MGAs. As of 31 December 2019, these MGA partners have told us they expect premium from their programs to reach $842 million annually of which, as of 31 March 2020, $478 million has been written. We anticipate much of the remainder to flow in the next couple of years
  - Large pipeline of existing US and European business totalling $1 billion of Gross Premium. We continue to witness increasing demand in all our markets given our leadership position and lack of competition in both the US, UK and European markets
  - Increase in our addressable market by entering the US E&S Lines program management market in late 2020/early 2021. The US E&S market had approximately $40 billion of written premium in 2019. We will primarily leverage our existing Program Management infrastructure to grow this business
  - Growth in our UK Program Management business, post Brexit, by creating a UK branch of our European Program Management company
  - Increase our presence in Italy with the establishment, in June 2020, of an Italian branch
  - Collaboration with strong MGAs, who, as a direct result of Covid-19, may find their existing capital providers facing capital pressure and unable to support their growth
  - Increase in commission revenue as insurance premiums increase in the 'hard' insurance market.
- Legacy:
  - Growth in the demand for Legacy is being driven by the increased pressure on insurers to seek capital efficiency from the growing regulatory capital pressure on reserves
  - Growth in demand, particularly post Covid-19, for exit solutions from cash-strapped owners of 'captive' insurance companies seeking to free up available liquidity from their captive subsidiaries. R&Q is already the market leader in this field
  - Increase in the number of legacy opportunities post Covid-19, as the reduced capital position of the industry forces insurance companies to seek access to the Legacy markets to fill capital holes
  - Opportunity to improve operating returns on capital, post Covid-19, due to the excess demand for Legacy solutions
  - Increase the size of the opportunities upon which we can complete, by using sidecars and other third-party partnerships. As a manager of third-party capital, we would expect to be paid fees for sourcing and managing these transactions.

The future is bright for R&Q. We are a unique global specialty insurance business that is well-positioned for future growth and profit. We remain market leaders in both of our businesses, demand for our services is strong and increasing post Covid-19 and there are high barriers to entering our markets. We are a combination of both a balance sheet business and a fee-based recurring commission business. Our Legacy business is currently a balance sheet business and it exhibits many of the same qualities of the leading specialty insurance companies – strong non-cyclical growth with high returns on capital. Our Program Management business is a fee business and it shares many of the same attributes as commercial insurance brokerage firms – recurring annual revenue and high pre-tax margins.

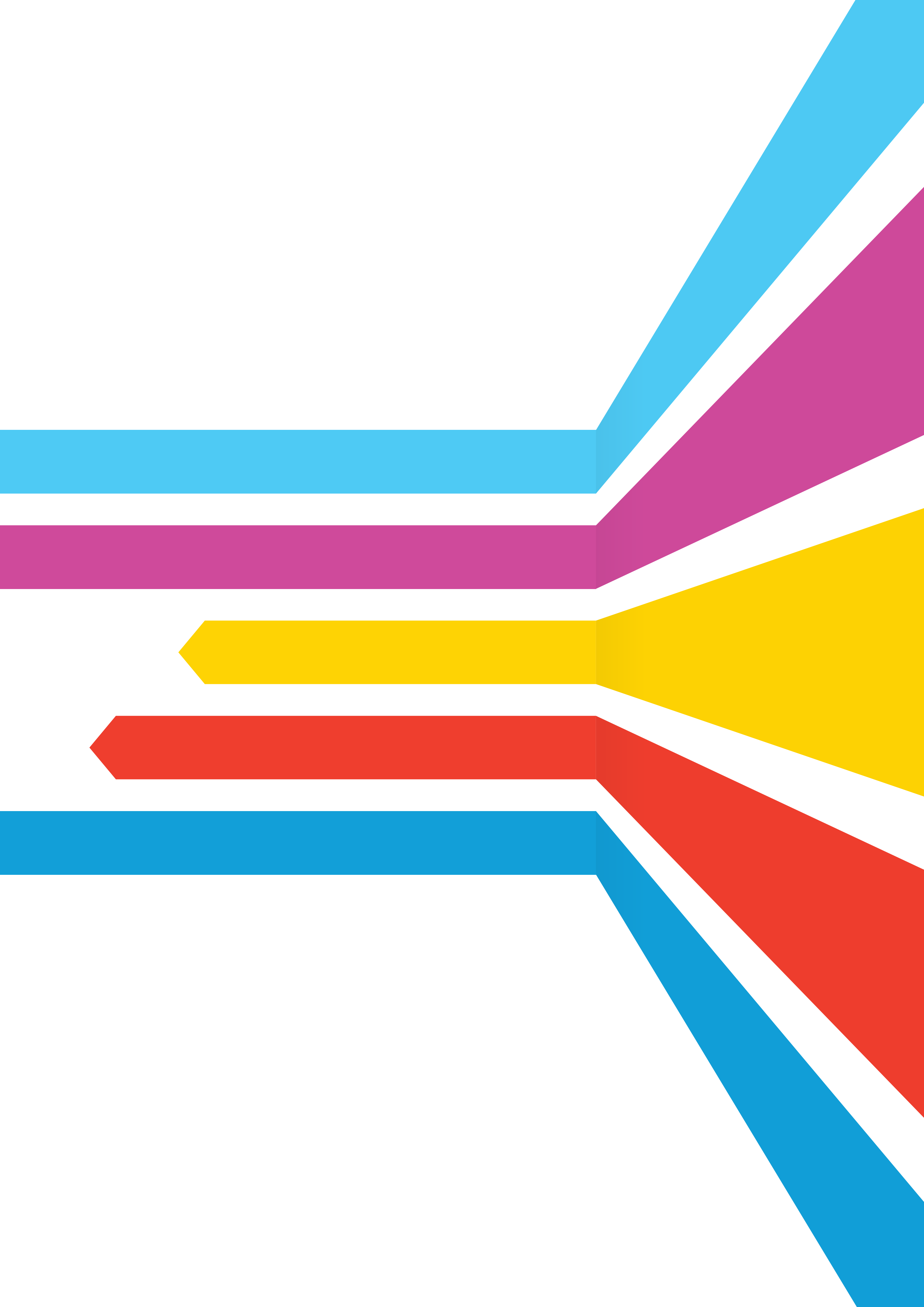
Over the next few years we expect our Legacy business to continue to provide strong and consistent returns on capital deployed. Our key goal for the Legacy business is to add a recurring fee component to its income by managing legacy business on behalf of third parties. There is a growing demand from alternative capital providers, such as pension funds, sovereign wealth funds and family offices, for access to the legacy insurance business we originate and service. The demand is driven because insurance liabilities are generally non-correlated to other securities, such as stocks and bonds. In our Program Management business, which is already largely fee-based, we expect to continue its rapid growth and benefit from its scalable business model to drive a large portion of future commission revenue from new business, straight to the bottom line. Our goals for the Program Management business are by 2022/2023 to have gross written premium of $1.5 billion to $2 billion, to achieve approximately 80% pre-tax margins and to generate Economic EBITDA in excess of $50 million. We are excited about the future of both of our businesses and believe we are well positioned to achieve our goals.

Ken Randall
Executive Chairman

William Spiegel
Deputy Executive Chairman

Alan Quilter
Chief Executive Officer

CORPORATE GOVERNANCE



Board of Directors

There were five regular meetings at which attendance was 94% in 2019. The Board was flexible and responsive to business need and attended additional meetings from time to time during the year.

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

1 Ken Randall (72)

Executive Chairman

C D Rx

Skills & Experience

Ken Randall is the Executive Chairman of the Randall & Quilter Group, having stepped back from the position of Chief Executive after 29 years. He has been a pioneer in the acquisition and management of discontinued business.

Ken founded Eastgate Group with Alan Quilter in the mid-1990s 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 £80 million 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 the driving force in the Group's new strategic focus in 2017.

Ken has worked in the insurance industry for more than 45 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.

2 Alan Quilter (69)

Chief Executive Officer

C D Rx Ri Re

Skills & Experience

Alan Quilter is the co-founder of the Randall & Quilter Group and the Chief Executive Officer.

A Chartered Accountant, Alan has been a driving force in the development of the Randall & Quilter Group, 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.

Alan has led a number of substantial equity and debt fundraises for R&Q which provided the cornerstone for the significant transformation in R&Q's strategy. He also oversaw the successful sale of a number of non-core operations which realised substantial funds to fuel its growth.

3 William Spiegel (57)

Deputy Executive Chairman

C Rx

Skills & Experience

William Spiegel joined R&Q as Executive Group Deputy Chairman in January 2020. William has over 30 years' experience in the financial services sector with particular expertise in insurance and reinsurance services. He joins from the US private equity firm US Pine Brook where he was a managing partner and which he co-founded in 2006. William was responsible for managing Pine Brook's financial services investing activities. He was also a member of the firm's Investment Committee and Management Committee.

A significant part of William's career has focused on building and growing insurance companies in both the US and the UK. He has, through his work in private equity, been a founding investor and/or board member of many successful insurance companies including Catlin Group, Clear Blue Insurance Group, Essent Group, Fidelis Insurance, Global Atlantic Financial Group, Lancashire Group, Montpelier Re, Narraganset Bay Insurance and Third Point Reinsurance.

Prior to co-founding Pine Brook, he was with The Cypress Group from its inception in 1994 until 2006, leading its financial services and healthcare investing activities. Prior to Cypress he worked in the Merchant Banking Group at Lehman Brothers. He has served on the board of directors of over 20 companies, including eight publicly traded corporations. William is currently a member of The Polsky Council of The University of Chicago Polsky Center for Entrepreneurship and Innovation, and its Private Equity Council.

4 Joanne Fox (56)

Non-Executive Director

A R Ri Re

5 Alastair Campbell (75)

Non-Executive Director

A R

6 Philip Barnes (59)

Non- Executive Director

A R Ri

Skills & Experience

Jo Fox is a finance professional with over 30 years' experience at board and management levels, having qualified as a Chartered Accountant with Arthur Andersen in 1990. Jo has worked in the insurance industry since 1996 when she worked for Liberty Risk Services, and later with International Insurance Company of Hannover and Lancashire Insurance. More recently, Jo was Chair and non-executive director of R&Q Managing Agency Limited, which was acquired by Coverys in 2017.

Jo has held five FCA/PRA posts (two European risk carriers, a London Market Intermediary and two Lloyd's Managing Agents). In addition to her board experience Jo has chaired Audit, Risk and Capital and Compliance Committees and was Chair of the IUA Solvency Working Group from 2014 to 2016.

Skills & Experience

Alastair Campbell qualified as a Chartered Accountant in 1968 then 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.

Skills & Experience

Philip Barnes is a Chartered Accountant and has worked in the insurance industry for the past 35 years. Philip is 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.

Eamonn Flanagan (57)

Non-Executive Director

Eamonn began his career with Royal Insurance, where he qualified as an actuary, before moving to the capital markets as Director and Head of European Insurance at a leading investment bank. Eamonn co-founded Shore Capital Markets, a respected independent securities business, where he was a director and senior adviser. He was a highly rated insurance analyst and received numerous awards in the London insurance market.

Eamonn is to be appointed to the Board in June 2020 and is also a non-executive director of AJ Bell PLC, a technology driven investment platform.

Eamonn is a Fellow of the Institute of Actuaries and a Fellow the Institute of Directors.

Governance

The Board is committed to upholding high standards of corporate governance, to protect and grow shareholder value, and to engage with the Group's stakeholders in a fair and transparent manner.

Beverley Murphy
Group Company Secretary

Chairman's Introduction

On behalf of the Board, I am pleased to present the corporate governance report for the year ended 31 December 2019. The report explains how the Board operates and how corporate governance is addressed at R&Q. During the year, the Company continued to follow the Quoted Companies Alliance code for small & mid-sized companies, which we believe remains appropriate to the size and nature of our business. Disclosures required by the QCA code have been made both in this Annual Report and on our website.

One of the notable developments in 2019 is the progress made in succession planning and towards my own retirement in 2021. I am delighted that we were able to appoint William Spiegel as my successor as Group Chairman, and Jo Fox as non-executive director, to the Board. These appointments have made a significant contribution to how we maintain a balanced and effective board, as described in more detail on page 18. I am also looking forward to welcoming Eamonn Flanagan to his first meeting of the Board on appointment as non-executive director and to Tom Solomon who is joining us as Chief Financial Officer.

We are fully conscious of the ever-increasing interest from investors and other stakeholders in a wide range of stewardship matters including environmental, social and governance (ESG) issues, reflecting matters of concern globally in current times. In the pages that follow, we have described our ethical values and behaviours and how we take into account our stakeholder and social responsibilities in our disclosures against the QCA Code principles. We are giving careful thought on how to move forward with ESG in a way that is appropriate and meaningful for our staff, our business and all our stakeholders.

Ken Randall
Executive Chairman

1. Vision and Strategy

The Company's mission is to deliver on our core strategy of providing program management services to Managing General Agencies and their reinsurers, and of creating legacy solutions to 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's strategic objectives are:

- 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
- to develop Accredited Surety & Casualty Company, Inc., our A- rated United States carrier, into a fronting platform of choice, generating substantial repeatable fee income
- 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 Company faces in the execution of these objectives include: the identification of suitable pipeline opportunities in the core areas; the quality of potential partners; ensuring appropriate due diligence; timely capital raising, and ongoing investment in management bench strength and infrastructure to underpin growth.

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.

There have been a number of board appointment changes since our last Annual Report and the Board is now refreshed and in good shape to lead the Group in the next stages of its development.

The Group and its core businesses continue to take risk, 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:

- protect the capital base by supporting the implementation of a Solvency II (or equivalent) compliant framework where appropriate
- enhance value creation
- support decision making and improve and maintain transparency and accountability for risk throughout the Group by way of comprehensive risk reporting and control
- protect R&Q's reputation and brand.

2. Understanding and Meeting Shareholder Expectations

Feedback from investors is obtained through direct interaction with Ken Randall, the Chairman, and also William Spiegel, the Deputy Chairman and Alan Quilter, the Chief Executive Officer. The voting record at the Company's general meetings is monitored and we are pleased that all resolutions proposed in 2019 were passed by shareholders. 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 appropriately managed.

3. Stakeholder and Social Responsibilities

We are developing our approach to environmental, social and governance responsibilities.

Specific activities we have undertaken include:

- developing fair and equitable employee practices
- minimising environmental impacts through recycling and by reducing reliance on paper documentation in favour of electronic communications
- collecting and donating workwear and interview clothing to assist vulnerable, unemployed and low-income men and women to get into employment in the City of London
- involvement in community activities and encouraging our employees to give back through volunteering programs associated with, in particular, the insurance sector.

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, for example, modern slavery, data protection, whistleblowing and diversity. 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.

In relation to our employees, we have made significant improvements in reducing the gender pay gap, the gender bonus gap and in increasing the proportion of women receiving an annual bonus in comparison to the previous year. The mean gender pay gap reduced significantly from 37.37% to 29.96%. Although, with fewer than 250 employees at the relevant date, we were not required to publish a gender pay report, we have done so in the interests of full transparency.

Other key resources and relationships which are important to our business, and with whom the Group is in frequent communication, 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.

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.

Governance continued

Our employees are key to the continued success of our business and we actively promote their development and ongoing improvement.

4. Embedding Effective Risk Management

Our approach to risk management and the principal risks to our business and the actions we take to mitigate them are set out in pages 32 to 41 of our Annual Report. The Chairman of the Group Risk Committee has provided a report on the Committee's activities during 2019 on pages 30 to 31.

The Board has ultimate responsibility for the Group's system of risk management and internal control and has delegated responsibility for overseeing the management of risk to the Group Risk Committee, chaired by an independent non-executive director. Accordingly, the Board ensures that the Group's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy. This includes not only the Group and its subsidiary companies but also its extended business, including key outsourcers, its supply chains, and its distribution channels. The Group Risk Committee provides a report of its activities to the Board each quarter.

Delivering strategy includes determining the extent of exposure to the identified risks that the Group can bear and/or is willing to take by way of risk tolerance and risk appetite.

