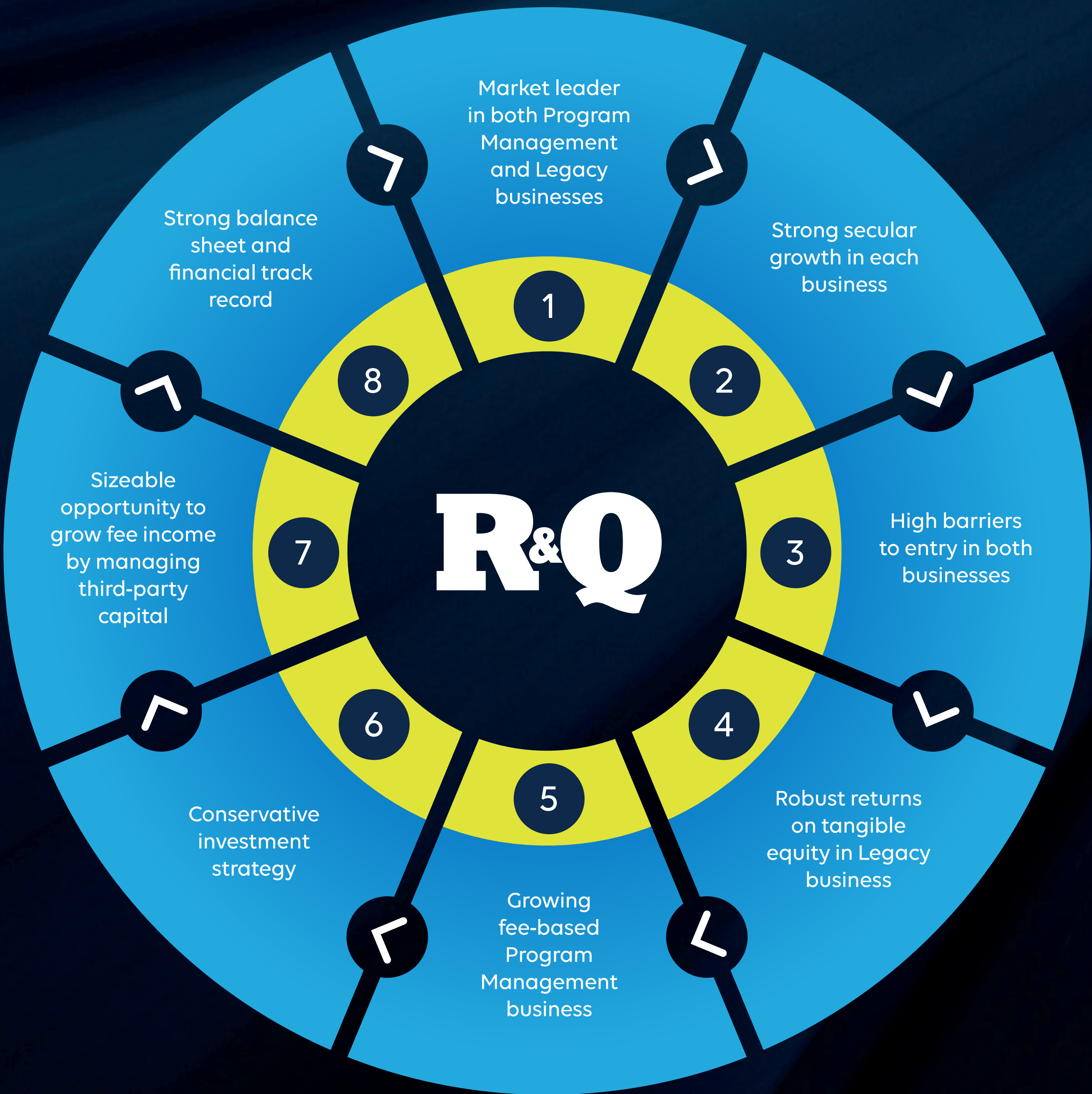
RANDALL & QUILTER INVESTMENT HOLDINGS LTD.

ANNUAL REPORT 2020

ACCELERATED GROWTH

WE ARE A UNIQUE GLOBAL SPECIALITY INSURANCE COMPANY

Our vision is to become a more efficient, fee orientated and data-driven company focused on our core strengths of insurance origination, underwriting and claims management.



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2020 HIGHLIGHTS

Record pre-tax operating profit driven by strong operating results across business segments

Group
Financial Highlights

Pre-tax operating profit

£16.0m

Fee income

£18.8m

Operating earnings per share

5.9 pence

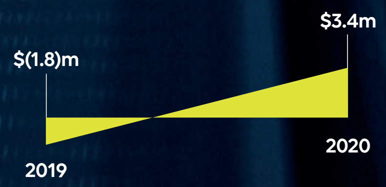
Operational highlights

- Accelerated growth for the Group
- Fee income represents 17% of gross operating income
- £173m of capital raised during the year
- Senior leadership strengthened with key hires including Executive Chairman, Group CFO, CEO of US Program Business and Chief Human Resources Officer.

Program Management
Financial Highlights

Gross written premium
$538.9m

Pre-tax operating profit
$3.4m



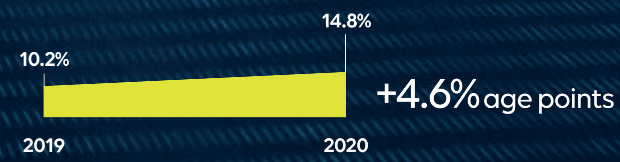
Operational highlights

- Breakthrough year with Program Management profitable for the first time generating a 14% margin , demonstrating the benefits of increased scale
- Expanded footprint and capabilities by launching US E&S platform
- 18 new programs signed, increasing total programs to 48
- On course to achieve previously announced target of at least $1.5bn of gross written premium in 2023
- Increased exposure to fee-related profits through investment in Tradesman, an MGA to whom we provide Program Management services.

Legacy Insurance
Financial Highlights

Pre-tax operating profit
£38.1m

Operating return on tangible equity
14.8%



Operational highlights

- Record year, executing on 19 deals with acquired assets of £674m and acquired net reserves of £500m, a growth of 92% and 81% respectively
- Allocated average tangible equity of £212m
- 20.2% return on tangible equity on average over past five years.

STRATEGIC REPORT

2020: A YEAR IN REVIEW

2020 is a year that will live in the memory for a long time. The pandemic and its consequences tested our employees, customers, operations, business model and strategy, just as it did for all companies operating in the global insurance markets.

William Spiegel
Executive Chairman

I am pleased, therefore, to report that we navigated the challenges posed by Covid-19 well, demonstrating the durability and resilience of R&Q and the quality of our people. In particular, the clarity of our model and strategy, built around two specialty businesses in fast-growing insurance sectors, meant that we were able to respond with agility and confidence in a dynamic market environment. This is proven by the excellent results we have reported for 2020.

Accelerated Growth

Our results are examined in more detail in the Financial Review but, in summary, 2020 was a year of accelerated growth. Our pre-tax operating profit grew 102% to a record GBP16.0m and operating earnings per share grew 40% to 6 pence.

Looking at the key performance metrics for our two core businesses highlights the excellent underlying returns and growth being generated.

- Our Legacy Insurance business recorded its strongest year ever, executing on 19 deals and delivering a pre-tax operating profit of GBP38.1m, an increase of 46% compared to 2019. These results translated into a strong operating return on tangible equity of 14.8% (five-year average of 20.2%).
- Our Program Management business had a breakthrough year with an increase of 18 programs and robust growth of 89% in fee income and 46% in gross written premium, to USD24.1m and USD538.9m, respectively. Most exciting of all is that this business, which we began just four years ago, became profitable for the first time generating a pre-tax operating profit of USD3.4m.

With both of our businesses profitable, we now have the foundation to continue accelerating our growth and delivering sustainable and growing earnings in the years to come. I think it is also important to note that in 2020 we added a complementary business to Program Management when we made a minority investment in one of our core program partners. This investment increases our exposure to fee-related profits, while locking in the associated program management business.

There are three tried and tested responses to the unexpected difficulties we witnessed in 2020: one, do nothing and hope it will all blow away; two, hunker down, preserve cash and retrench; or, three, use the changed circumstances to think and do differently, accelerate change and seize the opportunity. R&Q decided from an early stage in the pandemic to get on the front foot and embrace the third approach. We did this in a number of ways.