As mentioned above, the Group's approach to risk management together with its identified principal risks and uncertainties, their possible consequences and mitigation are set out in the Principal Risks & Uncertainties section. Through the Group Risk Committee, the Board reviews, evaluates and prioritises risks to ensure that appropriate measures are in place to effectively manage and mitigate those identified, so that the Group risk taking activity remains within its stated risk appetite.

The Group has a mature risk management framework and function, led by the Chief Risk Officer who has responsibility for monitoring and reporting on the Group's principal risks together with their mitigation. The Chief Risk Officer also attends the Board meetings of the Company and each of its key operating subsidiaries.

As the Group is entrepreneurial and operates in a multi-jurisdictional and highly regulated environment, the Board, via the Group Risk Committee and the Risk Management function, has embedded effective risk management within the Group's culture, to underpin and support the execution of its business strategy.

The Risk Management section on pages 32 to 33 (incorporated into this governance section by reference) 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, and a description of its risk appetites and its adherence to them.

The Board considers that the controls in place during 2019 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.

5. Board Balance

As at 31 May 2020 the Board comprised three non-executive directors and three executive directors. There have been a number of Board appointment changes since our last Annual Report and the Board is now refreshed and in good shape to lead the Group in the next stages of its development. With Ken Randall intending to retire from the Group in 2021, we are continuing with our succession planning and our search for further appointees to enhance the breadth, strength and diversity of the Board.

The Chairman of the Board, Ken Randall, leads the Board in the determination of its strategy and in achieving its objectives. He is not considered to be independent. In July 2019, Ken stepped back from his role as Chief Executive Officer as part of initial steps towards his eventual retirement.

In January 2020, the Board was delighted to welcome William Spiegel as Deputy Executive Chairman with the intention that William will assume the position of Executive Chairman when Ken steps down. William is focusing on strategic development and expansion of the Group and is gradually taking on more responsibilities from Ken. William brings many years of expertise in managing and growing leading UK and US insurance businesses to the Group as well as his extensive leadership experience.

In July 2019, Roger Sellek was appointed to the Board as Joint Chief Executive Officer, sharing the role with Alan Quilter. Following his departure in January 2020, Alan Quilter continues as Chief Executive Officer.

In May 2019, the Board appointed Jo Fox, our first female board member. She brings considerable experience in syndicates and underwriting business, and Solvency II, as described in more detail on page 15 and complements the overall balance of the Board. Jo is making a positive contribution to the deliberations of the Board and has taken on the role of chairing the Group's Reinsurance Asset Committee.

In December 2019 Mark Langridge stepped down from his position as director and continued in a part-time executive role, and, after many years of service to R&Q, Michael Smith also retired as a director. We will soon welcome Eamonn Flanagan to the Board, who has considerable experience within insurance and capital markets, to be our fourth non-executive director. Tom Solomon, who is joining us as Chief Financial Officer, will also be appointed to the Board.

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 accountancy and insurance. The skills and experience of each of the directors give 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 directors' period of service in isolation to determine their independence.

The Senior Independent Director is Alastair Campbell, who took up this appointment in December 2019, following Michael Smith's retirement. 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 channel for shareholder communication.

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. All of our directors will stand for re-election at our next AGM.

6. Board Skills and Capabilities

Directors' details and biographies are on pages 14 to 15.

We encourage all directors to keep their skills and knowledge up-to-date and will provide individual directors with any training they need. Sessions are held between the Board and management during which in-depth presentations covering areas of the Group's business are made. In 2019, the Board has received briefings or training on: the UK Market Abuse Regulation; the new IFRS17 requirements; cyber risk and security and the opportunities for technological innovation to drive business growth. The Company Secretary provides updates during the year on any significant developments in legal, governance and compliance areas.

New directors complete an induction program tailored to their existing knowledge and experience.

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

We recently conducted an analysis of the skills and experience of the individual directors on the Board and will use this information in the consideration of future Board candidates.

7. Evaluating Board Performance

Having undertaken a board evaluation in 2018, the Board adopted the three actions to be addressed during 2019. The success in implementing these actions is reported in the table below.

The Board decided not to conduct a further evaluation in 2019, in view of the recent changes in composition of the Board, to allow time for the new directors to establish themselves in their roles, and to allow the Board to evolve to reflect their combined skills and experience. The timing of the next evaluation will be kept under review.

Agreed personal objectives and targets including financial and non-financial metrics are set out each year for the executive directors and performance is measured against those metrics and overseen by the Remuneration and Nominations Committee.

Governance continued

Category	Board Action Plan for 2019	Outcome
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.	The Board received a number of presentations from the IT team during 2019 addressing cyber risk and IT security, IT drivers and goals and the delivery of new business applications to support R&Q's future needs. This resulted in a number of decisions, particularly in relation to security of data and the decision to make IT innovation a key principle/driver in our business strategy.
Succession	Focus on leadership planning.	Leadership succession has been an ongoing priority for the Board and the Remuneration & Nominations Committee throughout 2019. With the appointment of William Spiegel, a clear path towards the eventual retirement of Ken Randall has been established. The Board expects that, in addition to the recent appoint of Tom Soloman as our new Group Chief Financial Officer, a small number of further appointments will be made and that succession planning will continue to be a focus during 2020.
Focus on People	Facilitate employee engagement.	A number of opportunities, aligned to the Company's business model have been introduced to support employee engagement. Most significantly, a management development program, tailored to R&Q's needs, was created and in 2019 43 employees attended and benefited from this opportunity. Ensuring effective and consistent communication with all staff across the Group's global locations has been identified as an area for improvement for 2020.

8. Our 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'. This centre sets the rules and then delegates their implementation to its subsidiaries (whose boards must include appropriate numbers of group managers and technical specialists) but must also operate global governance processes to ensure that systems and philosophy are being consistently adopted throughout the Group.

Matters Reserved for the Board

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.

9. Board 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 2019, the Board held five regular meetings and scheduled 13 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 above, which was last reviewed in December 2019.

Governance continued

We promote diversity in our workforce and wholly support equal opportunities in employment.

The following table sets out the attendance of the Company's directors at scheduled board & committee meetings during 2019.

	Scheduled Board Meetings	Audit Committee	Remuneration & Nominations Committee	Risk Committee	Reinsurance Asset Committee	Disclosure Committee	Capital & Investment Committee	Regulatory Committee
Executive Directors								
Ken Randall	5/5					4/4	4/4	1/1
Alan Quilter	5/5			3/4	3/4	4/4	4/4	1/1
Mark Langridge (resigned 13 December 2019)	3/5			2/4	3/4		4/4	1/1
Roger Sellek (appointed 18 June 2019)	3/3			2/2			1/2	
Non-Executive Directors								
Philip Barnes	5/5	5/5	5/5	4/4				
Alastair Campbell	5/5	5/5	5/5					
Michael Smith (resigned 6 September 2019)	4/4	4/4	4/4		2/3			
Joanne Fox (appointed 3 May 2019)	3/3	2/2	2/2	2/2	2/2			

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, Regulatory 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 at www.rqih.com/investors/shareholderinformation/boardcommittees

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 Philip Barnes and Jo Fox. 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 pages 24 to 27 contains more detailed information on the Committee's role.

Remuneration & Nominations Committee

The Remuneration & Nominations Committee (RemCo) has been chaired by Alastair Campbell since Michael Smith's retirement at the end of 2019. Its other members are Philip Barnes and Jo Fox. 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 Chairman, Deputy Chairman, and the Chief Executive 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 pages 28 to 29 contains more detailed information on the Committee's role.

Risk Committee

The Risk Committee is chaired by Philip Barnes and its other members are Jo Fox, Alan Quilter and Susan Young, the Chief Risk Officer. The 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 pages 30 to 31 contains more detailed information on the Committee's role.

Reinsurance Asset Committee

The Reinsurance Asset Committee (RAC) is chaired by Jo Fox and comprises 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.

The RAC meets at least quarterly and provides a report on its activities to the Board. It met four times in 2019.

Capital & Investment Committee

The Group Capital & Investment Committee (GCIC) comprises 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 2019 the Committee reviewed 49 proposed Program Management and Legacy transactions, conducted a review of the Group's retained investment managers and proposed a new Group investment strategy which was adopted by the Board. It also received regular presentations from its Investment Managers on the performance of the R&Q funds and their views on the market outlook and future positioning.

Disclosure Committee

The Executive Chairman, the Chief Executive Officer and the Company Secretary are the current members of the Disclosure Committee. 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 four occasions in 2019. In addition, disclosure matters and share dealing applications were reviewed regularly throughout the year.

Regulatory Committee

In 2019, this new committee of the Board was established to act on behalf of the Board in relation to regulatory and statutory matters that require acknowledgment, variation, approval or submission by the Company to a competent regulatory body or governmental agency. It also oversees the regulatory relationships between local regulatory authorities and the Company and the subsidiaries within its Group supervision.

The Regulatory Committee meets to consider matters within its terms of reference where it is not practical to convene a full meeting of the Board or where a response or submission is required by a Regulator or other statutory body outside of the normal cycle of meetings.

The members of the Committee are the executive directors of the Company and the Chief Governance Officer. The Committee held one formal meeting in 2019.

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

Alastair Campbell FCA
Chair of the Audit Committee

The Committee

The Committee operates under written terms of reference which were reviewed and updated in November 2019. A copy of the current document is disclosed on the Company's website at www.rqih.com/investors/shareholderinformation/boardcommittees

Philip Barnes and I served on the Committee for the whole of 2019; Jo Fox was appointed to the Committee on 3 July 2019. In addition, Michael Smith was a member until he stepped down as a director in September 2019. The names, and brief biographical details of the current members are shown on pages 14 to 15.

All of the current members of the Committee are qualified chartered accountants. Philip Barnes has been fully involved in the insurance industry largely outside the United Kingdom, Jo Fox has also spent her career largely in finance in the insurance industry. I have spent the great majority of my working life in professional practice as an auditor and adviser involved inter alia in the London insurance market. I believe the members are well qualified to address the scope of the Committee as set out in the terms of reference.

The Committee met five times in 2019.

Generally at each meeting, the executive directors, including the Executive Chairman, and relevant members of Finance attend by invitation. In addition, other senior management attend from time to time to present specific reports, such as the Chief Actuary, the Head of Internal Audit, the Chief Risk Officer, the Head of Tax 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 2019.

Responsibilities and Activities during 2019

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. It is also 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.

The Committee has an oversight role in relation to risk management, whistleblowing, fraud and bribery and corruption.

Financial Statements

The Year Ended 31 December 2018

The Committee reviewed in detail the financial statements for the year ended 31 December 2018. 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:

- we considered the need for impairments of goodwill and intangibles: we received a paper from Finance supporting their view that no impairment was required. Support was gained for this view from the fact that the goodwill subsequently realised in cash from the disposal of the Insurance Services division was sufficient to cover the carrying value in the financial statements

I believe the members are well qualified to address the scope of the Committee as set out in the terms of reference.

- we reviewed the evidence to support the carrying values of claims reserves and reinsurance recoveries: we received a detailed presentation from the Chief Actuary covering the entities in the Group which carried the more significant reserves
- we received details from Finance 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 set out the legal and contractual exposures to warranties, indemnities and guarantees; we concluded that there was no evidence to require any provision or specific disclosure other than as made or stated in the Group financial statements
- we reviewed 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 anticipated 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 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. Their report included such matters as their assessment of and audit approach to the key audit areas, the significant risk areas and other areas of audit focus, their work done and their findings, any changes to their audit plan and their confirmation that they were independent in the context of their professional ethics. 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. We approved their fees for their audit work on the 2018 financial statements.

We reviewed PKF's management letter following the 2018 audit and approved management's responses.

The Interim Results to 30 June 2019

We reviewed in detail the interim financial statements for the six months ended on 30 June 2019. 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 detailed 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 2019

We received a detailed report and presentation from the external auditors on their planning for their audit of the 2019 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 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.

We also received a report from Finance setting out their planning for the preparation of the consolidated financial statements.

IFRS 17

The Committee is monitoring the progress of the Group towards the introduction of IFRS 17. The introduction of this Standard has recently been deferred to 1 January 2023 which provides a little more time for preparing for this substantial project. This new accounting standard will have a major impact on accounting in the insurance industry and on the Company's reported results. A high-level briefing was given to the Board at its December meeting which highlighted a number of areas where important judgements will be required in the presentation of financial information.

Audit Committee Report continued

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 on 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 appointment of PKF as external auditor 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 2019 audit.

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 and review findings and plans as set out above.

We review the performance of PKF as the external auditors each year. The review takes the form of an internal questionnaire completed by relevant management and members of the Committee covering all main areas of the audit. We also received from PKF details of their own quality control procedures. In each of the last three years the result of the review has been satisfactory with no significant issues raised. Some minor matters have been discussed with PKF with a view to their resolution.

The Committee has reviewed its guidelines in relation to the provision by the external auditor of non-audit services; the general principle continues to be 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.

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. During 2019 the resources of the team were reviewed in the context of the audit plan; the budget and the Committee's recommendation that, in view of the expansion of the Group's activities, particularly in the United States, the team should be increased by one person, was accepted by management and implemented.

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. Within those reports the Committee receives a status report of the follow up by management of Internal Audit recommendations. The Head of Internal Audit attends meetings of the Committee as required to present his reports and answer questions from the Committee and the Chair regularly meets with him informally to discuss any issues arising.

Internal Audit enquires into activities and the operation of 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. Copies of the reports or executive summaries are also issued to the executive directors as deemed appropriate by the Chair.

An annual work plan is prepared which seeks to review all major areas of the Group every three years. The plan is subject to variation in the light of events only with the approval of the Chair. 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 2020 plan and the related budget was discussed and approved by the Committee.

> **The Committee also received a report from the Chief Governance Officer which confirmed that no instances had been reported in 2019 relating to whistleblowing, fraud or bribery and corruption.**

Governance

Internal control systems are the responsibility of management and are reviewed by the Risk Committee. The Audit Committee has an oversight role and received a report from the Chief Risk Officer on the activities of the Risk Committee. This confirmed that it had operated effectively and unfettered throughout 2019 and had operated within its terms of reference. There were no issues or areas where there were significant shortcomings to be brought to the attention of this Committee.

The Committee also received a report from the Chief Governance Officer which confirmed that no instances had been reported in 2019 relating to whistleblowing, fraud or bribery and corruption.

Review of the Committee's Own Performance

During 2019 the Committee carried out a review of its own performance. It scrutinised the range of matters considered and the scope of the work done. The conclusions were favourable. It was felt that the work of the Committee was appropriate and there were no recommendations to widen the scope of the terms of reference or to spend more or less time on particular areas. There was felt to be no need to hold a further review in 2020 but that reviews should continue to be periodic per the Terms of Reference.

Planned Activity During 2020

The current plan for 2020 pays continuing attention to the developing Program Management business in order to ensure and give reassurance that an appropriate internal control environment is in place and operating effectively.

In addition, the Committee will continue to monitor the Group's financial and operational plan for the impact of IFRS 17, which will be effective for the first time for the Group in its 2023 financial statements.

The Committee will review the financial statements published during 2020 and will consider the other areas as set out above. In particular the Committee will monitor the impact of Covid-19 on the Group's business and its ability to continue as a going concern.

Due to the restrictions imposed as a result of Covid-19 I will be unable to attend our AGM in June, however I will be happy to answer any questions arising from the work of the Committee at any time.

Alastair Campbell FCA
Chair of the Audit Committee

Remuneration & Nominations Committee Report

I am pleased to present this report on behalf of the Remuneration and Nominations Committee. The report sets out the ways the Committee has discharged its responsibilities and the significant issues it has considered during the year.

Alastair Campbell FCA
Chair of the Remuneration and Nominations Committee

The Committee

The Committee operates under written terms of reference; they were reviewed and updated in December 2019 and may be seen on the Company's website at www.rqih.com/investors/shareholderinformation/board committees

Until September 2019 this Committee was chaired by Michael Smith. When he stepped down as a director in September 2019 I was appointed by the Committee as acting chair pending the appointment of a replacement independent director. In addition to Michael and I, two further independent directors were members being Philip Barnes and, from 3 July 2019, Jo Fox.

The names and brief biographical details of the current members of the Committee are shown on pages 14 to 15 of the Annual report. I believe the members have a broad experience of business life, particularly in the insurance industry, and are well qualified to address the scope of the Committee's work as set out in the terms of reference.

The Committee has five scheduled meetings each year. In addition, it meets as and when appropriate, usually on specific matters.

Ken Randall, the Executive Chairman, attends most meetings by invitation. The Chief Executive Officer also attends meetings by invitation when appropriate, as does the Head of Human Resources.

Aims and Duties of the Committee

The over-arching aim is to act in the best interests of the Company's shareholders and the Group's employees, clients and, where appropriate, other stakeholders with whom it deals such as policyholders, reinsurers and regulators, whilst having regard to the relevant legal and regulatory requirements and to guidance offered by the QCA Code.

Remuneration

The overall objective in relation to remuneration is to attract, retain and motivate executive management of the quality and experience required to run the Company successfully. This must be done without paying more than necessary, having regard to the interests of shareholders and other stakeholders, the risk appetite of the Company and its long-term strategic goals. Generally, a significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and sound risk management. Its other objectives are:

- to set the overall remuneration policy for the executive directors and senior management. 'Remuneration' for this purpose includes salaries, bonuses, pension arrangements, compensation payments, incentive arrangements and all other means of rewarding employees of the Company
- to approve the total individual remuneration package of each executive director and the Executive Chairman, and of senior management, in all cases having regard to the international nature of the business and local practices and conditions, and pay and employment arrangements across the Group
- to review and approve any performance-related pay or share incentive plans.

Nominations

In relation to nominations, the Committee keeps under review the structure and membership of the Board, including Committees of the Board, and seeks to ensure effective leadership and succession in the Board and in the senior management team. The main aims and duties of the Committee with regard to nominations may be summarised as follows:

- to review the structure, size, composition, skills and experience of the Board, including its knowledge and diversity, and keep under review the leadership and succession needs of the organisation,

I believe the members have a broad experience of business life, particularly in the insurance industry, and are well qualified to address the scope of the Committee's work as set out in the terms of reference.

both executive and non-executive, with a view to the continued ability of the organisation to compete effectively in the marketplace

- to make recommendations as to the reappointment or otherwise of directors at the annual general meeting, the continued appointment of directors having regard to their performance and abilities, and the appointment of non-executive directors to Board and other committees of the Company
- to make recommendations to the Board concerning candidates to fill Board vacancies as they arise and specific Board appointments.

Significant Activities in 2019

In addition to routine matters, the Committee reviewed its Terms of Reference to ensure they continue to reflect the nature and style of the business and comply with relevant laws and guidance; it also undertook the following specific activities:

Remuneration

- approved the 2018 bonus arrangements for executive directors and senior management. All bonus arrangements are discretionary and are subject to the recommendation of the Executive Chairman and the approval of the Committee. Performance targets are agreed with each individual which have regard to personal, divisional and Group performance. Maximum bonuses are generally capped at 100% of salary but in some cases at 200%. Bonus payments are phased over three years and are subject to clawback arrangements, and are non-pensionable. The Group does not operate any long-term incentive plan or share option scheme
- approved the proposals from the Executive Chairman in the 2019 review of salaries for executive directors and senior management.

Nominations

- recommended the appointment of Jo Fox as a new independent non-executive director and her appointment to this Committee, the Audit Committee, the Risk Committee and to the Reinsurance Asset Committee. Jo had previously been a non-executive director and chair of the Audit Committee of our former managing agency company and her skills and experience were already well known to us
- recommended the appointment of Roger Sellek as a Director and Joint Chief Executive Officer and approved the terms of his employment and his remuneration
- approved and monitored the changes to the top management structure effective from July 2019, when Ken Randall stepped down as Chief Executive Officer whilst continuing in the role as Executive Chairman, and Alan Quilter and Roger Sellek were appointed as Joint Chief Executive Officers, including approving their respective job specifications
- recommended the appointment of William Spiegel as a Director and Executive Deputy Chairman, and approved the terms of his employment, his remuneration and his job specification
- carried out a self-assessment review of the skills and experience of the Board of directors. The review indicated that the Board has good financial and personal skills, and good all-round experience. We will be looking to broaden the range of skills when considering succession and recruiting additional directors; including legal and remuneration committee experience in the non-executive field and underwriting and program business skills in the executive field
- monitored progress in the recruitment to fill various senior management positions.

Priorities for 2020

Specific matters which have been or will be addressed during 2020 are:

- the recruitment of a new chief financial officer to take over that role currently being undertaken by Alan Quilter. The Committee has recently recommended to the Board that Tom Solomon should be appointed to that role
- the recruitment of one or more non-executive directors. The Committee has recently recommended to the Board that Eamonn Flanagan should be appointed as a non-executive director. He has extensive experience as an analyst specialising in the insurance industry and brings with it an investor's viewpoint. More details to be found on page 15
- monitoring the installation and settling in of the new Deputy Executive Chairman together with any consequential changes in senior management responsibilities
- monitoring the effects of the Covid-19 pandemic on the management of the Group and the steps being taken to mitigate contingencies and to ensure a safe working environment.

Due to the restrictions imposed as a result of Covid-19 I will be unable to attend our AGM in June, however I will be happy to answer any questions arising from the work of the Committee at any time.

Alastair Campbell FCA
Chair of the Remuneration and Nominations Committee

Risk Committee Report

I am pleased to present the Risk Committee report. Once again, I can report a productive year for both the Committee and the Group Risk function as the risk management framework has developed and adapted alongside the evolving risk profile of the Group.

Philip Barnes
Chair of the Group Risk Committee

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

The Committee

The Committee operates under written terms of reference which were reviewed and updated in February 2020. A copy of the current document is disclosed on the Company's website at www.rqih.com/investors/shareholder information/boardcommittees

The Committee is made up of two non-executive directors, myself and Jo Fox, Alan Quilter and Susan Young. Alan Quilter, Susan Young and I served on the Committee for the whole of 2019; Jo Fox was appointed to the Committee on 3 July 2019. Where relevant, the names and brief biographical details of the current members are shown on pages 14 to 15. All of the Committee members are qualified professionals with extensive experience in the insurance sector blending finance, business, audit, risk management, governance and executive and non-executive expertise.

The Committee meetings are also attended by Ken Randall, the Executive Chairman, the Chief Governance Officer, the Group Chief Actuary and the Group Head of Internal Audit. Other non-members are invited to attend all or part of any meeting as and when appropriate.

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. Susan Young, Chief Risk Officer, presents a report which includes a commentary on the Group's evolving risk profile, which is articulated via a suite of risk appetite and tolerance statements. Each Committee meeting selects a particular topic as an area of focus and conducts a 'deep dive' into that area from both a strategic and a risk management perspective.

Role and Responsibilities

The Risk Committee is principally responsible for oversight, on behalf of the Board, of the management of risk across the Group and its managed operations and for ensuring that activities are appropriately integrated and aligned. In pursuance of this objective, it ensures that all regulatory and reporting obligations for the management of risk are met.

In addition, it ensures that the Group's risk management framework operates effectively in embedding risk management throughout the Group and its extended business. It identifies and addresses all risks pertinent to the delivery of the Group's strategy, determines relevant appetites and tolerances for those identified risks, and makes proposals on risk appetite and tolerance to be put forward to the Board for approval.

Its responsibilities extend to reviewing Group level summary risk management information, to suggesting and approving modifications and to monitoring the implementation of any remedial action. It formally reviews and approves, on behalf of the Board, appropriate Group-level policies and approves the associated processes, procedures, controls and templates established for the purpose of risk management and internal control.

New risks are considered on an ongoing basis, as well as the continuing fitness and relevance of existing statements. The risk appetite framework is reviewed annually for ongoing appropriateness in the context of the Group's strategic objectives.

A detailed description of the Group's principal risks and uncertainties appears on pages 34 to 41.

Each Committee meeting selects a particular topic as an area of focus and conducts a "deep dive" into that area from both a strategic and a risk management perspective.

Activities, Significant Issues and Considerations During 2019

At each meeting, the Committee considered 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 and an update on strategic priorities from the Chief Executive Officer.

During 2019, the Committee reviewed and focused on the following topics:

- EU Economic Substance – the Committee reviewed and monitored the EU Economic Substance legislation and its applicability to the Group holding company and its Bermuda domiciled entities and operations
- investment and market risk – one of the Group's key strategic priorities has been to investigate the enhancement of existing yields on its portfolios without taking undue risk, in the ongoing low yield environment. The Committee heard how the overall control environment in this area had been enhanced and improved including realignment of investment managers and reinvestment of available funds
- emerging risks – the process for identification, assessment and monitoring of emerging risks was formalised during 2019 and the Committee approved a new framework for this purpose. We heard the output from the inaugural Focus Group meeting covering the identified emerging risks and their applicability to the Group
- reinsurance counterparty risk – the Committee reviewed proposals for the enhancement of the processes for the assessment, monitoring and reporting of reinsurance counterparty risk as the reinsurance asset of the Group becomes more significant with the onboarding of new program business.

Committee Effectiveness Review

Overall, the Committee considered that it operated effectively during 2019. The Committee has considered how best to benchmark itself against emerging best practice and will consider the recently published Risk Coalition guidance, in conjunction with the requirements of the QCA Governance Code. A high-level review against the draft requirements was carried out as part of the formal consultation process for the Risk Coalition guidance and the Committee will look to formalise this in 2020. Structured guidance is expected from the Risk Coalition shortly.

Planned Activity for 2020

In 2020, the Committee plans to oversee the further embedding of the emerging risks process and focus on one identified area at each meeting, such as climate change and pandemic risk. We will also be reviewing the Group's readiness for the adoption of IFRS 17 and the Group's processes and procedures around the management of strategic and change risk and how this is managed. We will continue to enhance the Group's risk appetite metrics and alignment with the Group's risk-based capital models, and later in the year, will consider, in the context of the current Covid–19 pandemic, how the principles outlined in PRA Consultation Paper 29/19 on Operational Resilience have been applied across the Group.

Philip Barnes
Chair of the Group Risk Committee

Risk Management

The Group is entrepreneurial and innovative and hence the risk management and internal control framework needs to be dynamic and agile, as well as robust.

Susan Young
Chief Risk Officer

Overall Responsibility for Risk Management

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

The Board has 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 both pervasive to the Group's activities and aligned with the overall corporate strategy.

The risks facing the Group continue to evolve and increase or decrease in potential impact and probability of crystallisation over time. The Group is entrepreneurial and innovative and hence the risk management and internal control framework needs to be dynamic and agile as well as robust. This requires the management of risk and uncertainty to be ongoing and iterative and to be able to respond to the emergence, development and crystallisation of both new and existing risks.

The Group is responding to the actual and potential impacts on its business, both upside and downside, from the global onset of the Covid-19 pandemic. The Group's risk management framework and reporting mechanisms have adapted to address these challenges and this is described in more detail both in the Report of the Executive Directors, and later on in this Section.

Risk Management Framework and Risk Management Function

The Group has a mature risk management framework and risk function headed by the Chief Risk Officer.

The Group risk function is responsible for designing, overseeing, implementing and improving the risk management framework. It works closely with Group and 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. It 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 governance adopts a three lines of defence model at both Group and individual business unit level

Risk Committee

The Risk Committee is a formally constituted Committee of the Board. A report from the Risk Committee Chair on its role, governance, activities, discharging of responsibilities, self-evaluation and plans for 2020 appears on pages 30 to 31.

Risk Appetite

The 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 the Group, 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 its business units.

The principal risks and uncertainties on pages 34 to 41 includes, for each principal risk, the title and a brief description of the risk, high level risk appetite statements and key mitigating actions.

Own Risk and Solvency Assessments and Equivalents

The own risk and solvency assessment (ORSA) or equivalent 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 ties."

The Group's ORSA and equivalent processes are well embedded within the individual business units and at the Group level. They continue 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/targets for Board review and approval
- **management information systems**, including corporate reporting on financial/operating performance
- **a defined risk appetite framework** governing management, control and oversight of key risks and issues
- **overall Group capital adequacy planning** conducted biannually
- **compliance** arrangements throughout the Group
- **internal audit function** providing third line assurance to the Board via the Audit Committee following a risk-based, approved annual Audit Plan, on the effectiveness of the Group's internal controls in respect of key risks identified
- **risk management function** as described above.

The Board considers that the controls in place during 2019 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 Group identifies and assesses the key risks which could have a potentially significant impact on execution of its strategy. The Group manages its exposure to those risks by setting and monitoring a risk appetite framework, described earlier.

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 a high-level statement of its appetite for taking that risk and the main ongoing mitigating actions in place.

Risk Category	Risk Title/ Description	Risk Appetite	Mitigating Action
Strategic	**Management of strategic change and business development and growth** The Group fails to effectively manage both the focus on its core competencies and simultaneous initiatives as it develops and grows its key business activities. The Group fails to identify and harness new business opportunities. The Group fails to raise the necessary capital and funds to finance its business growth. The Group's profitability is impaired following the establishment or acquisition of new business.	We have no appetite for any significant deviation from the Group's published strategic plan as revised from time to time. We have limited appetite to expand and develop the business outside the accepted core competencies or established geographical reach. We have no appetite for an individual business unit accepting underwriting risks that threatens the sustainability of the individual entity or has the potential to result in losses sufficient to create significant strain on the Group.	• Management of relationships with external stakeholders involving the Board and members of the senior management team • The Board actively reviews budgets, and current strategic priorities to ensure that the Group continues to focus on core strengths • Active management of cash flow • Review of each new initiative and proposed investment in accordance with its own individual merits and commensurate with our overall risk or return objectives, due diligence criteria, strategic objectives and available sources of capital • Establishment of local risk appetites and tolerances within the context of the Group's overall risk appetite • Regular oversight and review of program and acquisitions pipeline including an initial screening process involving senior management • Group Capital and Investment Committee approval.

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 its business units.

Risk Category	Risk Title/ Description	Risk Appetite	Mitigating Action
Group Operational	**Reputation and stakeholder management** Events elsewhere within the Group and individual strategies may be misaligned with the core activities of the Group or may have an adverse effect (notably, but not restricted to, reputational) on the organisation. The Group fails to control and monitor internal and external communication, including regarding its wide range of different stakeholders.	We have no appetite for any event leading to a loss in the organisation's reputation and standing (including inter-Group contagion) including any capital impact. We have no appetite for any negative movements in the public ratings of any company within the Group.	• Active process for managing external communications, including disclosure committee for any announcements to the Stock Exchange • Regular liaison with the rating agencies.

Principal Risks and Uncertainties continued

Risk Category	Risk Title/ Description	Risk Appetite	Mitigating Action
Insurance Credit	**Exposure management reserving** The Group adopts a reserving methodology that produces incorrect reserving.	We have no appetite for prospective significant deviations in earnings as a result of actual, expected or possible future reserve deterioration and seek to reserve at a level that achieves this whilst avoiding the tax, regulatory and reputational risks associated with systematic over-reserving.	• Appropriate reserving approach to existing live and run-off portfolios and the performance of extensive due diligence on new run-off portfolios prior to acceptance • Scheduled and ad hoc reviews and benchmarking provided by external actuarial consultancies • Internal use of best estimate for setting reserves, having regard to internal and external advice, and up to-date relevant information in respect of actual or anticipated developments • Use of reinsurance on live underwriting portfolios and through taking over inuring reinsurance treaties on acquired legacy portfolios • Review of all material identified reserve portfolios across the Group • Appropriate monitoring and oversight of case reserves.
	Reinsurance counterparty The Group fails to assess the quality of its program reinsurers prior to onboarding or the reinsurance arrangements fails to "follow the fortunes" of the underlying direct insurance contracts. The Group fails to monitor the growing gross underwriting exposures and reserves and aggregate exposure to reinsurers, following the planned onboarding of new Legacy and Program Management business.	We have no appetite for significant deviations in earnings as a result of reinsurance counterparty failure as a Group and additionally, require that our operating entities develop processes that are proportional to their businesses to limit concentration to individual counterparties. Furthermore, we have no appetite for capital erosion from exposure to reinsurance counterparty risk arising from any downgrade of negative outlook to the Group's credit rating.	• Integrated framework to assess potential exposure from new opportunities prior to onboarding • Assessment of exposures and concentrations on inuring treaties during due diligence • Active commutation strategy or retroactive reinsurance on legacy portfolios • Monitoring of credit ratings, concentration levels and sufficiency of collateral on live underwriting reinsurance • Identification of potentially significant concentrations of individual counterparties.
	Intermediary counterparty The Group fails to monitor, assess and control its exposure to intermediary counterparty default in respect of its live program underwriting activities.	We have no appetite for general intermediary default and seek an appropriate degree of quality (as defined by the relevant Committee) and diversification in the spread of intermediaries.	• Operating entities engaged in live underwriting to develop processes that are appropriate and proportionate their business, in order to limit and monitor concentrations to individual intermediary counterparties to within acceptable levels.