Very early in 2020, it was clear to us that the pandemic would result in significant structural changes to our markets, and create highly attractive and accretive opportunities for R&Q. In order to execute on these opportunities, we took the decision to raise USD100m (GBP81m) of new equity in April, being one of the first listed (re)insurers in either the US or Europe to raise capital following the initial Covid-19 shock. We followed our equity raise with a USD125m (GBP92m) subordinated debt issue. In total, we raised USD225m (GBP173m) of capital in 2020 – an extraordinary achievement for a group of our size and testament to the confidence our investors have in our business and strategy.

We utilised this capital to accelerate the growth opportunities we identified in both the legacy and program markets by injecting it into our operating companies in Bermuda, the US and Europe and for acquisitions. Specifically, Legacy Insurance used GBP145m to support new transactions, Program Management used GBP20m to build out its new US platform and our UK branch and we paid a cash distribution to our shareholders of GBP8.5m.

The growth we achieved in 2020 was quite extraordinary. In our Program Management business, we increased gross written premium by 46%, fee income by 89% and the number of programs by 60%, to 48. Our contracted premium, the gross written premium we expect to achieve from our MGAs when they achieve scale, ended the year at USD1.3bn, an increase of 52%. We remain on course to achieve our previously announced target of at least USD1.5bn of gross written premium in 2023.

We also continued to enjoy success in Legacy Insurance, as we have consistently for 30 years. In 2020 we completed 19 legacy deals with strong global counter-parties such as Allianz, QBE and Renaissance Reinsurance. These transactions added GBP674m of acquired cash and investment assets and GBP500m of insurance net reserves, a growth of 92% and 81%, respectively over 2019. Our activity in 2020 shows how far the industry has come from the historic view of legacy transactions being primarily driven by challenged insurance portfolios to one of tailored and creative solutions for capital management.

Our People

What our 2020 results demonstrate is that the consequences of last year – not least the Working from Home (WFH) phenomenon – did not hamper our ability to deliver on behalf of our clients and ultimately our shareholders.

Our staff of 280 coped admirably and I have the utmost confidence that they will continue to do so this year. Right from the beginning we put the welfare of our staff first and swiftly implemented best practices around protecting their physical and mental health while also ensuring they had the right support and infrastructure to continue their valuable work. We did not furlough any of our employees; indeed we continued to hire talent. Nor did we avail ourselves of any government support in the areas in which we operate.

We also moved to strengthen our senior leadership team making sure our platform had the right talent to accelerate growth. This was an important priority and we delivered on this with a number of high calibre appointments. These included Tom Solomon as our new Chief Financial Officer, Pat Rastiello, an established leader in the North American program market, as Chief Executive Officer of our US Program Management division, Michele Briggs as Chief Human Resource Officer, at a time when this function is increasingly strategically important, and Ben Masel as Head of Corporate Development.

Strategic Developments

Since joining R&Q, I have also experienced firsthand the *esprit de corps* that exists between our employees, who are based across eight global offices. All our employees contribute to the entrepreneurial and pioneering spirit that R&Q is known for and which we demonstrated once again last year. A good example was our US Legacy Insurance team, supported by colleagues in London, who worked closely with the Insurance Commissioner of Oklahoma to pioneer, and receive approval, to undertake the first insurance business transfer from a third party under the State's new legislation. An insurance business transfer allows owners of discontinued US P&C business to gain true finality by fully transferring policies to an assuming legacy insurer. The experience gained by working closely with the Oklahoma insurance commissioner's office positions R&Q well to deliver more US legacy business in the future.

We also achieved a notable 'first' in our Program Management division in 2020 with the launch of our new Excess & Surplus lines insurance company. We are now the only operator in the global program market to offer program management services in the US (both admitted and non-admitted) and Europe. This allows us to create important strategic relationships with trans-Atlantic insurance distribution partners while also increasing demand from the reinsurance community to support our distribution clients.

R&Q's reputation for being nimble and entrepreneurial was demonstrated with another 'first' last year, acquiring a 35% stake in one of our important Program Management clients, New York-based MGA, Tradesman Program Managers (Tradesman) in exchange for a holding in our Bermuda reinsurer, Sandell Re. Our stake in Tradesman was increased to 40% in early 2021 in exchange for our residual holding in Sandell Re.

This arrangement was notable for two reasons. First, it was a tremendous deal economically for R&Q shareholders relative to the initial acquisition cost of Sandell Re. Second, it also created future strategic value for R&Q inherent in a much closer relationship with a growing and dynamic MGA. This transaction allows Tradesman, with the security of our partnership, to have confidence to grow their business, while for R&Q it creates an additional capital-light and recurring fee stream. In 2020, Tradesman generated earnings before interest, depreciation and amortisation of USD13m, a 61% growth over 2019. We may see opportunities to emulate this approach with other MGAs to whom we provide program management services.

Dividends

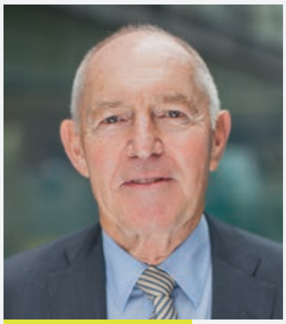
In respect of our 2020 year-end results we are pleased to propose a final cash dividend of GBP0.5m or 0.2 pence per share for a total distribution for the year of 4 pence per share. This represents a 5% increase on the cash distribution paid for FY 2019 of 3.8 pence per share (the final 2019 distribution of 6.1 pence per share was paid in non-cash bonus shares) and reflects a payout ratio of 56% of pre-tax operating profit. The dividend will be paid on 24 June 2021. The ex-dividend date is 3 June 2021 and the record date is 4 June 2021.

We appreciate the importance to our shareholders of a consistent dividend policy. We think it is important to have a policy that allows for an appropriate balance of reinvestment in our business and dividends to shareholders, as well as one that minimises the need to raise external capital. We are in the enviable position of competing in growing markets that offer us the opportunity to reinvest our capital at high rates of return, creating long-term shareholder value. The growth in the Legacy Insurance business may require external capital in the short term until our Program Management business creates enough free cash flow to support this need.

During this period, while we are in growth mode and remain capital consumptive, we will adopt a progressive cash dividend policy with a payout ratio between 25% and 50% of our pre-tax operating profit, the best proxy for cash earnings. This policy will allow us the flexibility to carefully balance the allocation of our capital between reinvesting in profitable opportunities and in providing an attractive and growing dividend to our shareholders. While the precise payout percentage may vary year-on-year, we intend to grow the annual cash dividend from the FY2020 level of 4 pence per share.

Conclusion

In summary, 2020 was a year like no other we have witnessed in our lifetime and it continues into 2021. We have lived through lockdowns, school closings, travel restrictions, social unrest, mass vaccinations and unprecedented fiscal stimulus. Yet, despite all this turmoil, it was a year of 'firsts' for R&Q. I would like to personally thank Ken Randall and Alan Quilter, the two founders of R&Q, for having confidence in me and guiding and mentoring me over the past 17 months. I also want to thank all our stakeholders for their unwavering support during these unprecedented times: our shareholders, our customers, our regulators, our rating agencies, our board and most importantly our loyal and dedicated employees. I am so proud of what we achieved in 2020 under trying conditions. I cannot wait to see what we can accomplish over the next few years as the world returns to a more normal state.



KEN RANDALL

Ken Randall retired on the 31 March 2021 and while he is never one for fanfare I felt it important to share a few thoughts.

As co-founder of R&Q, Ken has not only been pivotal in building the company that we are today but has also played a significant role in the careers of many people including mine. His direction, energy and vision have been key to the growth and development of R&Q over the last 30 years and he retires having helped create what R&Q is today – a truly unique company with a market value of nearly GBP500m, 280 employees in eight offices around the world and compelling propositions in both legacy and program management businesses.

From a personal perspective, I've known Ken for many years and it is a real honour to succeed him as Executive Chairman. As I look ahead, I could not be more excited about the future of R&Q and what I believe can be achieved.

The whole of R&Q wishes Ken the best in retirement. He certainly won't be an easy act to follow but, and forgive the pun, he could not have left a better legacy.

William Spiegel

MARKET AND STRATEGY

Over the past 17 months I have had many conversations with shareholders and potential investors, and I am encouraged by the consistent view that R&Q has two impressive core businesses with great potential for continued long-term growth; however, it is clear from these conversations many investors still feel we can do more to make our business model less complicated and more transparent.

In this section, I would like to demystify our business with the view that the more management and shareholders speak the same language, the easier it will be to achieve our collective goals.