Risk Category	Risk Title/ Description	Risk Appetite	Mitigating Action
Liquidity	**Management of free funds** The Group fails to implement adequate control over cash flow and liquidity leading to financial shortfalls.	We have no appetite or tolerance for shortfalls in liquidity preventing the timely settlement of liabilities or forcing the suboptimal sale of assets. We have no appetite for breaching our financial covenants with our bankers.	• Dedicated Group cash flow, treasury management and invested assets capability, providing focused effort and a tight control regime • Assessment and setting of Group and entity liquidity margins not less than annually, based on projected payment patterns, reassessed upon the occurrence of a significant event • Funding of new deals and transactions having regard to available sources of funding and collateral requirements • Detailed cash flow reporting and monitoring of adherence to banking covenants • Review of banking covenants for ongoing applicability • Forward-looking monitoring of the Group's cash flow projecting the likely liquidity position over a twelve-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.
Strategic **Regulatory, legal and Group**	**Capital and solvency management** The Group and relevant subsidiary entities are not Solvency II (or equivalent, e.g. Bermuda Monetary Authority, Malta Financial Services Authority, Prudential Regulation Authority or National Association of Insurance Commissioners) compliant in accordance with local regulatory requirements and expectations.	We will maintain capital at a level that provides a suitable margin over that level deemed by our regulators and supervisors as providing an acceptable level of policyholder protection whilst remaining economically viable.	• Active management of relationships with all regulators within whose jurisdictions the Group and relevant subsidiary entities operate • Active involvement of actuarial, risk management, compliance and internal audit functions • Deployment of appropriate sources of capital to underpin strategic objectives, commensurate with capacity to take risk and with prevailing regulatory stipulations in force • Maintenance of capital providing an adequate margin over the Group Solvency Capital Requirement while maintaining local capital which meets or exceeds the relevant local minima.

Principal Risks and Uncertainties continued

Risk Category	Risk Title/ Description	Risk Appetite	Mitigating Action
Market	**Investment returns** The Group fails to realise an adequate or optimal return on the investment float under its control or experiences a default on investments held.	We have no appetite for incurring a loss on investments in any one quarter. We have no appetite for significant aggregate currency mismatches in respect of the Group's assets and liabilities. We have no appetite for speculative currency trades.	• Group and subsidiary level investment committees and guidelines (where appropriate) and oversight by the relevant entity board • Utilisation of intra-group loans between entities as part of the investment strategy subject to appropriate controls • Holding of surplus funds in sterling except for US entities where surplus funds are held in US Dollars • Dedicated Group cash flow, treasury management and invested assets function to monitor investment concentration and returns • Investments are primarily made in marketable, investment grade-rated, short- and intermediate-term securities. Minimal investment will be made in fixed-rate long-term maturities • Asset and liability matching.
Regulatory, legal and Group Operational	**Legislative, economic and regulatory change** The Group or one of its subsidiary entities breaches the legal or regulatory requirements of jurisdictions in which it operates. The Group fails to implement or adapt to emerging new regulatory or political or legislative changes (for example General Data Protection Regulations or Modern Slavery).	We have no appetite for any major regulatory infringement or missed deadline.	• Oversight by the Chief Governance Officer • Deployment 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 • Maintenance and operation of an effective governance framework that leverages the expertise of the Group and individual entity boards and management • Leverage of specific additional local regulatory and legal expertise as and when appropriate.

Risk Category	Risk Title/ Description	Risk Appetite	Mitigating Action
Operational	**Operational excellence**	Operational – general.	• Identification and assessment of individual risks and associated operational controls carried out as part of the Group risk and control self-assessment process. This is conducted at Group and entity levels.
Operational	**People** The Group is reliant upon the knowledge and expertise of its key directors and staff and fails to adequately plan for succession.	We have no appetite for the loss or prolonged absence of a key staff member where the succession plan is insufficient. We have no appetite for significant levels of staff turnover in any one year.	• Development of succession plans and management training at Group and operating entity level • Performance management process for all staff.
Operational	**Financial reporting** The Group fails to manage its expense base. The Group fails to deploy appropriate financial and management reporting mechanisms to inform key business decisions.	We have no appetite for any material errors, omissions or misstatements within our financial and management reporting and operational management Information Systems or processes or outputs, either systemic or 'one-off'.	• Ongoing strategic expense and cost allocation review • Robust and reliable financial and management reporting and forecasting framework, with appropriate controls around data, outputs and review and oversight • Appropriately skilled and trained staff • Fit for purpose reporting mechanisms.
Operational	**Business disruption** The Group suffers a major business discontinuity event.	We have no appetite for loss of facilities or failure of key systems or processes which may cause significant business disruption.	• Robust business continuity and disaster recovery plans which are regularly tested.
Operational	**Outsourcing risk** The Group fails to adequately control its third-party service providers.	We have no appetite to enter into an outsourcing contract that does not meet the considerations set out in the Outsourcing Policy.	• Outsourcing agreements with all material outsourcers (internal and external • Outsourcing Policy.

Principal Risks and Uncertainties continued

The operation of the Group's risk and control self-assessment process with key functional risk and control owners continues.

Risk Category	Risk Title/ Description	Risk Appetite	Mitigating Action
Operational	**Cyber** The Group fails to properly protect information compromising the confidentiality, availability or integrity of our data. The Group fails to keep abreast of increasing regulatory scrutiny in this area (for example National Association of Insurance Commissioners model law).	We have no appetite for financial losses, business disruption or reputational setbacks arising from a cyber attack. We have no appetite for breaches of our information security policies and procedures. We have no appetite for any breaches of any relevant statutory (Data Protection, US Health Insurance Portability and Accountability Act) requirement in respect of information security or cyber risk.	• Dedicated Chief Information Security Officer • Ongoing development of a fit for purpose information security governance structure including corporate information risk policies, and compliance, where practical, with relevant International Organisation for Standardisation or International Electrotechnical Commission 27000 series of standards • Development of security technologies and processes by deploying new tools or techniques keeping pace with the increasing threat from cyber crime • Appropriate levels of cyber liability insurance.
Operational Regulatory, legal and Group	**Taxation** The Group fails to identify its tax exposures arising from emerging UK and overseas legislation (for example UK Corporate Criminal Offences Act, US Foreign Account Tax Compliance Act) and fails to implement appropriate controls and processes to ensure compliance with all relevant laws.	We have no appetite or tolerance for any major tax-related infringement or missed deadline.	• Quarterly review with Head of Tax of the Group's current tax position and potential future implications of current and emerging legislation and developments • Growth and conduct of the business having regard to the tax implications of doing so • Optimisation of the Group's cross-jurisdictional tax position and maintenance of a credible tax presence in its various locations.

The Group continues to monitor its material assets and liabilities, emerging claims experience, policy wordings issues and solvency position including appropriate stress and scenario testing with planned management actions to respond as required.

Emerging Risks

Emerging risks are those risks that are perceived to be potentially significant, but which may not be fully understood or controllable. During 2019, the Group formalised its framework and process for the identification, assessment and reporting of emerging risks. A focus group was established during the year, identifying the following as the principal emerging risks potentially impacting the Group:

- changes to trade, tariff and sanctions (arising from Brexit) impacting revenue streams, ability to trade in certain locations and market and asset values
- climate change – weather pattern changes impacting strategy, investment decisions and business practices
- political uncertainty – changing business practices and regulations impacting strategy execution
- civil instability – increase in disruptive events
- developing cyber crime – new and faster evolving cyber attacks
- IT and telecoms outages – increasing frequency and scale
- interruption to infrastructure (power, transport etc)
- new and emerging technology – new opportunities and competition risk
- changing workforce expectations
- global pandemic – see Covid-19
- event driven litigation – securities class actions.

These are reviewed continually by the risk management function in conjunction with a biannual review by the focus group and overseen by the Group Risk Committee.

Covid-19

The Covid-19 outbreak originated in China and developed during the early months of 2020. It was designated a pandemic by the World Health Organisation on 11th March 2020. As outlined in the previous section, the Group had identified pandemic risk as part of its emerging risks process and the escalating risk and its subsequent crystallisation was recognised at an early stage in 2020.

Covid-19 is causing macroeconomic uncertainty and worldwide restrictions in social movement which are directly impacting the markets in which the Group operates. At the time of writing, the Group has invoked its business continuity plans and all staff are working remotely until further notice.

The key principal risks and uncertainties of the Group described earlier, and mitigation thereof are unchanged. However, the key drivers and potential short, medium- and longer-term impacts of the pandemic on the Group's risk profile and operations have been identified and are being regularly monitored.

No breaches in risk appetite have been noted and none are anticipated arising from the pandemic.

The operation of the Group's risk and control self-assessment process with key functional risk and control owners continues. This includes an assessment of whether the internal control framework in place remains sufficiently robust to mitigate the evolving risks in remote working, for example increased opportunism in the financial and cyber crime space.

The Group continues to monitor its material assets and liabilities, emerging claims experience, policy wordings issues and solvency position including appropriate stress and scenario testing with planned management actions to respond as required.

There is regular and ongoing engagement with key stakeholders including investors, customers, regulators and other counterparties.

The individual business areas are in contact with their counterparties and distribution channels, such as MGAs and TPAs to ensure that they have appropriate measures in place so that the Group is not exposed to any undue operational risk.

The duration of the pandemic and the associated restrictions and impact on operations, staff morale and so forth remains uncertain. When necessary, the Group will consider the potential impact of any new and emerging risk drivers in this regard. Although there are inevitably some short-term impacts being experienced in areas like investment performance, longer term, the Group's business is expected to be positive. This is described in more detail in the Report of the Executive Directors.

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
- 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

Independent auditor's report to the members of Randall & Quilter Investment Holdings Ltd

Opinion

We have audited the group financial statements of Randall & Quilter Investment Holdings Ltd (the 'parent company') and its subsidiaries (together the 'group') for the year ended 31 December 2019 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2019 and its profit for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union.

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.

Emphasis of matter – impact of Covid-19

We draw attention to Note 2 d) of the financial statements, which describes the group's consideration of the Covid-19 virus outbreak on the group's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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.	In determining our materiality, we have considered financial benchmarks which we believe to be relevant to the primary users of the group's financial statements. We concluded the profit before tax was the most relevant benchmark to these users. We used the average profit before tax for the current year and previous two years as this benchmark is less distorted by large changes in the profit before tax year on year.	2,200,000

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £110,000 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 be performed by us, as the group auditors, and 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 group opinion on the financial statements as a whole. We carried out detailed reviews of the audit work of the material components in Bermuda, Malta and the United States of America. We also kept in regular communication with those overseas auditors, through discussions and written instructions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 engagement team. 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 Refer to Notes 2 f) and 5 to the group financial statements for disclosures of related accounting policies and balances.	The group has entered into a number of new programs in the year. 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. The determination of the performance conditions associated with such income gives rise to significant judgements to be exercised by management. There is a risk that such judgements are not made in accordance with IFRS and thus the accounting for such income is materially misstated in the financial statements.	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. We also performed the following procedures: • Reviewed the underlying program agreements; and • Tested, on a sample basis, whether amounts recognised were reasonable and appropriately recorded in the correct accounting period based on the contractual obligations of the insurance agreements. Based on the procedures we performed, we observed that the recognition of the new program income was reasonable and appropriate based on the requirements of IFRS and the nature of the underlying agreements.
Valuation of insurance contract provisions Refer to Notes 2 h) and 23 to the group financial statements for disclosures of related accounting policies and balances.	Total net insurance contract provisions for the year end 31 December 2019 are £600.8 million. 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 including application of management's judgement which can give rise to materially different values.	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. Additionally, we performed the following procedures: • Tested, on a sample basis, the underlying data to source documentation to assess the completeness and accuracy; • Reviewed any significant prior year reserve movements by reference to any significant adverse market development; • 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. • Tested the calculations used in identifying reinsurers' share of any claims. Based on the procedures we performed, we observed that the value of the insurance contract provisions was reasonable and appropriate.

Independent auditor's report to the members of Randall & Quilter Investment Holdings Ltd continued

Key audit matters continued

Area	Reason	Audit response
Accounting for the acquisitions made in 2019 Refer to Notes 2 c) and 29 to the group financial statements for disclosures of related accounting policies and balances.	The group completed 10 business combinations during the year end 31 December 2019, giving rise to goodwill on bargain purchase of £71.3 million. 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. 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 which can give rise to materially different values of any resulting goodwill on bargain purchase.	We evaluated the design and tested the operating effectiveness of controls that the group established in relation to acquisition accounting. We carried out the following testing: • Performed a walkthrough test of the controls in place within the accounting process to understand management's process under IFRS 3. • Read contracts, agreements and board minutes relating to the acquisitions. • 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. • Validated and challenged key inputs and data used in valuation models by reference to historical data and our expectations. • Assessed the completeness of the identification of the assets acquired and the appropriateness of the assets' useful economic lives using our knowledge of the run-off insurance industry. • Evaluated the adequacy of the business combination disclosures made in note 29 to the requirements in IFRS 3. Based on the procedures we performed, we observed that the methodologies and the assumptions applied were reasonable.

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 group financial statements does not cover the other information and 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 group 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 group 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, in accordance with our engagement letter. 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

PKF Littlejohn LLP

Chartered Accountants and Registered Auditor

15 Westferry Circus
Canary Wharf
London
E14 4HD

31 May 2020

Consolidated Income Statement

For the year ended 31 December 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
Continuing operations					
Gross premiums written		450,187		183,838	
Written premiums ceded to reinsurers		(285,033)		(118,928)	
Net written premiums			165,154		64,910
Change in provision for unearned premiums, gross		(94,315)		(42,044)	
Change in provision for unearned premiums, reinsurers' share		103,687		40,583	
Net change in provision for unearned premiums			9,372		(1,461)
Earned premium, net of reinsurance			174,526		63,449
Gross investment income	7	21,993		5,430	
Other income	8	6,780		11,960	
			28,773		17,390
Total income			203,299		80,839
Gross claims paid		(183,438)		(161,360)	
Proceeds from commutations and reinsurers' share of gross claims paid		111,033		106,238	
Claims paid, net of reinsurance	23	(72,405)		(55,122)	
Movement in gross technical provisions		(125,978)		69,579	
Movement in reinsurers' share of technical provisions after adjusting for commutations		55,227		(3,759)	
Net change in provisions for claims		(70,751)		65,820	
Net claims provisions decrease/(increase)			(143,156)		10,698
Operating expenses	9		(78,651)		(77,294)
Result of operating activities before goodwill on bargain purchase			(18,508)		14,243
Goodwill on bargain purchase	29		71,332		5,997
Amortisation and impairment of intangible assets	15		(3,162)		(1,644)
Result of operating activities			49,662		18,596
Finance costs	10		(9,537)		(4,345)
Profit from continuing operations before income taxes	11		40,125		14,251
Income tax charge	12		(1,280)		(3,946)
Profit for the year from continuing operations			38,845		10,305
Loss for the period from discontinued operations	6		–		(2,483)
Profit for the year			38,845		7,822
Attributable to:					
Shareholders of the parent			39,323		7,341
Non-controlling interests			(478)		481
			38,845		7,822

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

	Note	2019	2018
Earnings per ordinary share from continuing and discontinued operations:			
Basic	13	21.4p	5.8p
Diluted	13	21.4p	5.8p
Earnings per ordinary share from continuing operations:			
Basic	13	21.4p	7.8p
Diluted	13	21.4p	7.8p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 £000	2018 £000
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Pension scheme actuarial (losses)/gains	(1,698)	4,661
Deferred tax on pension scheme actuarial (losses)/gains	51	(792)
	(1,647)	3,869
Items that may be subsequently reclassified to profit or loss:		
Exchange (losses)/gains on consolidation	(8,258)	8,809
Other comprehensive income	(9,905)	12,678
Profit for the year	38,845	7,822
Total comprehensive income for the year	28,940	20,500
Attributable to:		
Shareholders of the parent	29,440	19,985
Non-controlling interests	(500)	515
Total comprehensive income for the year	28,940	20,500

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 2019

	Notes	Share capital £000	Share premium £000	Foreign currency translation reserve £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total £000
Year ended 31 December 2019								
At beginning of year		2,520	51,135	9,273	112,710	175,638	349	175,987
Profit for the year		–	–	–	39,323	39,323	(478)	38,845
Other comprehensive income								
Exchange losses on consolidation		–	–	(8,236)	–	(8,236)	(22)	(8,258)
Pension scheme actuarial losses		–	–	–	(1,698)	(1,698)	–	(1,698)
Deferred tax on pension scheme actuarial losses		–	–	–	51	51	–	51
Total other comprehensive income for the year		–	–	(8,236)	(1,647)	(9,883)	(22)	(9,905)
Total comprehensive income for the year		–	–	(8,236)	37,676	29,440	(500)	28,940
Transactions with owners								
Share based payments		–	138	–	–	138	–	138
Issue of shares	25	1,398	102,047	–	–	103,445	–	103,445
Issue of AB & AC shares		18,415	(18,415)	–	–	–	–	–
Cancellation of AB & AC shares	14	(18,415)	–	–	–	(18,415)	–	(18,415)
Non-controlling interest in subsidiary acquired		–	–	–	–	–	594	594
At end of year		3,918	134,905	1,037	150,386	290,246	443	290,689

	Notes	Share capital £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								
At beginning of year		2,517	62,257	901	101,097	166,772	(166)	166,606
Profit for the year		–	–	–	7,341	7,341	481	7,822
Other comprehensive income								
Exchange gains on consolidation		–	–	8,372	403	8,775	34	8,809
Pension scheme actuarial gains		–	–	–	4,661	4,661	–	4,661
Deferred tax on pension scheme actuarial gains		–	–	–	(792)	(792)	–	(792)
Total other comprehensive income for the year		–	–	8,372	4,272	12,644	34	12,678
Total comprehensive income for the year				8,372	11,613	19,985	515	20,500
Transactions with owners								
Share based payments		–	212	–	–	212	–	212
Issue of shares	25	3	–	–	–	3	–	3
Issue of Z & AA shares		11,334	(11,334)	–	–	–	–	–
Cancellation of Z & AA shares	14	(11,334)	–	–	–	(11,334)	–	(11,334)
At end of year		2,520	51,135	9,273	112,710	175,638	349	175,987

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

Consolidated Statement of Financial Position

For the year ended 31 December 2019

Company Number 47341	Notes	2019 £000	2018 £000
Assets			
Intangible assets	15	46,082	19,974
Property, plant and equipment	16	969	577
Right of use assets	17	3,191	–
Investment properties	18a	1,480	1,881
Financial instruments			
– Investments (fair value through profit and loss)	18b	559,963	395,418
– Deposits with ceding undertakings	4b	19,504	6,331
Reinsurers' share of insurance liabilities	23	471,412	300,357
Deferred tax assets	24	4,008	3,205
Current tax assets	24	1,988	191
Insurance and other receivables	19	419,535	232,716
Cash and cash equivalents	20	252,741	236,923
Total assets		1,780,873	1,197,573
Liabilities			
Insurance contract provisions	23	1,072,208	699,078
Financial liabilities			
– Amounts owed to credit institutions	22	142,693	140,243
– Lease liabilities	22	3,210	–
– Deposits received from reinsurers		1,068	1,139
Deferred tax liabilities	24	9,465	3,449
Insurance and other payables	21	253,909	168,488
Current tax liabilities	24	294	2,323
Pension scheme obligations	27	7,337	6,866
Total liabilities		1,490,184	1,021,586
Equity			
Share capital	25	3,918	2,520
Share premium	25	134,905	51,135
Foreign currency translation reserve		1,037	9,273
Retained earnings		150,386	112,710
Attributable to equity holders of the parent		290,246	175,638
Non-controlling interests in subsidiary undertakings	30	443	349
Total equity		290,689	175,987
Total liabilities and equity		1,780,873	1,197,573

The Consolidated Financial Statements were approved by the Board of Directors on 31 May 2020 and were signed on its behalf by:


K E Randall


A K Quilter


W Spiegel

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 2019

	Notes	2019 £000	2018 £000
Cash flows from operating activities			
Profit for the year		38,845	7,822
Tax included in consolidated income statement		1,280	3,871
Finance costs	10	9,537	4,345
Depreciation and impairment	16 & 17	2,242	335
Share based payments	25	138	212
Loss on divestment		–	215
Goodwill on bargain purchase	29	(71,332)	(5,997)
Amortisation and impairment of intangible assets	15	3,162	1,644
Fair value loss/(gain) on financial assets		(6,602)	5,754
Loss on revaluation of investment property	18	40	903
Loss on disposal of property, plant and equipment		89	–
Contributions to pension plan		(1,400)	–
Loss/(profit) on net assets of pension schemes		173	(479)
Increase in receivables		(145,830)	(61,734)
Decrease in deposits with ceding undertakings		1,294	343
Increase in payables		72,220	69,679
Increase/(decrease) in net insurance technical provisions		61,379	(64,359)
Income taxes paid		(2,330)	–
Net cash used in operating activities		(37,095)	(37,446)
Cash flows from investing activities			
Purchase of property, plant and equipment	16	(958)	(189)
Proceeds from sale of property, plant and equipment	16	–	19
Purchase of intangible assets	15	(143)	(92)
Proceeds from sale of intangible assets		1,952	–
Proceeds from sale of financial assets		68,997	69,774
Purchase of financial assets		(94,364)	(46,023)
Proceeds from disposal of investment properties	18	361	–
Acquisition of subsidiary undertakings (offset by cash acquired)		(1,615)	(8,972)
Divestment (offset by cash disposed of)		–	13,387
Payments to acquire minority interest		(221)	–
Net cash from/(used in) investing activities		(25,991)	27,904
Cash flows from financing activities			
Repayment of borrowings		(34,966)	(3,000)
Proceeds from new borrowing arrangements		41,751	86,170
Interest and other finance costs paid	10	(9,537)	(4,345)
Cancellation of shares	14	(18,415)	(11,334)
Receipts from issue of shares		103,445	3
Net cash from financing activities		82,278	67,494
Net increase in cash and cash equivalents		19,192	57,952
Cash and cash equivalents at beginning of year		236,923	174,502
Exchange(losses)/ gains on cash and cash equivalents		(3,374)	4,469
Cash and cash equivalents at end of year	20	252,741	236,923
Share of Syndicates' cash restricted funds		15,320	18,150
Other funds		237,421	218,773
Cash and cash equivalents at end of year		252,741	236,923

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 2019

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 31 May 2020.

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 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 new IFRSs and amendments to IFRSs issued by the IASB that are mandatory for an accounting period that begins on or after 1 January 2019.

IFRS 16, Leases. (IASB effective date 1 January 2019). IFRS 16 specifies how to recognise, measure 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. The rental charge in previous Consolidated Income Statements for leases has been replaced in the 2019 reporting year with a depreciation charge for the lease assets and an interest expense for the lease liabilities. Under the Standard the Group has adopted the retrospective modified approach and therefore the comparatives are not restated and continue to be reported under IAS 17 and IFRIC 4.

The right-of-use asset recognised in the Consolidated Statement of Financial Position at 31 December 2019 is £3,191k. This asset has given rise to a depreciation charge of £1,776k for the year ending 31 December 2019 and the cost is included in operating expenses in the Consolidated Income Statement.

The lease liability is included within Financial liabilities in the Consolidated Statement of Financial Position at 31 December 2019 and amounts to £3,210k. The unwinding of the liability for the year ending 31 December 2019 has created an interest cost of £148k which is included in Finance Costs in the Consolidated Income Statement.

IAS 19 Amendments, Plan Amendment, curtailment or settlement. (IASB effective date 1 January 2019). If a defined benefit pension plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. The amendments had no impact on the Consolidated Financial Statements.

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) The amendment outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The amendments had no impact on the Consolidated Financial Statements.

IFRS 2015 - 2017 improvement cycle (IASB effective date 1 January 2019). The improvement cycle brought clarification on specific technical points in the following Standards, which due to the content and narrow scope had no impact on the Consolidated Financial Statements:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements. The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.

IAS 12 Income Taxes. The amendments clarify the requirements to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

2. Accounting policies continued

a. Basis of preparation continued

IAS 23 Borrowing Costs. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

New and amended Standards not yet adopted by the Group

A number of new standards and amendments adopted by the EU, as well as standards and interpretations issued by the IASB but not yet adopted by the EU, have not been applied in preparing the Consolidated 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 to defer until IFRS 17 comes into effect on 1 January 2023.

IFRS 17, Insurance Contracts. (IASB effective date 1 January 2023)

IFRS 9, IAS 39 and IFRS 7 Amendments, Interest rate benchmark reform. (IASB effective date 1 January 2020)

IAS 1 and IAS 8 Amendments, Definition of material. (IASB effective date 1 January 2020)

IFRS 3 Amendments, Business combinations. (IASB effective date 1 January 2020)

Of the upcoming accounting standards and amendments, the Group anticipates that IFRS 9 and IFRS 17 will have the most material impact to the Consolidated 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, Financial instruments (IASB effective date 1 January 2018) has not been applied under IFRS 4 Amendment option. 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 has taken advantage of this temporary exemption not to apply this standard until the effective date of IFRS 17.

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 2023. 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 produces a gain at the time a contract is issued the model also requires a 'contractual service margin' to offset the day 1 gain. The contractual service margin will amortise over the life of the contract. There will also be a new income statement presentation for insurance contracts, including a revised definition of revenue, and extensive disclosure requirements.

The Group has implemented an IFRS 17 project to plan and develop the required systems and procedural changes. The initial gap analysis comparing the existing systems and data to those required to meet the Standard was completed in November 2019, focusing on the Accredited Insurance Europe Ltd operations as a pilot. Development of procedure and systems changes is expected to be in place by 31 December 2020, with testing taking place in 2021. The project has provided early insight on the potential impact on the Consolidated Financial Statements by comparing key transactions using existing accounting treatment to a restated position under IFRS 17. This confirmed the most significant financial impacts will be the deferral of risk premiums on reinsurance contracts and goodwill gains on business combinations acquired after the effective date, the discounting of risk adjusted insurance and reinsurance liabilities and assets, and the inclusion of future claims handling and directly attributable expense cash flows in the insurance liabilities for all business.

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 2019 and 2018. 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 and Capita 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 only its share of the result of these Syndicates. The Group is the sole provider of capacity on Syndicate 1110, and these Consolidated Financial Statements include 100.00% of the economic interest in this Syndicate. For Syndicate 1991, the Group provides 24.21% of the capacity on the 2017 year of account, and 0.04% on the 2018 and 2019 years 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 the Group's 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 and adjusted against the cost of the investment included in the Consolidated Statement of Financial Position.

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 which act as intermediaries, other than any 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. At the date of signing these Consolidated Financial Statements, the Group's financial position and forecasts for 2020 and 2021 demonstrate that it has adequate cash resources to meet its liabilities as they fall due. The Group has continued to make advances with its strategy, including the continuation of legacy deals and ongoing development of the Program management business.

On the 29 April 2020 the Group announced new capital of £80.3m (US$100m), to further strengthen the Group's financial resources and provide additional funds to capitalise on opportunities in its Legacy and Program management businesses.

Covid-19 impact

The Board has considered the potential impact of the recent Covid-19 pandemic and believes that it will have a limited impact on the Group's existing business. Significant work has been performed by the Group, which confirmed the ability of the Group and its subsidiaries to continue to operate as going concerns. Regulated entities within the Group have performed stress tests to assess going-concern capabilities under various scenarios, which has confirmed the adequacy of their capital bases and ability to continue to meet regulatory capital requirements under these scenarios.

Impact on Legacy business

Whilst some delays in completing new legacy deals may be experienced, it is believed that the impact of the pandemic on the wider insurance industry will provide future opportunity for the Group.

The Group's existing legacy books have limited exposure to unexpired risks. Given the scale of insurance risk underwritten, diversification across different classes of insurance and levels of highly rated reinsurance protection available in the insurance company subsidiaries; the Group is well protected against the likelihood of any significant future claims.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

2. Accounting policies continued

d. Going concern continued

Impact on Program business

Growth in program premiums may slow with lower levels of economic and business activity anticipated during 2020, however the rapid increase in program premiums written in 2019 will result in significantly increased levels of earned premiums and commissions being achieved during 2020.

Impact on investment portfolios

The Group has a defensive positioning in its portfolio with 92% of invested assets currently held in BBB or better. As a result, the Group has only seen a 1.2% unrealised loss on the investment portfolio for the period from 1 January 2020 to 30 April 2020.

Impact on operations

The Group has moved to protect staff by closing all offices in accordance with government guidelines in the countries in which it operates. Group staff and systems have adapted well to remote working with no significant degrading of operations and performance.

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 Consolidated 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. For After the Event (ATE) policies written by the Group, premiums remain unearned until the point at which the claims exposures relating to these policies become crystallised.

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

Acquisition costs

Acquisition costs, which represent commission and other related direct underwriting expenses, are deferred over the period in which the related premiums are earned. Acquisition costs recognised 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 has 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 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 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 Consolidated Financial Statements where they have ceased writing new business and, in the opinion of management, there is no current probable reinsurer available to close the relevant syndicate 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 pay-out 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 is 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.

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 21.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

2. Accounting policies continued

k. Segmental reporting

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

l. 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 hold assets classified as 'held to maturity' and 'available for sale'.

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. 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.

n. Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to refurbish the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reviewed for impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense to the Consolidated Income Statement on a straight-line basis over the lease term.

Right-of-use assets are disclosed under note 17.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

2. Accounting policies continued

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 long-term 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. Costs of acquiring new licences are recognised in the year of acquisition.

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 2019

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 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 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, in the opinion of the actuary, the booked reserves are greater than or equal to their view of best estimate.

In the case of the Group's larger insurance companies, 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 5 and 50 years depending upon the nature of the liabilities within each insurance company subsidiary. Ultimately, the period of run-off is dependent on the timing and settlement of claims and the collection of reinsurance recoveries; consequently similar uncertainties apply to the assessment of the provision for such costs.

Reinsurance recoveries

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

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

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

Recognition and derecognition 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 derecognised. Where decisions to derecognise 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 derecognised 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

3. Estimation techniques, uncertainties and contingencies continued

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 2019 and 2018 is shown below:

	2019	2018
	£000	£000
Government and government agencies	188,030	63,228
Corporate bonds	345,296	202,424
Equities	10,991	24,369
Cash-based investment funds	15,646	105,397
Cash and cash equivalents	252,741	236,923
	812,704	632,341

	%	%
Government and government agencies	23.1	10.0
Corporate bonds	42.5	32.0
Equities	1.4	3.8
Cash-based investment funds	1.9	16.7
Cash and cash equivalents	31.1	37.5
	100.0	100.0

Corporate bonds include asset backed mortgage obligations totalling £10,914k (2018: £6,833k).

Based on invested assets at external managers of £559,963k as at 31 December 2019 (2018: £395,418k), 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 2019 of £5,600k (2018: £3,954k).

(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.