What We Do

R&Q is a specialty insurance company focusing on two growing businesses – Legacy Insurance and Program Management. We have a clearly defined vision to be a leader in each of our high-growth markets, both of which are fundamental components of the P&C insurance ecosystem.

Legacy Insurance

R&Q's Legacy Insurance business provides creative financial solutions to owners of discontinued insurance and reinsurance business and has been at the heart of the R&Q Group for nearly 30 years. Legacy is now an integral part of the insurance market, providing capital management solutions for global insurance companies. R&Q is one of the most well-established and reputable players within the legacy insurance industry.

R&Q prices transactions to generate a minimum of a 15% return on investment over the life of a transaction (IRR). R&Q applies a portfolio approach to its Legacy Insurance business to ensure diversification, and since 2009, has completed over 100 transactions across 35 regulatory jurisdictions in 18 countries. I am pleased to report that over the past five years we have delivered an average operating return on tangible equity, a proxy for IRR, of 20%, significantly above our cost of capital.

Program Management

R&Q's Program Management business generates recurring fees by using its licensed and rated insurance companies to act as a conduit between capital providers (reinsurers), and independent insurance distributors or MGAs. We market our Program Management business under the Accredited brand, and each of our entities in the US and Europe are rated A- (Excellent) by A.M. Best for financial strength, making R&Q the only dedicated program partner to provide A- rated insurance capacity on both sides of the Atlantic. The insurance risk in the Program Management business is assumed by the reinsurer unless we decide to or are required to retain a portion. As at year-end 2020, R&Q retained circa 6% of the insurance risk on our programs and where we assume insurance risk, we generally purchase reinsurance protection.

Program Management generates a stream of stable and recurring fees by charging approximately 5% of annual gross written premium on each program assumed by reinsurers. Given our established platform and licenses, this business is highly scalable with significant potential for operating leverage and requires minimal capital to grow since it bears little of the insurance risk (after taking account the reinsurance protection from our highly-rated or well-collateralised reinsurance partners.). Our Program Management business is only four years old and in 2020 made its first profit. We anticipate our Program Management business will generate gross written premium of at least USD1.5bn by 2023, by which time it will be at scale and we believe generating significant free cash flow. We will also continue to assess minority investments in strategic program partners, such as our investment in Tradesman, which increases our exposure to fee-related profits.

Of course, our business is not without risk. In Legacy Insurance the key concern is claims developing worse than expected. We mitigate this through portfolio diversification; some transactions will perform better, some worse, but on average we generate returns in excess of our target of a 15% IRR. The Program Management business faces a different set of issues; will reinsurers support our MGAs; will our reinsurers decline to pay claims or fail; and will our MGAs produce the expected volume? These potential issues are lessened by having a diversified portfolio of programs and reinsurers. Focusing on diversification is an important element of our strategy, and it does not simply refer to the number of transactions/programs but also the diversification by geography, risk type, clients and vintage year.

Our Profit Model

We earn gross operating income (income before fixed costs) from three sources: underwriting income (69% in 2020); fee income (17% in 2020); and investment income (14% in 2020).

Underwriting Income

Underwriting income is derived primarily from our Legacy Insurance business associated with the acquisition or reinsurance of a run-off book of (re)insurance at a discount and the settling of insurance claims for less than they were acquired. Our Program Management business generates a modest amount of underwriting income on the insurance risk it retains net of stop-loss coverage that is purchased.

Fee Income

Fee income is derived primarily from our Program Management business associated with circa 5% commission we earn on gross written premium assumed by reinsurers. We also earn distributable income on our minority stake in the earnings of MGAs (currently 40% in Tradesman). While Legacy Insurance does not currently generate fee income, we continue to explore alternative capital vehicles that would add fee income from originating and managing legacy transactions.

Investment Income

Investment income comes primarily from our Legacy Insurance business associated with the investment of reserves and required capital. These investments comprise primarily high-grade fixed income securities. We also earn investment income on the retained premium and required capital of Program Management.

Our Growing Markets

R&Q competes in large and growing markets which enjoy both secular growth and structural protection from the P&C cycle. Our markets should witness steady growth over the years to come.

Legacy Insurance

The legacy market continues to expand and in 2021 grew by 9% to USD864bn in reserves of discontinued (re)insurance policies. However, the size of the market is not relevant, it is the size of our addressable market – meaning, will the owners of these legacy reserves transact?

Since the credit crisis of 2007-2008, there has been a significant shift in the behaviour of insurance companies which have recognised the relevance of the legacy insurance industry in helping manage capital, thereby increasing our addressable market. This has occurred for a number of reasons: the low interest rate environment has reduced the profitability of many insurance lines; the higher regulatory capital requirements, including Solvency II; the evolution of third-party managed capital; the emergence of new techniques to transfer liabilities, including insurance business transfers; and an increasingly sophisticated understanding of capital management by insurance and reinsurance companies. As a consequence, exiting discontinued businesses or business lines is now an integral method for (re)insurance companies to strategically manage their capital. We expect the dislocation from the pandemic, the anticipated hardening of premium prices and the desire for insurers to swiftly exit under-performing business lines to continue to fuel the growth in the addressable legacy market.

Program Management

The program market is also benefiting from permanent structural change that is increasing demand for insurance fronting services. First, we are witnessing ongoing growth in the number of independent MGAs (i.e. not affiliated with an insurance company) as this form of distribution becomes the platform of choice for entrepreneurial underwriters. Second, we have seen a proliferation of reinsurance capacity searching for direct access to premiums generated by strong underwriting teams. To put this structural change in perspective, the unaffiliated MGA count grew by circa 44% from 2014-2019 while reinsurance capital grew by 51% over the period 2014-2020.

Program managers, by providing their insurance licences, sit at the intersection of MGAs and capital providers. We estimate the US and European MGA market is now at least USD100bn in annual gross written premium (the US is estimated at USD60bn) and growing. Importantly, we believe the independent program managers (i.e. program managers that are not also writing live insurance) still control less than 10% of this market, which creates an enormous opportunity to grow share.

We see independent MGAs increasingly choosing to align with independent program managers because of the conflict-free nature of the relationship. Independent program managers, such as ourselves, have one job – to provide MGAs access to capital providers via their insurance licences, allowing them to grow their business. We therefore expect the independent program providers to witness significant market share growth over the medium term.

Our Competitive Positioning

Large, growing and profitable markets will inevitably attract competition, and we have seen more competitors in recent years. However, because R&Q operates in highly regulated markets, there are significant barriers to entry. To compete in our markets requires balance sheet strength, appropriate ratings, regulatory approvals, licences (preferably across multiple geographies), access to capital and most importantly established operating platforms and highly specialised talent. The investments we have made in our platform – and the expertise and experience we have accumulated – makes it very difficult for others to compete with the breadth of resources we can provide our clients.

Program Management

Since we currently manage in excess of more than 48 programs, more than most in the industry, we have credibility with MGAs and reinsurers, which engenders more business. Furthermore, R&Q's ability to move programs between the US E&S or admitted markets or to assist MGAs across the UK and Europe enhances our reputation as a solution provider to our clients.

Legacy Insurance

The breadth of our platform allows us to optimise the solutions we offer our clients – we can provide rated and fully licensed solutions in the US and Europe as well as capabilities in Bermuda, Cayman, Barbados, Isle of Man as well as Lloyd's.

Much of our competition is backed by private equity, and since I come from that background, I appreciate its discipline. However, private equity backed companies typically have a high cost of capital and a short time before exit. Unlike these competitors, R&Q, as a public company with permanent capital, is able to assure its clients of its long-term commitment to the market.

Our Strategic Vision

Our long-term business vision is where we want to move R&Q over the next five years. Simply stated, our vision is to become a more capital-efficient, fee-oriented and data-driven company focused on our core strengths of originating, underwriting and claims management in the insurance industry. This vision recognises that to continue to be a leader in our core markets, we need to focus on four key initiatives:

- Increasing our recurring fee-based income;
- Automating our manual processes;
- Harnessing our data; and
- Engaging our employees

Fee-Based Income

While we currently generate recurring fee income from our Program Management and MGA investment, we believe the future of our Legacy Insurance business is to manage legacy insurance risk for a recurring fee on behalf of third parties who do not have direct access to this asset class. P&C insurance risks are ripe for securitising in a similar way to mortgages, credit cards and auto loans. Admittedly, progress has been slow and thus far largely focused on catastrophe reinsurance risk but it is inevitable this will occur more broadly over time. When it does, it will place greater focus and value on companies with a proven track record in originating, underwriting and managing insurance claims. This endeavour will diversify our sources of funding, reduce our capital issuances, increase our excess capital and enhance financial flexibility. Furthermore, fee income should garner a higher valuation and lower cost of capital in the public markets than underwriting and investment income.