2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Government and government agencies	180,970	7,060	–	188,030
Corporate bonds	342,538	2,758	–	345,296
Equities	10,991	–	–	10,991
Cash-based investment funds	–	15,646	–	15,646
Purchased reinsurance receivables (Note 19)	–	–	5,969	5,969
Total financial assets measured at fair value	534,499	25,464	5,969	565,932

2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Government and government agencies	58,954	4,274	–	63,228
Corporate bonds	200,416	2,008	–	202,424
Equities	24,369	–	–	24,369
Cash-based investment funds	105,397	–	–	105,397
Purchased reinsurance receivables (Note 19)	–	–	3,393	3,393
Total financial assets measured at fair value	389,136	6,282	3,393	398,811

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

4. Management of insurance and financial risks continued

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

(i) Pricing risk continued

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

	2019 £000	2018 £000
Opening balance	3,393	3,750
Total net (losses)/gains recognised in the Consolidated Income Statement	(93)	76
Acquisitions	3,528	–
Disposals	(692)	(614)
Exchange adjustments	(167)	181
Closing balance	5,969	3,393

Level 3 investments (purchased reinsurance receivables) have been valued using detailed models outlining the anticipated timing and amounts of future receipts. The net losses recognised in the Consolidated Income Statement in other income for the year amounted to £93k (2018: gains £76k). The Group purchased further reinsurance receivables in 2019 of £3,528k (2018: 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 2019

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	548,971	88,991	91,961	82,285	75,953	209,781

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	0.38–8.75	2.38	1.38–2.50	1.50–5.51	3.15–6.88

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

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 2019	A rated £000	B rated £000	Less than B £000	Other* £000	Exposures of less than £200k £000	Total £000
Deposits with ceding undertakings	10,811	183	–	2,539	5,971	19,504
Reinsurers' share of insurance liabilities	374,482	5,705	–	35,038	56,187	471,412
Receivables arising out of reinsurance contracts	141,715	1,805	–	18,112	50,602	212,234

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

* Other includes reinsurers who currently have no credit rating.

The reinsurers' share of insurance liabilities is based upon a best estimate given the profile of the insurance provisions outstanding and the related IBNR. Receivables arising out of reinsurance contracts are included in insurance and other receivables in the Consolidated Statement of Financial Position.

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

As at 31 December 2019	0–6 months %	6–12 months %	12–24 months %	> 24 months %
Percentage of receivables	47.4	8.5	12.2	31.9

As at 31 December 2018	0–6 months %	6–12 months %	12–24 months %	> 24 months %
Percentage of receivables	64.9	5.0	8.3	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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

4. Management of insurance and financial risks continued

b. Credit risk continued

As at 31 December 2019	Neither past due nor impaired £000	Financial assets past due but not impaired: Past due 1–90 days £000	Financial assets past due but not impaired: Past due more than 90 days £000	Assets that have been impaired £000	Carrying value in the balance sheet £000
Deposits with ceding undertakings	19,150	–	–	354	19,504
Reinsurers' share of insurance liabilities	431,785			39,627	471,412
Receivables arising out of reinsurance contracts	120,666	235	208	91,125	212,234

As at 31 December 2018	Neither past due nor impaired £000	Financial assets past due but not impaired: Past due 1–90 days £000	Financial assets past due but not impaired: Past due more than 90 days £000	Assets that have been impaired £000	Carrying value in the balance sheet £000
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

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

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

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 and Capita are the Lloyd's Managing Agents which manage the Syndicates on which the Group participates. Coverys and Capita have 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 and Capita Risk and Capital Committees, 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.

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

31 December 2019	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	1,426	44,501	155	–	46,082
Reinsurers' share of insurance liabilities	234,180	215,358	21,874	–	471,412
Financial instruments	17,298	545,972	17,676	–	580,946
Insurance receivables	178,512	143,159	942	–	322,613
Cash and cash equivalents	99,092	151,796	1,853	–	252,741
Insurance liabilities and insurance payables	(495,642)	(720,133)	(42,299)	–	(1,258,074)
Deferred tax and pension scheme obligations	768	(17,450)	(120)	–	(16,802)
Trade and other (payables)/receivables	(29,208)	(73,133)	(6,331)	–	(108,672)
Total	6,426	290,070	(6,250)	–	290,246

31 December 2018	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
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

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

		31 December 2019		31 December 2018	
	Changes in variables	Impact on profit £000	Impact on equity* £000	Impact on profit £000	Impact on equity* £000
Euro weakening	10%	101	105	958	50
US Dollar weakening	10%	4,209	(28,965)	(1,645)	(17,385)
Euro strengthening	10%	(122)	(127)	(1,176)	(62)
US Dollar strengthening	10%	(5,144)	35,402	1,342	21,248

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

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

4. Management of insurance and financial risks continued

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	2020	126,750	50	Open
1991	2019	126,750	50	Open
1991	2018	126,750	50	Open
1991	2017	126,750	30,687	Closed
1110	2019	3,000	3,000	Open
1110*	2017	280,000	280,000	Open
3330	2018	3,000	300	Open
3330	2017	3,500	3,500	Closed

* Syndicate 1110 2017 year of account benefits from reinsurance arrangements in place with New York Marine and General Insurance Company, which protects the Group from any adverse net claims development.

Syndicates 1110 and 3330 are classified by Lloyd's as run-off Syndicates and their capacity shown above is reflective of this status with Syndicate 1110 now the Group's platform for legacy transactions at Lloyd's. The capacity of run-off Syndicates does not represent the level of risk these are able to take on, this is a nominal level set by Lloyd's, they are able to receive portfolios of risk greater than this nominal capacity.

(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.

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 2016.

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

Gross	Group entities at 1 January 2016 £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	Entities acquired by the Group during 2019 £000
Gross claims at:					
1 January/acquisition	452,199	107,121	270,945	16,842	293,422
First year movement	51,718	(2,793)	(43,749)	(1,091)	(30,262)
Second year movement	(78,669)	(26,891)	(63,559)	(7,293)	
Third year movement	(36,051)	(18,423)	(27,341)		
Fourth year movement	(49,561)	(15,804)			
Gross provision at 31 December 2019	339,636	43,210	136,296	8,458	263,160
Gross claims at:					
1 January/acquisition	452,199	107,121	270,945	16,842	293,422
Exchange adjustments	52,537	2,287	(2,506)	(5,939)	(11,895)
Payments	(272,586)	(50,582)	(132,607)	(2,358)	(13,613)
Gross provision at 31 December 2019	(339,636)	(43,210)	(136,296)	(8,458)	(263,160)
(Deficit)/surplus to date	(107,486)	15,616	(465)	88	4,754

Net	Group entities at 1 January 2016 £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	Entities acquired by the Group during 2019 £000
Net claims at :					
1 January/acquisition	273,672	42,540	198,513	16,120	288,141
First year movement	90,270	(1,171)	(45,734)	(874)	(25,098)
Second year movement	(44,595)	(14,444)	(69,592)	(6,980)	
Third year movement	(14,186)	(1,591)	(27,516)		
Fourth year movement	(31,502)	(5,003)			
Net provision at 31 December 2018	273,659	20,331	55,671	8,266	263,043
Net claims at :					
1 January/acquisition	273,672	42,540	198,513	16,120	288,141
Exchange adjustments	45,399	(202)	(14,420)	(5,830)	(11,472)
Payments	(10,384)	(28,222)	(97,407)	(2,298)	(12,977)
Net position at 31 December 2018	(273,659)	(20,331)	(55,671)	(8,266)	(263,043)
Surplus/(deficit) to date	35,028	(6,215)	31,015	(274)	649

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 23.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

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. For these financials we have realigned the reporting segments to reflect the Group's core operating businesses. The reportable segments have been identified as follows:-

- Program – the Group delegates underwriting authority to MGAs to provide program capacity through its licensed platforms in the US and Europe
- Legacy – acquires legacy portfolios and insurance debt and provides capital support to the Group's managed Lloyd's Syndicates
- Other – primarily includes the holding company and other non- core subsidiaries which fall outside of the segments above.

Segmental results for continuing operations for the year ended 31 December 2019

	Program £000	Legacy £000	Other £000	Consolidation adjustments £000	Total £000
Earned premium, net of reinsurance	6,099	168,427	–	–	174,526
Gross investment income	4,603	22,699	7,918	(13,227)	21,993
External income	1	58	6,721	–	6,780
Internal income	–	–	27,046	(27,046)	–
Total income	**10,703**	**191,184**	**41,685**	**(40,273)**	**203,299**
Claims paid, net of reinsurance	(2,831)	(69,390)	(183)	–	(72,404)
Net change in provision for claims	(3,444)	(65,533)	(1,775)	–	(70,752)
Net insurance claims (increased)/released	(6,275)	(134,923)	(1,958)	–	(143,156)
Operating expenses	(6,325)	(58,548)	(40,824)	27,046	(78,651)
Result of operating activities before goodwill on bargain purchase	**(1,897)**	**(2,287)**	**(1,097)**	**(13,227)**	**(18,508)**
Goodwill on bargain purchase	–	71,332	–	–	71,332
Amortisation and impairment of intangible assets	–	(2,579)	(583)	–	(3,162)
Result of operating activities	**(1,897)**	**66,466**	**(1,680)**	**(13,227)**	**49,662**
Finance costs	(309)	(8,906)	(13,549)	13,227	(9,537)
Profit/(loss) on ordinary activities before income taxes	**(2,206)**	**57,560**	**(15,229)**	–	**40,125**
Income tax (charge)/credit	(353)	(10,734)	9,807	–	(1,280)
Profit/(loss) for the period	**(2,559)**	**46,826**	**(5,422)**	–	**38,845**
Non-controlling interests	–	515	(37)	–	478
Attributable to shareholders of parent	(2,559)	47,541	(5,459)	–	39,323
Segment assets	412,130	1,586,860	93,420	(311,537)	1,780,873
Segment liabilities	318,011	1,092,670	391,040	(311,537)	1,490,184

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

Gross	Program £000	Legacy £000	Other £000	Consolidation adjustments £000	Total £000
Earned premium, net of reinsurance	1,424	56,253	5,772	–	63,449
Gross investment income	1,267	3,351	16,205	(15,393)	5,430
External income	–	1,830	10,130	–	11,960
Internal income	–	2,062	15,160	(17,222)	–
Total income	**2,691**	**63,496**	**47,267**	**(32,615)**	**80,839**
Claims paid, net of reinsurance	(644)	(54,478)	–	–	(55,122)
Net change in provision for claims	(1,280)	67,100	–	–	65,820
Net insurance claims (increased)/released	(1,924)	12,622	–	–	10,698
Operating expenses	(2,455)	(50,053)	(42,008)	17,222	(77,294)
Result of operating activities before goodwill on bargain purchase	**(1,688)**	**26,065**	**5,259**	**(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	**(1,688)**	**30,108**	**5,569**	**(15,393)**	**18,596**
Finance costs	(306)	(6,132)	(13,300)	15,393	(4,345)
Profit/(loss) on ordinary activities before income taxes	**(1,994)**	**23,976**	**(7,731)**	**–**	**14,251**
Income tax (charge)/credit	201	(10,266)	6,119	–	(3,946)
Profit/(loss) for the period	**(1,793)**	**13,710**	**(1,612)**	**–**	**10,305**
Non-controlling interests	–	(300)	(181)	–	(481)
Attributable to shareholders of parent	**(1,793)**	**13,410**	**(1,793)**	**–**	**9,824**
Segment assets	287,218	1,049,220	218,293	(357,158)	1,197,573
Segment liabilities	224,229	711,292	443,223	(357,158)	1,021,586

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

5. Segmental information continued

Geographical analysis

As at 31 December 2019	UK £000	North America £000	Europe £000	Total £000
Gross assets	460,617	1,153,071	478,722	2,092,410
Intercompany eliminations	(128,640)	(132,124)	(50,773)	(311,537)
Segment assets	331,977	1,020,947	427,949	1,780,873
Gross liabilities	293,176	1,097,367	411,178	1,801,721
Intercompany eliminations	(55,826)	(250,150)	(5,561)	(311,537)
Segment liabilities	237,350	847,217	405,617	1,490,184
Revenue from external customers	84,860	101,989	16,450	203,299

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

6. Discontinued operations and disposal groups

The sale of Insurance Services and Captive Management Companies

On 13 January 2018 the Group completed the sale of its Insurance Services and Captive Management Companies (ISD) to Davies Group, 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 the Consolidated Financial Statements as a discontinued operation as it represented the sale of a major line of business within the Group.

Profit for the year from discontinued operations

	2019 £000	2018 £000
Other income	–	(183)
Operating expenses	–	(2,310)
Profit before tax	–	(2,493)
Income tax charge	–	225
Operating loss	**–**	**(2,268)**
Disposal proceeds	–	17,216
Net assets of disposal group	–	(17,431)
Loss on discontinued activities	–	(215)
Income tax charge on discontinued activities	–	–
Loss on discontinued activities	**–**	**–**
Loss for the period	**–**	**(2,483)**

Cash flows for the year from discontinued operations

	2019 £000	2018 £000
Net cash inflows/(outflows) from operating activities	–	(404)
Investing activities	–	16,511
Net cash inflows	**–**	**16,107**

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

	ISD On disposal 13 January 2018 £000
Assets	
Intangible assets	14,408
Property, plant and equipment	151
Other financial investments	62
Insurance and other receivables	2,940
Cash and cash equivalents	705
	18,266
Liabilities	
Insurance and other payables	835
Current tax liabilities	–
	835
Total net assets of the disposal group	17,431

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

7. Gross investment income

Continuing operations	2019 £000	2018 £000
Investment income	15,391	11,184
Realised net gains on financial assets	4,581	800
Unrealised gains/(losses) on financial assets	2,021	(6,554)
	21,993	5,430

8. Other income

Continuing operations	2019 £000	2018 £000
Income from contracts with customers		
Management fees	4,082	8,444
Income from other sources		
Insurance commissions	2,923	3,547
Interest expense on pension scheme deficit	(173)	(270)
Rental income from investment properties	41	163
Purchased reinsurance receivables	(93)	76
	6,780	11,960

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

9. Operating expenses

	2019	2018
Continuing operations	**£000**	**£000**
Expenses of insurance company subsidiaries	15,654	11,957
Expenses of syndicate participations	9,344	20,190
Employee benefits	41,867	28,568
Other operating expenses	11,786	16,579
	78,651	77,294

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

	2019	2018
Auditor remuneration	**£000**	**£000**
Fees payable to the Group's auditors for the audit of the parent company and its Consolidated Financial Statements	153	138
Fees payable for the audit of the Group's subsidiaries by:		
– Group auditors	504	534
– Other auditors	647	322
Other services under legislative requirements	131	133
Total	1,435	1,127

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

10. Finance costs

	2019	2018
Continuing operations	**£000**	**£000**
Bank loan and overdraft interest	4,455	1,346
Interest on lease liabilities	147	–
Subordinated debt interest	4,935	2,999
	9,537	4,345

11. Profit from continuing operations before income taxes

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

	2019	2018
	£000	**£000**
Employee benefits (Note 26)	40,856	28,568
Legacy acquisition costs (including aborted transactions)	3,169	760
Depreciation and impairment of fixed assets and right-of-use assets (Note 16 & 17)	2,242	335
Short-term and low value lease rental expenditure	57	1,296
Amortisation of pre contract costs	425	171
Amortisation and impairment of intangibles (Note 15)	3,162	1,644

12. Income tax charge

Continuing operations

a. Analysis of charge in the year

	2019 £000	2018 £000
Current tax		
Current year	–	–
Adjustments in respect of prior periods	3,870	40
Foreign tax	(6,176)	(806)
	(2,306)	(766)
Deferred tax		
Current year	4,389	4,777
Adjustments in respect of prior periods	1,672	(65)
Foreign tax	(2,475)	–
Income tax charge for the year	1,280	3,946

b. Factors affecting tax charge for the year

The tax assessed differs from the standard rate of corporation tax in the United Kingdom of 19%. The differences are explained below:

	2019 £000	2018 £000
Profit on continuing operations before income taxes	40,125	14,251
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	7,624	2,708
Income not taxable for tax purposes	(14,950)	(2,070)
Expenses not deductible for tax purposes	1,740	1,396
Deferred tax not recognised on capital allowances	43	50
Differences in taxation treatment	4,478	(1,717)
Unrelieved tax losses carried forward	6,631	3,129
Utilisation of brought forward losses	(72)	(181)
Deferred tax not recognised on foreign tax pool	303	–
Foreign tax	(8,651)	(806)
Tax rate differential	(1,408)	1,462
Adjustments in respect of previous years	5,542	(25)
Income tax charge for the year	1,280	3,946

The 2018 comparatives have been re-presented according to the above categorisations for reference.

c. Factors that may affect future tax charges

In addition to the recognised deferred tax asset, the Group has other trading losses of approximately £118,263k (2018: £109,552k) in various Group companies available to be carried forward against future trading profits of those companies. The recovery of these losses is uncertain and no deferred tax asset has been provided in respect of these losses. Should it become possible to offset these losses against taxable profits in future years, the Group tax charge in those years will be reduced accordingly.