Automation

There are many manual and repetitive tasks in the insurance businesses that should be automated by 'digital workers'. Automating these tasks allows human workers to do what humans do best – think! This emerging field of automation improves the efficiency, productivity and therefore happiness of an employee base. To put this in context, according to McKinsey, approximately 60% of all jobs have 30% of tasks that can be automated. Applying automation to our business will us allow us to scale in a sustainable manner as we automate workflow processes such as MGA audits, contract wordings and certain aspects of diligence. We are beginning to engage with the leading players in this area.

MARKET AND STRATEGY
CONTINUED

Data
There is a growing awareness that – 'Every company is a data company'; whether it is a restaurant, an airline or an insurance company, the uniqueness of a company is its 'own data' and how it uses that data to better understand its markets and improve its decision making. R&Q is no different and we are starting the cultural journey of defining ourselves as a 'data company competing in program management and legacy insurance'. Our goal is to proactively use our own data to enhance, for example, our claims decision making and legacy acquisition pricing, by leveraging machine learning and artificial intelligence as part of our core competencies.

Engaging our Employees
R&Q will continue to be an enterprise that is engaged and focused on the needs of its employees and we will support the spirit of entrepreneurialism that has been at the heart of R&Q for 30 years. We will continue to evolve our culture to one of increased accountability and transparency creating a strong link with our strategic vision.

Our Capital and Liquidity Framework
Given the profitable growth opportunities we have and the capital and liquidity required to achieve this growth, we have developed a capital and liquidity framework for the Group. This framework seeks to balance the attractive returns from reinvesting in our business with the provision of growing dividends to our shareholders, while maintaining appropriate financial metrics with respect to our capital, liquidity and financial leverage. We set out the four key pillars of this framework below:

Capital
Our Legacy Insurance business is the primary consumer of capital. In general, we require capital of circa 40% of net reserves to cover unforeseen events in claims and investment risks. Program Management is predominately capital light, but given the importance of credit ratings, consumes capital of circa 10% of gross written premium. Our objective is to maintain not only appropriate levels of capital in our regulated subsidiaries, but to also maintain a BMA solvency ratio for the Group of at least 150%. We deem capital above 150% as excess capital.

Liquidity
Our Legacy Insurance business consumes cash when we acquire companies or post collateral on reinsurance transactions. Furthermore, we utilise cash for strategic endeavours, to fund unallocated costs and interest expense at the parent company and of course pay shareholder dividends. Even if we have excess capital, this does not imply we have excess liquidity. Our objective is to maintain an appropriate level of liquidity, including any undrawn revolving credit lines, at the parent to cover our expected fixed charges.

Financial Leverage
Our credit ratings are critical for both of our businesses and our capital structure needs to maintain an appropriate mix of debt and equity. We desire to maintain adjusted financial leverage of no more than 30% of capital, which gives partial equity credit to our subordinated debt.

Dividend
Our dividend policy is the final element of our capital and liquidity framework. The payment of a dividend reduces both our capital and liquidity, but we acknowledge it is very important to many of our shareholders. Our dividend policy is based on allowing for an appropriate balance of reinvestment and growing dividends, as well as one that minimises the need to raise external capital. While we are in growth mode we believe it is in the best interests of the Group to create long-term shareholder value by using our internally generated capital to invest at high rates of return (in excess of our cost of capital) to build our future and scale our business. While we remain capital consumptive, we will adopt a progressive cash dividend policy with a payout ratio of between 25% and 50% of our pre-tax operating profit, the best proxy for cash earnings. This policy will allow us the flexibility to carefully balance the allocation of our capital between reinvesting in profitable opportunities and providing an attractive and growing dividend to our shareholders. While the precise payout percentage may vary year-on-year, we intend to grow the annual cash dividend from the FY2020 level of 4 pence per share.

Conclusion
R&Q is in an enviable position of being a leader in two businesses that are enjoying strong secular growth. Our vision for R&Q is to become a more capital efficient, fee-oriented and data-driven insurance company focused on its core strengths of originating, underwriting and claims management. The good news is that R&Q – as we demonstrated last year – is extremely well-positioned. The future R&Q is one of evolution, not revolution.

Thank you for supporting us as we move R&Q to the next stage of its development.

IMPACT OF COVID-19 IN 2020 AND BEYOND

Due to the Covid-19 pandemic, 2020 is a year that will live long in the memory and its legacy will continue to linger in 2021. The impact of the pandemic tested our employees, operations, business model and strategy, much as it did all companies operating in the global insurance markets. However, the manner in which we responded and rose to the challenge demonstrates the resilience of Randall & Quilter and the quality of our people.

Built around two specialist businesses in complementary, fast-growing insurance markets, it was the clarity of our model, and strength of our strategy that enabled us to respond with agility, speed, and confidence to a dynamic market environment. Clearly illustrated by the excellent results we have reported for 2020.

First, our people

Most significantly, our results demonstrated that the Working from Home (WFH) phenomenon did not hinder our ability to deliver on behalf of our clients and shareholders. Did WFH actually help? While it's too early to accurately say, a greater uptake in electronic communications certainly led to more flexible working arrangements that appear to have been particularly productive.

From the very beginning of the pandemic, we put the welfare of our staff first and swiftly implemented best practices around protecting their physical and mental health, while also ensuring they had the right support and infrastructure to continue their valuable work. It's also notable that we did not furlough any of our employees.

The new normal: Continuing to protect our people and our processes

If some form of WFH is here to stay, it's imperative that we monitor our staff's mental and physical well-being and ensure that remote working isn't having a detrimental effect on their long-term health. Equally, we need to protect our business and ensure the ongoing pandemic never breaches regulatory requirements or leads to reputational risk, financial crime, or any market disruption.

Essentially, we need to maintain business as usual while continuing to manage the ongoing risk of Covid-19, which means monitoring the behaviour and spread of the virus. We must also see beyond the current situation and plan for what a return to work will actually look like. Indeed, there may well be new challenges down the road, but the positivity with which our staff responded in 2020 gives us the utmost confidence that 2021 will turn out to be another successful year for Randall & Quilter.

SUSTAINABILITY

Long before the Covid-19 pandemic began changing the world, our industry had been focused on Environmental, Social, and Governance (ESG) concerns with many of us integrating sustainability into our core businesses; incorporating ESG considerations into our processes and plans for the future.

For Randall & Quilter, the pandemic highlighted the importance of sustainability to our model. Despite the difficulties of a tough twelve months, we have continued to deliver our core strategies, meeting the needs and expectations of our stakeholders and society as a whole.

ENVIRONMENTAL

The environmental aspect of ESG continues to attract huge focus as companies explore new ways to tackle the crisis. It is also the most complex area of ESG with environmental concerns covering a wide range of different topics, from climate change to waste reduction.

At Randall & Quilter, we continue to make a number of advances. The completion of our office remodel in early 2020 allowed us to leverage greener products in lighting fixtures and heating elements, while working remotely during lockdowns in the pandemic significantly reduced paper consumption.

In terms of lessening our carbon footprint, a greater uptake in electronic communications led to more flexible working arrangements, less global travel and the end of regular daily commutes for many of our employees.

Personal recognition

Climate change and related matters are of great interest to our employees and our risk practice. Through both industry and practice groups, we are proud to have an employee recognised for her efforts in 2020 as a volunteer Committee member of the Institute of Risk Management Climate Change Special Interest Group, and also as a thought leader in the specialist area of 'flood'. In fact, at last February's launch of the CIRA Property Flood Resilience Code of Practice Guidelines, our Chief Risk Officer was invited to speak at the Environment Agency/Chartered Institute of Water and Environmental Management Flood and Coastline Conference to be held in June 2021.

GOVERNANCE

The term governance often conjures up images of regulations and board meetings and when placed alongside environmental and social is often overlooked. It's somehow seen as less engaging. However, good corporate governance is vital to a company's lasting success. Businesses that are well governed can point to strong management guiding their decision making and a long-term focus to explain their achievements.

Similar to other forward-thinking companies, at Randall & Quilter, environmental, social and governance, frequently overlap. As a good business we can demonstrate strong governance is allied to high standards of social responsibility. Take gender, for example. 36% of our senior management team are female leaders. While 45% of all our employees in the UK are women.

45% of all our employees are women

36% of our senior management team are female leaders

On environmental matters, companies like our own that are building for a greener tomorrow generally have brighter futures. 80% of the furniture in our London office refresh was reused and the remaining 20% recycled.

We're only too aware of the impact our activities have on the communities in which we operate. As a Group, we recognise our responsibilities to all our stakeholders, including employees, suppliers, customers and, indeed, society as a whole. Responsibilities we address through our policies on modern slavery, data protection, whistleblowing, and diversity.

Equally, we have a responsibility to those resources and relationships that are key to our business, including regulatory authorities in various jurisdictions and states in the US, our joint venture partners, the National Westminster Bank, AM Best, and our auditors and external legal advisers.

In terms of sustainability, 2020 has clearly demonstrated that we are a growth company, one that is expanding responsibly by recognising the importance of Environmental, Social, and Governance issues. We also understand that while separate, these three issues are often one and the same and we look forward to further improving our performance on each throughout 2021 and beyond.

SOCIAL

As important to us as the environmental side of ESG are questions surrounding how companies treat their own people and the societies in which they operate. Often harder to define than environmental or governance, social is an area that needs to be given greater consideration with companies now expected to meet certain social standards; standards that include maintaining fair labour practices, ensuring consumer protection, and acting in shareholders' interests.

Profits that come at any social cost are not acceptable.

259 global headcount in 2019

280 global headcount in 2020

Indeed, in light of the last year and the wide-ranging social implications of the pandemic, it can be argued that there has been a real switch of emphasis from the Environmental to the Social.

At Randall & Quilter, we are more committed than ever to ensuring high levels of corporate and social responsibility. Our employees are central to our continued success and we actively promote their development and ongoing improvement. Significantly, our workforce continues to grow with our global headcount rising from 259 in 2019, to 280 in 2020.

2020 Global headcount rises to 280

We've long championed diversity and wholly support equal opportunities in employment with our recruitment, training, and promotion processes all conducted on a non-discriminatory basis. Our strength as an employer is reflected in our low turnover rate: 2020 overall turnover rate: 7.93%; 2020 overall voluntary turnover rate: 3.79%

Important advances have also been made in reducing the gender pay gap, the gender bonus gap, and increasing the proportion of women receiving an annual bonus in comparison to last year.

2020 Overall Turnover Rate: 7.93%

2020 Overall Voluntary Turnover Rate: 3.79%

10 ACHIEVEMENTS IN 2020

1. 0 employees were furloughed in 2020 as a result of the pandemic
2. USD50,000 donated to charities in the communities which we operate
3. Employee engagement continued throughout the pandemic
4. Employees volunteered to help support local community needs making financial and food donations
5. Employees continued completing certifications and exams
6. Managers participated in a Global Management Development Program to inspire more effective communication and leadership
7. 14 key talents were sponsored to attend a one-week external training course at Tiger Risk University focusing on Insurance Fundamentals or Advanced Skills
8. Online global regulatory and compliance training was implemented in 2020 with an emphasis on Diversity, Ethics & Values, and Modern Slavery
9. Plans are in place to continue enhanced learning opportunities both virtually and online
10. Executive coaching for top tier talent will continue as we look to build on the success of our senior management and board.

$50,000

donated to charities in the communities which we operate

FINANCIAL REVIEW

We are pleased to report strong operating results demonstrating the resilience of the business model.

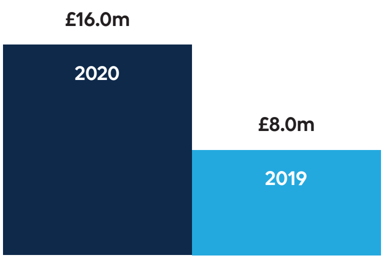
Tom Solomon
Group Chief Financial Officer

Our key performance indicators measure the economics of the business and adjust IFRS metrics to include fully written program fee revenue and exclude non-cash intangibles created from acquisitions in Legacy Insurance, net realised and unrealised investment gains on fixed income and lease-based assets, and foreign currency translation reserves. Pre-tax operating profits was GBP16.0m, a 102% increase compared to 2019, driven by a record year of transactions in Legacy Insurance and a debut profitable year in Program Management. Tangible net asset value was GBP340.8m, a 39% increase compared to year-end 2019, primarily as a result of our GBP81.0m (USD100m) equity raise in H1 2020. On a fully diluted basis, our operating earnings per share was 5.9 pence, an increase of 38% compared to 2019, and our tangible net asset value per share was 124.4 pence, and upon including the 3.8 pence per share cash distribution paid in the year, is a 2% increase compared to year-end 2019.

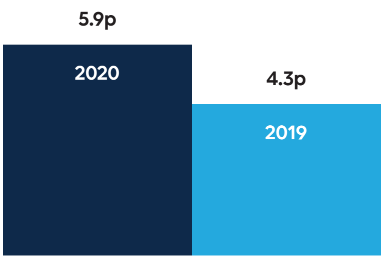
One of our objectives is to grow the relative contribution of fee income to total gross operating income. Our fee income was GBP18.8m, an 89% increase compared to 2019 and represented 17% of gross operating income before fixed operating expenses, an increase of 5 percentage points compared to 2019.

Our IFRS results include the impact of intangibles created from acquisitions in Legacy Insurance as well as mark-to-market movements in our fixed income investment portfolio and foreign currency translation reserves associated with changes in interest and exchange rates, respectively, and exclude unearned program fee revenue. Profit before tax was GBP30.2m, a 21% decrease compared to 2019 primarily due to a mix of Legacy Insurance acquisitions in 2019 that created significant non-cash intangibles. Our net asset value was GBP390.3m, a 35% increase compared to year-end 2019 primarily as a result of our GBP81m (USD100m) equity raise in H1 2020.

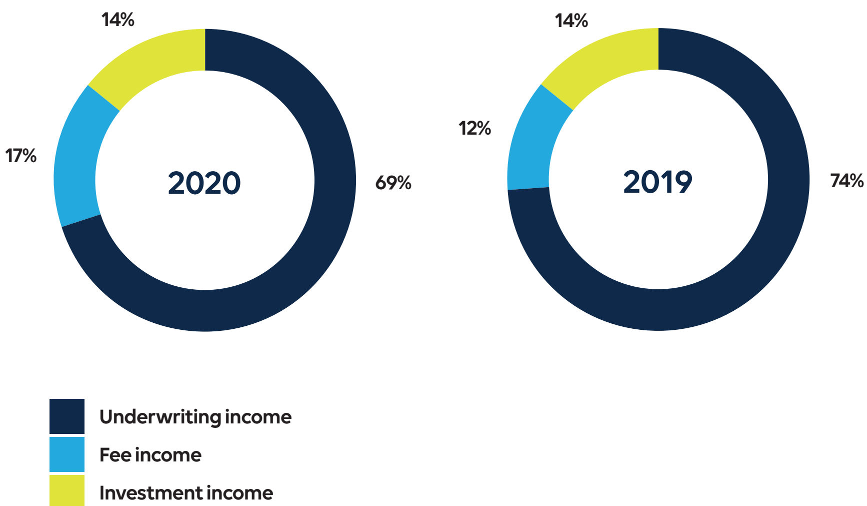
GROUP RESULTS



Pre-Tax Operating Profit



Operating Earnings Per Share



> Our Program Management business continued to grow rapidly in 2020. We had 48 active programs, an increase of 18 programs compared to 2019…"

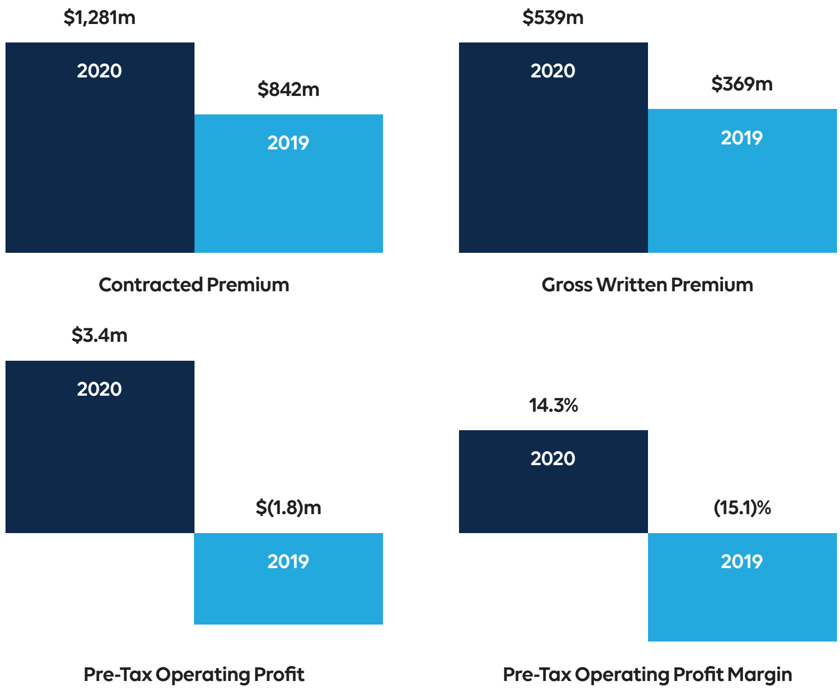
On a fully diluted basis, our earnings per share was 11.1 pence, a decrease of 45% compared to 2019 and our net asset value per share was 142.4 pence, which upon including the 3.8 pence per share cash distribution paid in 2020, was a 1% decrease compared to year-end 2019.