The Group has available capital losses of £27,514k (2018: £27,976k).

In the Finance Bill 2015, it was announced that the main rate of UK corporation tax would reduce to 19% from 1 April 2017 and to 18% from April 2020. The Bill was substantively enacted on 26 October 2015. In March 2016, it was announced that there would be a further reduction to 17% from 1 April 2020. The Finance Bill 2016 was substantively enacted on 6 September 2016. The Group's 2019 results are taxed at 19%. In March 2020 the UK Corporation tax rate was increased from 17% to 19% from 1 April 2020.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

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:

	2019	2018
	£000	£000
Profit for the year attributable to ordinary shareholders from:		
Continued operations	39,323	9,824
Discontinued operations	–	(2,483)
	No. 000's	No. 000's
Shares in issue throughout the year	125,984	125,876
Weighted average number of ordinary shares issued in year	57,469	32
Weighted average number of ordinary shares	183,453	125,908
Basic earnings per ordinary share for:		
Continued operations	21.4p	7.8p
Discontinued operations	–	(2.0p)

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:

	2019	2018
	£000	£000
Profit/(loss) for the year attributable to ordinary shareholders		
Continued operations	39,323	9,824
Discontinued operations	–	(2,483)
	No. 000's	No. 000's
Weighted average number of ordinary shares issued in year	183,453	125,908
Dilution effect of options	–	–
	183,453	125,908
Diluted earnings per ordinary share:		
Continued operations	21.4p	7.8p
Discontinued operations	–	(2.0p)

c. Net asset value per share

	2019	2018
	£000	£000
Net assets attributable to equity shareholders as at 31 December	290,246	175,638
	No. 000's	No. 000's
Ordinary shares in issue as at 31 December	195,918	125,984
Less: shares held in treasury	–	–
	195,918	125,984
Net asset value per ordinary share	148.1p	139.4p

14. Distributions

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

	2019 £000	2018 £000
Distribution on cancellation of AB (2018: Z) shares	10,971	6,798
Distribution on cancellation of AC (2018: AA) shares	7,444	4,536
Total distributions to shareholders	18,415	11,334

15. Intangible assets

	US state licences & customer contracts £000	Arising on acquisition £000	Goodwill £000	Other £000	Total £000
Cost					
As at 1 January 2018	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
Exchange adjustments	(291)	(897)	(578)	(1)	(1,767)
Acquisition of subsidiaries	2,654	28,683	–	–	31,337
Additions	–	–	819	143	962
Disposals	(2,703)	–	–	(23)	(2,726)
As at 31 December 2019	6,337	44,004	19,148	661	70,150
Amortisation/impairment					
As at 1 January 2018	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
Exchange adjustments	(6)	(153)	(530)	(1)	(690)
Charge for the year	30	2,579	474	79	3,162
Disposals	(751)	–	–	(23)	(774)
As at 31 December 2019	–	6,081	17,581	406	24,068
Carrying amount					
As at 31 December 2019	6,337	37,923	1,567	255	46,082
As at 31 December 2018	5,950	12,563	1,270	191	19,974

Goodwill acquired through business combinations has been allocated to the Legacy cash generating unit, which is also an operating and reportable segment, for impairment testing.

The recoverable amount of this cash generating unit 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 2019

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% (2018: 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% growth rate (2018: 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	£000
Cost						
As at 1 January 2018	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
Exchange adjustments	(42)	(1)	(12)	(48)	–	(103)
Additions	218	18	261	461	–	958
Disposals	(563)	(40)	(491)	(10)	–	(1,104)
As at 31 December 2019	1,179	18	1,072	1,181	–	3,450
Depreciation						
As at 1 January 2018	1,318	39	1,116	463	268	3,204
Exchange adjustments	80	2	24	68	–	174
Charge for the year	170	–	101	64	–	335
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
Exchange adjustments	(39)	–	(11)	(42)	–	(92)
Charge for the year	274	2	104	86	–	466
Disposals	(560)	(40)	(406)	(9)	–	(1,015)
As at 31 December 2019	1,061	3	787	630	–	2,481
Carrying amount						
As at 31 December 2019	**118**	**15**	**285**	**551**	**–**	**969**
As at 31 December 2018	180	–	214	183	–	577

As at 31 December 2019, the Group had no significant capital commitments (2018: 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. Right-of-use assets

	Property £000	Office equipment £000	Total £000
Position recognised at 1 January 2019 under IFRS 16	5,048	13	5,061
Deprecation charge for the year	(1,771)	(5)	(1,776)
Exchange adjustment	(94)	–	(93)
As at 31 December 2019	3,183	8	3,191

The cost of leases with a rental period of less than 12 months or with a contract value of less than £4,000 was £57k for the year and is reflected within expenses in the Consolidated Income Statement.

18. Investment properties and financial assets

a. Investment properties

	2019	2018
	£000	£000
As at 1 January	1,881	426
Reclassification of property to investment property	–	2,353
Exchange adjustment	–	5
Decrease in fair value during the year	(40)	(903)
Disposal	(361)	–
As at 31 December	1,480	1,881

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.

Rental income from the investment properties for the year was £163k (2018: £163k) 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)

	2019	2018
	£000	£000
Equities	10,991	24,369
Debt and fixed interest securities	533,326	265,652
Cash-based investment funds	15,646	105,397
	559,963	395,418

Included in the above amounts are £18,660k (2018: £23,046k) pledged as part of the Funds at Lloyd's in support of the Group's underwriting activities in 2019. 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 £90,100k (2018: £84,015k) 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 2019

18. Investment properties and financial assets continued

c. Shares in subsidiary and associate undertakings

The Company had interests in the following subsidiaries at 31 December 2019:

		% of ordinary shares held via:		
Name of subsidiaries/associate	Country of incorporation/ registration	The Company	Subsidiary and associate undertakings	Overall effective % of share capital held
Distinguished Re Ltd.	Barbados	–	100	100
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
Sandell Holdings Ltd.	Bermuda	–	100	100
Sandell Re Ltd.	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 Island	–	100	100
Callidus Solutions Ltd.	England and Wales	–	51	51
R&Q Alpha Insurance Company SE	Malta	100	–	100
R&Q Beta Insurance Company SE	Malta	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
R&Q Epsilon Insurance Company SE <	England and Wales	–	100	100
R&Q Eta Company 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 Insurance (Europe) Limited	Malta	–	100	100
R&Q Malta Holdings Limited	Malta	–	100	100
Accredited Bond Agencies Inc.	USA	–	100	100
Accredited Group Agency Inc.	USA	–	100	100
Accredited Holding Corporation	USA	–	100	100
Accredited Surety and Casualty Company, Inc.	USA	–	100	100
Excess and Treaty Management Corporation	USA	–	100	100
GLOBAL Reinsurance Company	USA	–	100	100

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
Grafton US Holdings Inc.~	USA	–	80	80
ICDC Ltd.	USA	–	100	100
LBL Acquisitions, LLC >	USA	–	100	60
National Legacy Insurance Company	USA	–	100	100
R&Q Healthcare Interests LLC	USA	–	100	100
R&Q Quest PCC, LLC	USA	–	100	100
R&Q Reinsurance Company	USA	–	100	100
R&Q RI Insurance Company	USA	–	100	100
R&Q Services Holding Inc.	USA	–	100	100
R&Q Solutions LLC	USA	–	100	100
Randall & Quilter America Holdings Inc.	USA	–	100	100
Randall & Quilter Healthcare Holdings Inc.	USA	–	100	100
Randall & Quilter PS Holdings Inc.	USA	–	100	100
Requiem America Inc.	USA	–	100	100
Risk Transfer Underwriting Inc.	USA	–	100	80
RSI Solutions International Inc.	USA	–	100	100
Syndicated Services Company Inc.	USA	–	100	100
Transport Insurance Company	USA	–	100	100

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

* Trilogy Managing General Agents Limited was sold to Resolution Underwriting Holdings Limited on 20 February 2020

+ In liquidation

^ In liquidation

~ Randall & Quilter America Holdings Inc increased its shareholding in Grafton US Holdings Inc. to 80% by acquiring 20% issued share capital held by Paul Dassenko

> Dissolved 19 March 2020

< Redomiciled to Malta 16 March 2020

19. Insurance and other receivables

	2019 £000	2018 £000
Receivables arising from direct insurance operations	110,379	67,396
Receivables arising from reinsurance operations	212,234	97,306
Insurance receivables	322,613	164,702
Trade receivables/ Receivables arising from contracts with customers	4,097	5,416
Other receivables	49,933	32,085
Purchased reinsurance receivables	5,969	3,393
Prepayments and accrued income	36,923	27,120
	96,922	68,014
Total	419,535	232,716

Included in purchased reinsurance receivables is £1,513k (2018: £2,922k) 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 £78,100k (2018: £64,000k) in respect of amounts due under certain structured reinsurance contracts which are expected to be received after 12 months. The increase arises due to the effect of the commutations strategy, realised investment gains and 2019 USA interest rate rises which have enhanced the amounts recoverable under the policies. The movement of £14,100k (2018: £36,500k) has been included in the £111,033k shown as proceeds from commutations and reinsurers' share of claims paid in the Consolidated Income Statement.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

19. 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 Consolidated Income Statement in the year in which it arises. An increase or reduction in returns of 0.25% would result in a movement of 0.8% in total Group assets.

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

20. Cash and cash equivalents

	2019	2018
	£000	£000
Cash at bank and in hand	252,741	236,923

Included in cash and cash equivalents is £574k (2018: £581k) being funds held in escrow accounts in respect of guarantees provided to the Institute of London Underwriters. The decrease is due to exchange movements.

In the normal course of business, insurance company subsidiaries will have deposited funds in respect of certain contracts which can only be released with the approval of the appropriate regulatory authority.

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

21. Insurance and other payables

	2019	2018
	£000	£000
Structured liabilities	400,910	425,657
Structured settlements	(400,910)	(425,657)
	–	–
Payables arising from reinsurance operations	118,528	41,048
Payables arising from direct insurance operations	66,271	3,522
Insurance payables	184,799	44,570
Trade payables	2,259	1,839
Other taxation and social security	1,633	4,674
Other payables	38,138	105,543
Accruals and deferred income	27,080	11,862
	69,110	123,918
Total	253,909	168,488

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.

22. Financial liabilities

	2019 £000	2018 £000
Amounts owed to credit institutions	142,693	140,243
Lease liabilities	3,210	–
	145,903	140,243

Amounts due to credit institutions are payable as follows:

	2019 £000	2018 £000
Less than one year	37,651	34,966
Between one to five years	15,500	14,500
Over five years	89,542	90,777
	142,693	140,243

As outlined in Note 31, £55,141k (2018: £46,300k) 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.

Lease liabilities maturity analysis – contractual undiscounted cash flows

	2019 £000
Less than one year	1,069
Between one to five years	2,058
Over five years	356
Total undiscounted lease liabilities at 31 December	3,483

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.

	2019 £000	2018 £000
Balance at 1 January	140,243	55,889
Financing cash flows *	6,785	83,170
Non-cash exchange adjustment	(4,335)	1,184
Balance at 31 December	142,693	140,243

* 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 2019

23. Insurance contract provisions and reinsurance balances

	2019			2018		
	Program £000	Run-off £000	Total £000	Program £000	Run-off £000	Total £000
Gross						
Insurance contract provisions at 1 January	107,304	591,774	699,078	23,717	698,818	722,535
Claims paid	(52,996)	(130,442)	(183,438)	(17,635)	(143,725)	(161,360)
Increases/(decreases) in provisions arising from the (disposal)/acquisition of subsidiary undertakings and Syndicate participations	–	174,551	174,551	–	(26,282)	(26,282)
Increases in provisions arising from acquisition of reinsurance portfolios	–	132,234	132,234	–	11,936	11,936
Increase in claims provisions	144,051	33,131	177,182	51,740	28,105	79,845
Increase/(decrease) in unearned premium reserve	107,608	(13,293)	94,315	46,443	(4,399)	42,044
Net exchange differences	(6,694)	(15,020)	(21,714)	3,039	27,321	30,360
As at 31 December	**299,271**	**772,935**	**1,072,208**	**107,304**	**591,774**	**699,078**
Reinsurance						
Reinsurers' share of insurance contract provisions at 1 January	101,946	198,411	300,357	23,178	230,304	253,482
Proceeds from commutations and reinsurers' share of gross claims paid	(50,165)	(60,868)	(111,033)	(16,992)	(89,246)	(106,238)
Increases/(decreases) in provisions arising from the (disposal)/acquisition of subsidiary undertakings and Syndicate participations	–	18,644	18,644	–	(1,440)	(1,440)
Increases in provisions arising from acquisition of reinsurance portfolios	–	–	–	–	722	722
Increase in claims provisions	137,775	28,485	166,260	49,816	51,941	101,757
Increase/(decrease) in unearned premium reserve	104,255	(568)	103,687	45,242	(4,659)	40,583
Net exchange differences	(4,889)	(1,614)	(6,503)	702	10,789	11,491
As at 31 December	**288,922**	**182,490**	**471,412**	**101,946**	**198,411**	**300,357**
Net						
Net insurance contract provisions at 1 January	5,358	393,363	398,721	539	468,514	469,053
Net claims paid	(2,831)	(69,574)	(72,405)	(643)	(54,479)	(55,122)
Increases/(decreases) in provisions arising from the (disposal)/acquisition of subsidiary undertakings and Syndicate participations	–	155,907	155,907	–	(24,842)	(24,842)
Increases in provisions arising from acquisition of reinsurance portfolios	–	132,234	132,234	–	11,214	11,214
Increase/(decrease) in claims provisions	6,276	4,646	10,922	1,924	(23,836)	(21,912)
Increase/(decrease) in unearned premium reserve	3,353	(12,725)	(9,372)	1,201	260	1,461
Net exchange differences	(1,805)	(13,406)	(15,211)	2,337	16,532	18,869
As at 31 December	**10,351**	**590,445**	**600,796**	**5,358**	**393,363**	**398,721**

	2019			2018		
	Program £000	Run-off £000	Total £000	Program £000	Run-off £000	Total £000
Gross						
Claims reserves	128,286	745,425	873,711	41,575	576,929	618,504
Unearned premiums reserves	170,987	27,510	198,497	65,729	14,845	80,574
As at 31 December	**299,273**	**772,935**	**1,072,208**	**107,304**	**591,774**	**699,078**
Reinsurance						
Claims reserves	123,404	182,256	305,660	39,709	197,758	237,467
Unearned premiums reserves	165,518	234	165,752	62,237	653	62,890
As at 31 December	**288,922**	**182,490**	**471,412**	**101,946**	**198,411**	**300,357**
Net						
Claims reserves	4,882	563,169	568,051	1,866	379,171	381,037
Unearned premiums reserves	5,469	27,276	32,745	3,492	14,192	17,684
As at 31 December	**10,351**	**590,445**	**600,796**	**5,358**	**393,363**	**398,721**

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 £90,100k (2018: £84,015k) in respect of the structured reinsurance contract collateralised by the funds withheld disclosed in Note 18 (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 advisors who assist the Group with the settlement of claims
- Changes in statute and legal precedent which could particularly impact provisions for asbestos, pollution and other latent exposures
- Arbitration awards and other legal precedents which could particularly impact upon the presentation of both inwards and outwards claims on the Group's exposure to major catastrophe losses

A 1 percent reduction in the net technical provisions would increase net assets by £6,008k (2018: £3,987k).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

24. Current and deferred tax

Current tax

	2019 £000	2018 £000
Current tax assets	1,988	191
Current tax liabilities	(294)	(2,323)
Net current tax assets/(liabilities)	1,694	(2,132)

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 17% for the UK (2018: 17%) and 21% for the US (2018: 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 2018	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)
Movement in year	803	(6,016)	(5,213)
As at 31 December 2019	4,008	(9,465)	(5,457)

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 2018	(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)
Movement in year	1	5,129	80	(10,424)	(5,214)
As at 31 December 2019	(38)	15,160	1,247	(21,827)	(5,458)

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

	Exchange adjustment £000	Deferred tax in Consolidated Income Statement £000	Deferred tax in Consolidated Statement of Comprehensive Income £000	Total £000
Movement in 2018	1,243	(4,712)	(792)	(4,261)
Movement in 2019	(1,678)	(3,586)	51	(5,213)

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

	2019	2018
	£000	£000
Deferred tax assets – relating to trading losses		
Deferred tax assets to be recovered after more than 12 months	11,038	7,533
Deferred tax assets to be recovered within 12 months	4,122	2,498
Deferred tax assets	15,160	10,031

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 £15,160k (2018: £10,031k) in respect of trading losses carried forward. The tax losses have arisen in individual legal entities and will be used as future taxable profits arise in those legal entities. Substantially all of the unused tax losses for which a deferred tax asset has been recognised arises in the US subgroup.