Program Management

Our Program Management business continued to grow rapidly in 2020. We had 48 active programs, an increase of 18 programs compared to 2019, our contracted premium was USD1.3bn, a 52% increase compared to 2019 and our gross written premium was USD538.9m, a 46% increase compared to 2019. Our results are beginning to show the benefits of scale and the operational leverage this will bring, as we earned a positive pre-tax operating profit of USD3.4m, representing a 14.3% margin on gross operating income, compared with a loss in 2019.

The primary driver of pre-tax operating profit is our fee income, which represents program fee revenue from written premium ceded to reinsurers and our 35% minority stake in tradesman (USD13m of earnings before interest, tax, depreciation and amortisation) effective in Q3 2020, which has subsequently been increased to 40% in Q1 2021. Fee income was USD24.1m, an 89% increase compared to 2019. The program fee averaged 4.5%, and increase of 0.9 percentage points compared to 2019, and we expect fee income to grow in line with gross written premium. Underwriting income represents our circa 6% retention of program risk. Our underwriting income generated a USD3.0m loss primarily due to the purchase of stop-loss coverage, costing circa USD4m to minimise claims volatility, a 14% decrease compared to the loss in 2019. We expect underwriting income to be profitable as we diversify our business away from programs such as motor. Our investment income was USD2.5m, roughly flat compared to 2019. Finally, fixed operating expenses increased 49% compared to 2019 due to the expansion of our staff particularly in the US with the establishment of our Excess & Surplus platform.

PROGRAM MANAGEMENT RESULTS



Legacy Insurance

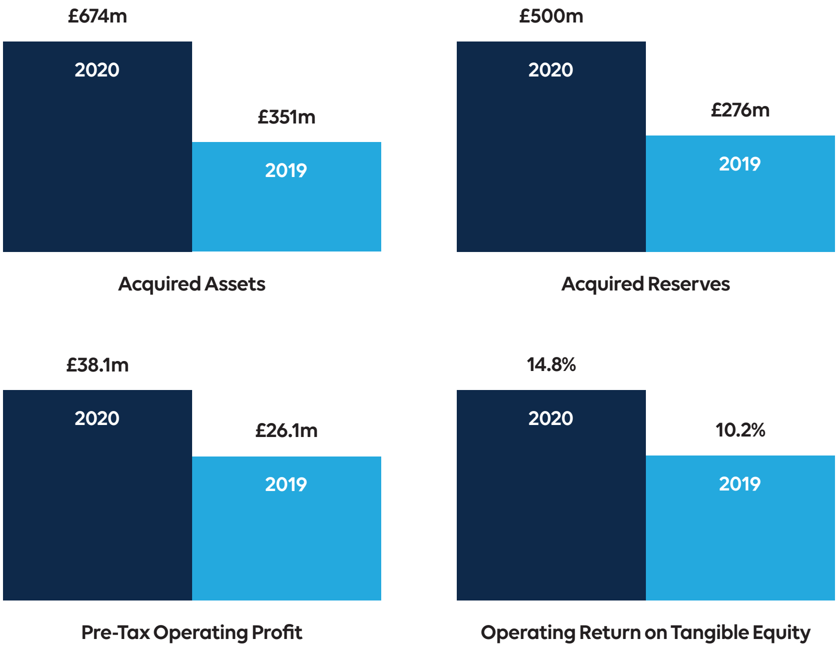
Our Legacy Insurance business continued to thrive and grow. We had a record year, concluding 19 transactions with cash and investments of GBP674m and net reserves of GBP500m, an increase of 92% and 81% respectively compared to 2019. Our pre-tax operating profit was GBP38.1m, a 46% increase compared to 2019. The primary driver of pre-tax operating profit is our underwriting income, which represents tangible day one gains on transactions originated during the year and claims management of transactions closed in prior years. Underwriting income was GBP80.7m, a 22% increase compared to 2019. Our investment income was GBP13.1m, a 36% increase compared to 2019 driven by acquired assets on transactions.

Finally, our fixed operating expenses grew 12% compared to 2019 primarily due to syndicate costs associated with transactions we executed in the Lloyd's market.

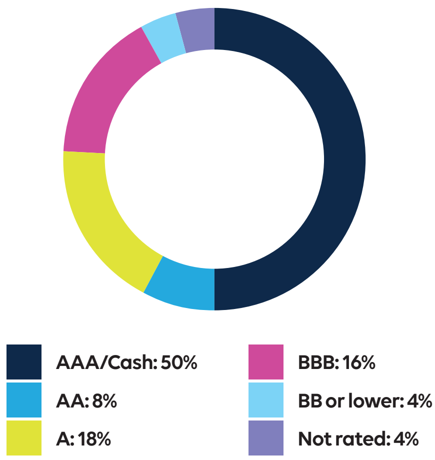
We remain disciplined in our focus on pricing and risk and target returns of at least 15% in our transactions. Our operating return on tangible equity, based on allocated average operating tangible equity of GBP212m, was 14.8%. When evaluating the performance of our Legacy Insurance business, we also focus on operating return on tangible equity over time. We are pleased that our five-year operating return on tangible equity was 20.2%, a testament to our disciplined approach to underwriting.

FINANCIAL REVIEW CONTINUED

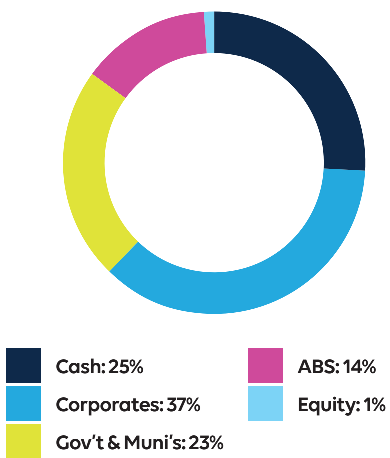
LEGACY INSURANCE RESULTS



INVESTMENT PORTFOLIO BY CREDIT RATING



INVESTMENT PORTFOLIO BY ASSET CLASS



Corporate and Other

Our corporate and other segment includes investment income on excess capital, unallocated operating expenses and finance costs. Pre-tax operating profit was a loss of GBP(24.7)m, a 48% increase compared to 2019 primarily driven by an increase in fixed operating expenses associated with senior management hires and higher interest expense associated with the issuance of GBP92m (USD125m) of subordinated debt in H2 2020.

Cash and Investments

Our cash and investments, excluding funds withheld and off-balance sheet trusts, was GBP1,068m. We produced a book yield, which excludes net realised and unrealised gains on fixed income and lease-based assets, of 1.6%, a decrease of 40 bps compared to 2019 due to the impact of low interest rates experienced globally. The two-year US Treasury yield averaged 0.39% in 2020 compared to 2% in 2019.

We maintain a conservative, liquid investment portfolio so that we can produce consistent cash flows to meet our liability obligations, while also earning a reasonable risk-adjusted return. 92% of our investments were rated investment grade, and another 4% of our portfolio was invested in non-rated money market funds. After cash, which comprised 25% of our portfolio, our largest allocations were to corporate bonds (37%), government and municipal securities (23%) and asset-backed securities (14%). Given the steepening in the yield curve, we have maintained a short duration portfolio of 1.8 years.

During 2020, financial markets witnessed heightened volatility arising out of Covid-19 concerns. Nonetheless, our investment portfolio did not suffer any defaults and rather incurred net realised and unrealised gains of GBP5.2m, and our total investment return when including these mark-to-market movements, was 2.2%.