25. Share capital

	Number of shares	Ordinary shares £000	Share premium £000	Total £000
At 1 January 2018	**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**
Issue of ordinary shares	69,858,915	1,396	102,047	103,443
Share-based payments	74,373	2	138	140
Issue of AB-AC shares	391,835,136	18,415	(18,415)	–
Redemption/cancellation of AB-AC shares	(391,835,136)	(18,415)	–	(18,415)
At 31 December 2019	**195,917,568**	**3,918**	**134,905**	**138,823**

On 6 March 2019 the Group issued 69,858,915 of ordinary shares at 153p raising approximately £103.4m.

	2019	2018
	£	£
Allotted, called up and fully paid		
195,917,568 ordinary shares of 2p each (2018: 125,984,280 ordinary shares of 2p each)	3,918,350	2,520,686
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	3,918.350	2,520,688

	2019	2018
	£	£
Included in equity		
195,917,568 ordinary shares of 2p each (2018: 125,984,280 ordinary shares of 2p each)	3,918,350	2,520,686
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	3,918,350	2,520,688

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

25. Share capital continued

Cumulative Redeemable Preference Shares

Preference A and B Shares have rights, inter alia, to receive distributions in priority to ordinary shares of distributable profits of the Company derived from certain subsidiaries:

- Preference A Share: one half of all distributions arising from the Company's investment in R&Q Reinsurance Company up to a maximum of $5,000k.
- Preference B Share: one half of all distributions arising from the Company's investment in R&Q Reinsurance Company (UK) Limited up to a maximum of $10,000k.

The Preference A and Preference B Shares have been classified as equity on the basis that redemption dates are not prescribed in the Memorandum and Articles of Association and as such there is no contractual obligation to deliver cash. No distributions have been made since acquisition by either R&Q Reinsurance Company or R&Q Reinsurance Company (UK) Limited.

Shares issued

During the year the Group issued AB and AC shares (with an aggregate value of £18,415k) (2018: Z and AA shares (with an aggregate value of £11,334k) which were all cancelled.

26. Employees and Directors

Employee benefit expense for the Group during the year

	2019	2018
	£000	£000
Wages and salaries	35,987	24,374
Social security costs	3,767	2,968
Pension costs	1,102	1,014
Share-based payment charge	–	212
	40,856	28,568
Continuing operations	40,856	28,568
Discontinued operations	–	–

Pension costs are recognised in operating expenses in the Consolidated Income Statement and include £1,102k (2018: £1,014k) in respect of payments to defined contribution schemes.

Average number of employees

	2019	2018
	Number	Number
Program	53	47
Legacy	110	115
Other	96	107
	259	269

Total number of employees at 31 December 2019 was 252 (2018: 276).

Remuneration of the Directors and key management

	2019	2018
	£000	£000
Aggregate Director emoluments	5,368	2,658
Aggregate key management emoluments	2,061	1,961
Share-based payments – Directors	–	–
Share-based payments – Key management	169	169
Director pension contributions	–	–
Key management pension contributions	10	38
	7,608	4,826
Highest paid Director		
Aggregate emoluments	2,477	1,029

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

	Salary £000	Bonus paid £000	Bonus accrued £000	Total £000	Total $000
K E Randall	766	459	1,252	2,477	3,227
A K Quilter	519	150	730	1,399	–
A H F Campbell	75	–	–	75	–
P A Barnes	77	–	–	77	100
J P Fox (appointed as a Director 3 May 2019)	46	–	–	46	–
M A Langridge (resigned as a Director 13 December 2019)	380	341	206	927	–
M G Smith (resigned as a Director 6 September 2019)	150	–	–	150	–
Dr R Sellek (appointed as a Director 18 June 2019 and resigned 14 January 2020)	217	–	–	217	284

K E Randall, Dr R Sellek and P A Barnes have been remunerated in US Dollars.

During the year, a bonus incentive scheme was introduced for Executive Directors and members of the Key Management team. Bonus payments relating to a reporting year are paid in the following three years being 50%, 25% and 25% annually, and reflect the performance of the Group and the individuals. The costs in the 2019 financial year represent the amounts paid in 2019 and provision for costs relating to the 2018 and 2019 reporting years performance, which will be paid in 2020, 2021 and 2022. The provisions are established on a likelihood of the performance and service period criteria being met.

27. 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 the 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

	2019 £000	2018 £000
Fair value of plan assets	26,003	23,571
Present value of funded obligations	(33,340)	(30,437)
Net defined benefit liability	(7,337)	(6,866)
Related deferred tax asset	1,247	1,167
Net position in the Consolidated Statement of Financial Position	(6,090)	(5,699)

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

27. Pension scheme obligations continued

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 2018	(30,437)	23,571	(6,866)
Interest (expense)/income	(838)	665	(173)
	(31,275)	24,236	(7,039)
Remeasurements:			
Return on plan assets, excluding amounts included in interest expense	–	1,390	1,390
Gain from changes in financial assumptions	(3,642)	–	(3,642)
Gain from changes in demographic assumptions	554	–	554
Gain from new valuation data	–	–	–
Experience loss	–	–	–
Loss on curtailments	–	–	–
Liabilities extinguished on settlements	–	–	–
	(34,363)	25,626	(8,737)
Employer's contributions	–	1,400	1,400
Benefit payments from the plan	1,023	(1,023)	–
As at 31 December 2019	**(33,340)**	**26,003**	**(7,337)**

	Present value of obligation £000	Fair value of plan assets £000	Net defined benefit liability £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)**

c. Significant actuarial assumptions

i) Financial assumptions

	2019	2018
Discount rate	2.0%	2.8%
RPI inflation assumption	3.2%	3.3%
CPI inflation assumption	2.4%	2.5%
Pension revaluation in deferment:		
– CPI, maximum 5%	2.4%	2.5%
Pension increases in payment:		
– RPI, maximum 5%	3.2%	3.3%

ii) Demographic assumptions

Assumed life expectancy in years, on retirement at 60

Assumed life expectancy in years, on retirement at 60	2019	2018
Retiring today		
– Males	26.0	26.6
– Females	28.1	28.6
Retiring in 20 years		
– Males	27.6	28.1
– Females	29.7	30.2

d. Sensitivity to assumptions

The results of the IAS 19 valuation at 31 December 2019 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	2019 £000 Total	Level 1	Level 2	2018 £000 Total
Cash and cash equivalents	–	921	921	–	257	257
Investment funds:						
– equities	–	16,350	16,350	–	14,480	14,480
– bonds	–	2,950	2,950	–	5,962	5,962
– property	–	–	–	–	–	–
– LDI	–	5,782	5,782	–	2,872	2,872
	–	**26,003**	**26,003**	**–**	**23,571**	**23,571**

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

27. Pension scheme obligations continued

f. Contributions and present value of defined benefit obligation

Funding levels are monitored on an annual basis. As at 31 December 2019 £nil (2018: £1,400k) was held in Escrow by the Group depending on the outcome of the next triennial valuation. £1,400k contributions have been made directly into the scheme during 2019 (2018: nil). A recovery plan has been agreed with the Trustees to reduce the plan deficit starting from 1 January 2020. £795k will be contributed to the plan assets each year for 6 years, ending in 2025.

28. 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:

	2019 £000	2018 £000
K E Randall and family	1,222	1,440
A K Quilter and family	328	375
M G Smith	5	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

	2019 £000	2018 £000
Fees charged for compliance services	284	207
Fees payable to service provider at end of year	12	13

29. Business combinations and divestments

Business combinations

The Group made 10 business combinations during 2019, 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	Other receivables £000	Cash and investments £000	Other payables £000	Technical provisions £000	Tax and deferred tax £000	Net assets acquired £000	Consideration £000	Gross deal contribution £000
NNIS	–	787	3,233	(156)	(13)	–	**3,851**	3,071	**780**
WCIC	–	822	3,235	(32)	(790)	–	**3,235**	2,278	**957**
Presidio	100	–	1,112	–	(1,030)	–	**182**	–	**182**
LTT	15	–	764	–	(474)	(5)	**300**	–	**300**
Global Holdings	20,997	4,776	150,669	(1,838)	(66,187)	(1,300)	**107,117**	62,422	**44,695**
Sandell Holdings	7,585	34,155	61,878	(8,309)	(55,203)	–	**40,106**	20,251	**19,855**
Churchill	732	–	6,628	–	(6,085)	–	**1,275**	–	**1,275**
Blossom	–	–	257	–	(87)	–	**170**	–	**170**
Lansen	–	–	383	–	–	–	**383**	–	**383**
Distinguished Re	1,908	–	15,297	(38)	(14,049)	–	**3,118**	383	**2,735**
	31,337	40,540	243,456	(10,373)	(143,918)	(1,305)	**159,737**	88,405	**71,332**

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 2019:

NNIS

On 28 February 2019, the Group completed the acquisition of the entire issued ordinary shares of Nationale-Nederlanden Internationale Schadeverzekering SE (NNIS), a UK domiciled insurance company which was previously part of the N.N. Group N.V. in the Netherlands. NNIS participated on the 1996 and prior underwriting years of the Dutch Aviation Pool which wrote Aviation Hull and Liability policies. External costs incurred were £7k.

WCIC

On 29 March 2019, the Group completed the acquisition of the entire issued ordinary shares of Western Captive Insurance Company DAC (WCIC), an Irish domiciled captive insurance company of the Coffey Group. WCIC provided employer's liability, general liability and public liability policies from 2007 to 2011, and, at the date of acquisition, had one remaining open claim. External costs incurred were £50k.

Presidio

On 31 March 2019, the Group novated the property, general liability, auto liability and workers' compensation policies of Presidio Insurance Limited, a Cayman domiciled group captive, to its Travelers cell within R&Q Quest (SAC) Limited. The novated policies covered the period from 31 December 2003 to 28 February 2010. External costs incurred were £17k.

LTT

On 30 April 2019, the Group completed the assumption of liabilities from The Logistics Trust of Texas (LTT), a self-insured trust in run-off since 2014 which was taken over by the Texas Self-Insurance Group Guaranty Fund in 2016. LTT provided workers' compensation policies from 2006 to 2014. External costs incurred were £43k.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

29. Business combinations and divestments continued

Global U.S. Holdings Incorporated

On 3 May 2019 the Group completed 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'). External costs incurred were £181k.

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.

Sandell Holdings Ltd (Provisional)

On 7 October 2019, the Group completed the acquisition of Sandell Holdings Ltd and its subsidiary, Sandell Re Ltd, a Bermudian Class 3A segregated accounts company. Sandell Re participated on various reinsurance contracts from 2015 and continuing. External costs incurred were £45k. The fair value included is provisional in respect of the other payables only, which includes an amount of $4.2m (£3.2m) which remains subject to further review.

Churchill

On 23 October 2019, the Group completed the novation of Churchill Casualty Ltd's (Churchill) policies to its Travelers segregated account in R&Q Bermuda (SAC) Ltd. Churchill was a Cayman domiciled captive with policies, which were fronted by Zurich, providing Workers' Compensation, General Liability and Auto Liability coverage from 2001 to 2011. External costs incurred were £107k.

Blossom

On 19 December 2019, the Group completed the novation of the Workers' Compensation policies of Blossom to Accredited Surety and Casualty Company Inc. Blossom was a self-insurer which had been providing services to people with disabilities in the Philadelphia area, but which has subsequently ceased business. The policies transferring relate to the 2007 to 2018 years. External costs incurred were £38k.

Lansen

On 30 December 2019, Accredited Insurance (Europe) Limited completed the novation of Lansen's aviation hull & liability policies. Lansen was a Swedish based captive insurer of Saab which participated on these policies from 1996 to 2008.

Distinguished Re

On 31 December 2019, the Group completed the acquisition of Distinguished Re, a Barbados based insurance company in run-off. Distinguished Re participated on US Umbrella policies underwritten by Great American from 2008 to 2017.

30. Non-controlling interests

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

31 December 2019	2019 £000	2018 £000
Non-controlling interests		
Equity shares in subsidiaries	3	6
Share of retained earnings	380	282
Share of other reserves	60	61
	443	349
Movements in the year		
Balance at 1 January	349	(166)
Profit for the year attributable to non-controlling interests	(478)	481
Exchange adjustments	(22)	34
Comprehensive profit attributable to non-controlling interests	(500)	515
Changes in non-controlling interest in subsidiaries	594	–
Balance at 31 December	443	349

31. Guarantees and indemnities in ordinary course of business

The Group has entered into a guarantee agreement and a 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 2019 was £55,141k (2018: £46,300k).

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. 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:

	2019		2018	
	Average	Year end	Average	Year end
US Dollar	1.28	1.31	1.34	1.27
Euro	1.14	1.17	1.13	1.11

33. Events after the reporting date

On 13 January 2020, the Group announced Mr W Spiegel as Executive Director and Deputy Group Chairman.

As part of his remuneration package, Mr Spiegel has been awarded 5,178,524 restricted ordinary shares at a price of 2p per share. The award represented 2.64% of the shares in issue.

The shares will not vest until 10 January 2023, being the third anniversary of the date of hire subject to Mr Spiegel's continued employment with the Company. Vesting of the award will be accelerated if Mr Spiegel's employment is terminated prior to the third anniversary by the Company without cause or by Mr Spiegel for good reason or if a change in control of the Company occurs. Mr Spiegel will forfeit the shares if the Company terminates his employment for cause prior to vesting or if he terminates without good reason.

On 27 January 2020 the Group completed the acquisition of Vigneron Insurance Company, Inc., a Montana captive insurer purchased from a wholly owned private investment holding company with diverse holdings in a variety of industries, real estate, marketable securities and other investments.

On 20 February 2020 Trilogy Managing General Agents Limited was sold to Resolution Underwriting Holdings Limited.

On 14 April 2020 the Group completed the acquisition of ICI Insurance Company Limited, a Company incorporated in the Cayman Islands in 2003 and licensed as a Class B (i) Insurer.

On 29 April 2020 the Group announced £80.3m ($100m) of new equity investment by way of:

- a $80m subscription by Brickell Insurance Holdings LLC, an investment vehicle controlled by 777 Partners, for a new series of preferred stock issued by Randall & Quilter PS Holdings Inc., an indirect wholly owned subsidiary of the Group, which are exchangeable (subject to certain terms and conditions) for ordinary shares in the capital of the Company at a price of £1.35 per Ordinary Share.
- a $20m subscription by funds managed by Hudson Structured Capital Management Ltd. for 11,902,318 new Ordinary Shares at a price of £1.35 per Subscription Share.

Covid-19 impact

Accounting policy note 2 (d) Going Concern provides details of the potential impact of Covid-19 to the Group.

34. Ultimate controlling party

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

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