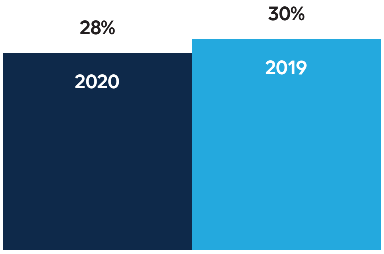
> We maintain a conservative, liquid investment portfolio so that we can produce consistent cash flows to meet our liability obligations, while also earning a reasonable risk-adjusted return."

Capital and Liquidity

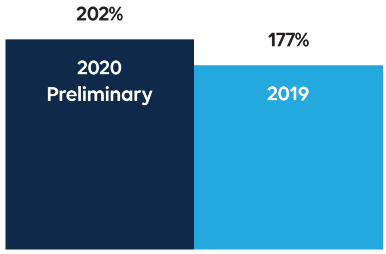
As a result of our GBP81m (USD100m) equity raise in H1 2020 and GBP92m (USD125m) subordinated debt raise in H2 2020, we strengthened our balance sheet. We utilised the GBP173m capital raise toward Legacy Insurance transactions (circa GBP145m), investment in our Program Management E&S business (circa GBP20m) and a cash distribution to our shareholders (GBP8.5m). Our preliminary group solvency ratio is very strong at 202%, an increase of 25 percentage points compared to year-end 2019, and above our target of 150%, implying excess capital of GBP111m. Our adjusted debt to capital, which provides for partial equity credit on our subordinated debt, was 28%, a decrease of 2 percentage points compared to year-end 2019, and below our target of 30%. We entered into a new bank facility in H2 2020 to enhance parent company liquidity. Our capital, liquidity and financial leverage have to be aligned as we execute against our business strategy.

Change to Financial Reporting Currency

We have been reporting our financial results in pounds sterling since our public listing in 2007. As we have grown, our asset mix has become increasingly US dollar denominated, with 72% of our investment assets at year-end 2020 in US dollars. This creates volatility in foreign currency translation in both our income statement and statement of comprehensive income. Therefore we have determined that starting in 2021, we will report our financial results in US dollars.



Adjusted Debt to Capital Ratio



Group Solvency Ratio

Notes

- Pre-tax operating profit is a measure of how our core businesses performed adjusted for unearned program fee revenue, intangibles created in Legacy Insurance acquisitions and net realised and unrealised investment gains on fixed income assets.
- Tangible net asset value represents net asset value adjusted for unearned program fee revenue, intangibles created in Legacy Insurance acquisitions, net unrealised investment gains on fixed income and lease-based assets and foreign translation currency reserves.
- Gross operating income represents pre-tax operating profit before fixed operating expenses.
- Fee income represents program fee revenue and our share of earnings from minority stakes in MGAs (Associate).
- Underwriting income represents net premium earned less net claims costs, acquisitions expenses, claims management costs and premium taxes / levies.
- Investment income represents income arising on the investment portfolio excluding net realised and unrealised investment gains on fixed income and lease-based assets.
- Fixed operating expenses include employment, legal, accommodation, information technology, Lloyd's syndicate and other fixed expenses.
- Cash and investments exclude funds withheld trusts for which we do not earn investment income.
- Contracted premium for Program Management is the gross premium that our existing distribution partners believe their programs will generate over a period of time. We expect a significant portion of contracted premium to become gross written premium.
- Program fee revenue represents the full fee revenue from insurance policies already bound including unearned program fee revenue, regardless of the length of the underlying policy period (earned). We believe program fee revenue is a more appropriate measure of the revenue of the business during periods of high growth, due to a larger than normal gap between gross written and gross earned (IFRS) premium.
- Unearned program fee revenue represents the portion of program fee revenue that has not yet earned on an IFRS basis.
- Program fee represents program fee revenue as a percentage of written premium ceded to reinsurers.
- Pre-tax operating profit margin for Program Management is our profit margin on gross operating Income.
- Average operating tangible equity for Legacy Insurance is based on the Group's target solvency capital models and includes allocated debt.
- Operating return on tangible equity for Legacy Insurance includes allocated interest expense and has been annualised for interim reporting periods.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risk and uncertainties facing the Group follow below. The list comprises a brief description of those risks and uncertainties, along with a high-level statement of appetite for taking that risk and the ongoing mitigating action.

1. Management of Strategic Change & Business Development & Growth

The Group fails to manage both the focus on its core competencies and simultaneous initiatives as it develops and grows.

Risk Appetite

We have limited appetite to develop the business outside the accepted core competencies or established geographical reach.

We have no appetite for any significant deviation from the Group's strategy or for an individual business unit accepting risks that threatens either its own sustainability or has the potential to result in losses sufficient to create significant strain on the Group.

Mitigating Actions

- Management of relationships with external stakeholders involving the Board and senior management team
- Board review of budgets, and current strategic priorities to ensure that the Group continues to focus on core strengths
- Management of cash flow
- Review of each new initiative/ proposed investment in accordance with its own individual merits and commensurate with overall risk or return objectives, due diligence criteria, strategic objectives, and available sources of capital
- Local risk appetites and tolerances aligned with the Group's overall risk appetite
- Regular oversight and review of program and legacy pipeline including initial screening processes and relevant Committee and/or Board approval.

2. Reputation & Stakeholder Management

Events within the Group may have an adverse effect (notably, but not restricted to, reputational) on the organisation.

Risk Appetite

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, or for any negative movements in the public ratings of any company within the Group.

Mitigating Actions

- Established process for monitoring and managing external communications, including disclosure committee for announcements to the London Stock Exchange
- Regular liaison with the rating agencies.

3. Exposure Management – Reserving

The Group adopts a methodology that produces incorrect reserving.

Risk Appetite

We have no appetite for prospective significant deviations in earnings as a result of actual, expected, or possible reserve deterioration and seek to reserve at a level that achieves this whilst avoiding any regulatory, legal, accounting, tax, reputational or other risks associated with systematic over-reserving.

Mitigating Actions

- Appropriate reserving approach to existing live and run-off portfolios and extensive due diligence on new legacy portfolios prior to acceptance
- Scheduled and ad hoc reviews and benchmarking provided by external actuarial consultancies
- Internal use of best estimate for setting reserves, considering internal and external advice, and up-to-date information on actual or anticipated developments
- Use of reinsurance on live underwriting portfolios and through assuming inuring reinsurance treaties on acquired legacy portfolios
- Review of all material reserve portfolios across the Group and appropriate monitoring and oversight of case reserves.

4. Exposure Management – Reinsurance Counterparty

The Group fails to assess the quality of its program reinsurers prior to onboarding or the reinsurance arrangements fail to 'follow the fortunes' of the underlying direct insurance contracts.

The Group fails to monitor its growing gross underwriting exposures, and reserves and aggregate exposure to reinsurers, following the planned onboarding of new business.

Risk Appetite

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 proportional processes to limit concentration to individual counterparties. We have no appetite for capital erosion from reinsurance counterparty risk arising from any downgrade or negative outlook to the Group's credit rating.

Mitigating Actions

- 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, and collateral on live underwriting reinsurance
- Identification of potentially significant concentrations of individual counterparties.

> The Group identifies and manages its exposure to its principal risks by setting, and maintaining adherence to, a risk appetite framework."

5. Exposure Management – Intermediary Counterparty

The Group fails to monitor, assess, and control its exposure to intermediary counterparty default in respect of its live program underwriting activities.

Risk Appetite

We have no appetite for general intermediary default and seek an appropriate degree of quality and diversification in the spread of intermediaries.

Mitigating Actions

- Operating entities engaged in live underwriting are expected to develop appropriate and proportionate processes in order to limit and monitor concentrations to individual intermediary counterparties to within acceptable levels.

6. Capital & 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.

Risk Appetite

We will maintain capital at a level providing a suitable margin over that level deemed by our regulators and supervisors as an acceptable level of policyholder protection whilst remaining economically viable.

Mitigating Action

- Management of relationships with all regulators within whose jurisdictions the Group and its subsidiaries operate
- Active and ongoing involvement of all relevant control functions
- Deployment of appropriate sources of capital to underpin strategic objectives, commensurate with capacity to take risk and having regard to 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.

7. Regulatory Risk

(i) Legislative, economic, and regulatory change

The Group fails to implement or adapt to emerging new regulatory or political or legislative changes.

Risk Appetite

We have no appetite for any major regulatory infringement or missed deadline.

Mitigating Action

- Oversight by the Group Head of Governance
- Deployment of local expertise where needed
- Management of relationships with all local regulators
- Internal working and steering groups to analyse, interpret and oversee the implementation of all emerging regulatory changes
- Maintenance and operation of an effective governance framework leveraging the expertise of the Group and individual entity boards and management
- Leverage of specific additional local regulatory and legal expertise where appropriate.

(ii) Taxation

The Group fails to identify its tax exposures arising from emerging UK and overseas legislation and fails to implement appropriate controls and processes to ensure compliance with all relevant laws.

Risk Appetite

We have no appetite or tolerance for any major tax-related infringement or missed deadline.

Mitigating Action

- Quarterly review with Head of Group 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.

8. Operational Risk

(i) People

The Group is reliant upon the knowledge and expertise of its key directors and staff and fails to adequately plan for succession.

Risk Appetite

We have no appetite for the loss or prolonged absence of a key staff member where the succession plan is insufficient; or for significant levels of staff turnover in any one year.

Mitigating Action

- Development of succession plans and management training across the Group
- Performance management process for all staff.

(ii) Business Disruption

The Group suffers a major business discontinuity event.

Risk Appetite

We have no appetite for loss of facilities or failure of key systems or processes which may cause significant business disruption, including cyber-attack.

Mitigating Actions

- Robust, regularly tested business continuity and disaster recovery plans
- Development of security technologies and processes by deploying new tools or techniques keeping pace with the increasing threat from cyber crime.

(iii) Cyber

The Group fails to properly protect its IT systems and infrastructure and its proprietary information compromising the confidentiality, availability, or integrity of its data, or to keep abreast of increasing regulatory scrutiny in this area.

Risk Appetite

We have no appetite for financial losses, business disruption or reputational setbacks arising from a cyber-attack. We have no appetite for any breaches of any relevant statutory requirement in respect of information security or cyber risk, or for breaches of our information security policies and procedures.

Mitigating Actions

- See business disruption
- Dedicated Chief Information Security Officer
- Fit for purpose information security governance structure and compliance, where practical, with relevant International Organisation for Standardisation or International Electrotechnical Commission 27000 series of standards
- Cyber liability insurance.

(iv) Outsourcing

The Group fails to adequately control its third-party service providers.

Risk Appetite

We have no appetite to enter into an outsourcing contract that does not meet the considerations set out in the Outsourcing Policy.

Mitigating Actions

- Outsourcing agreements with all material outsourcers (internal and external)
- Outsourcing Policy.

(v) 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.

Risk Appetite

We have no appetite for any material errors, omissions or misstatements within our financial and management reporting and operational management information systems, processes, or outputs.

Mitigating Action

- 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.

9. Liquidity Risk

The Group fails to implement adequate control over cash flow and liquidity leading to financial shortfalls.

Risk Appetite

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.

Mitigating Actions

- 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 at least 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
- 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 banker.

10. Market & Investment Risk

The Group fails to realise an adequate or optimal return on the investment float under its control or experiences a default on investments held.

Risk Appetite

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.

Mitigating Actions

- 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, and investment grade-rated, securities
- Asset, liability, and duration matching.

EMERGING RISKS

Emerging risks are those risks that are perceived to be potentially significant, but which may not be fully understood or controllable.

During 2020, the Group continued to embed its framework and processes for the identification, assessment (initial and ongoing), monitoring and reporting of emerging risks.

The Group risk management function reviews the emerging risks landscape continually by way of ongoing dialogue with the business heads, horizon scanning, attendance at external webinars and events and consultation of relevant thought leadership papers.

The emerging risks focus group continued to meet in 2020 and to report its conclusions to the Group Risk Committee. Where relevant, the findings of the focus group are cascaded down to the operating subsidiaries.

The universe of emerging risks is reviewed continually for ongoing completeness and currency. During 2020, the Group considered the following emerging risks.

1. Trade, Tariffs & Sanctions

Changes to trade, tariffs & sanctions affect market and asset values

Potential Impact

Loss on investments and/ or revenue streams; Inability to trade in certain geographical locations or with certain third parties.

Focus in 2020

Unchanged. Although Brexit is no longer a discrete emerging risk, there remained uncertainty around the shape of the final trade deal. The Group's Brexit working party now considers such issues as they arise.

2. Climate Change

Aside from effects of changes in weather patterns, climate change may impact strategy, investment decisions etc.

Potential Impact

Climate change may lead to change in business practices with new regulations and public opinion influencing how we do business and who we do business with.

Focus in 2020

Increased. See section on Sustainability for further details of how the Group is addressing this.

3. Political Uncertainty

Changing business practices and regulations which may impact strategy

Potential Impact

Inability to execute strategy due to changing business practices and regulations.

Focus in 2020

Unchanged. Continued to monitor in the context of the ongoing pandemic.

4. Civil Instability

Disenfranchised people leading to protests/ cyber-attacks causing disruption

Potential Impact

Financial and/or operational impact from disruptive events caused by civil unrest due to political instability, negative economic growth etc.

Focus in 2020

Increased. The potential for civil unrest remains strong given actual events in 2020 and early 2021.

5. Developing Cyber

New and evolving cyber attacks

Potential Impact

Continuing risk of data loss, theft of intellectual property or financial loss as a result of increasingly sophisticated cyber techniques.

Focus in 2020

Increased. Cyber capability and sophistication continued to increase exponentially and the backdrop of the pandemic/remote working has provided increased motivation and opportunity.

6. IT & Telecom outages

Large scale outages impact the Group's operational resilience

Potential Impact

Significant downtime and potential loss of data resulting in loss of revenue and potential reputational damage.

Focus in 2020

Increased. See Developing Cyber.

7. Interruption to Infrastructure

Major disruption to Infrastructure such as power and transport

Potential Impact

Inability to carry out business as usual resulting in loss of revenue and potential reputational damage.

Focus in 2020

Increased. See Developing Cyber.

8. New & Emerging Technology

Introduction to new technology e.g. Block Chain, Artificial Intelligence, and Internet of Things

Potential Impact

Impacts could be positive and negative.

Focus in 2020

Unchanged. Continue to monitor.

EMERGING RISKS CONTINUED

9. Changing Expectation of the Workforce

Expectation of the workforce is changing

Potential Impact

The workplace and benefits package may not be attractive enough to attract talent, nor sufficiently adaptive to the evolving workforce demographic.

Focus in 2020

Increased. The demand for flexible working longer term is becoming increasingly likely. The Group is reviewing the pandemic's impact on both the business and individuals and is compiling a longer-term framework to consider employee health, workforce resilience and working practices.

10. Pandemic

A large scale epidemic similar to Spanish Flu

Potential Impact

A large-scale pandemic may reduce operational effectiveness due to staff illness; staff inability to attend work; loss of key staff; inability to complete key transactions.

Focus in 2020

Increased. Emerging elements include the evolving nature of the Covid-19 virus including variants, continuing and in some cases potentially open-ended restrictions in social movement and the potential impact of 'long Covid'. The longer-term macroeconomic fallout remains uncertain.

11. Event-driven Litigation

Increasing risk of the level of securities class action filings with claims against Directors and Officers

Potential Impact

Directors and Officers may be faced with a lawsuit ranging from matters such as breach of GDPR, pollution and contracts.

Focus in 2020

Increased. This was on an upward trend prior to the pandemic but the ensuing economic downturn is likely to see an uptick in claims against Directors and Officers, and against Errors and Omissions policies.

12. Increased Regulatory Scrutiny

Intensifying scrutiny of regulators globally

Potential Impact

Organisations are required to provide more governance, risk & compliance oversight.

Focus in 2020

New risk. The Group's multi-jurisdictional presence and an increased focus on a variety of issues such as cyber, climate change, conduct risk etc. highlights the need for a proactive and forward-looking approach.

COVID-19

While the principal risks and uncertainties of the Group have remained the same, during 2020, the oversight, management and reporting of those risks was adapted to focus on the specific risk drivers arising from the pandemic insofar as they impacted the Group. This recognised ten interrelated themes.

There have been no material breaches of the Group's risk appetite arising from the pandemic and none are expected. The specific risk drivers, were, and continue to be, as follows:

Regulatory Risk – the Group or one of its component parts breaches legal or regulatory requirements of jurisdictions in which it operates, due to Covid-19.

Reputational Risk – the risk that the Group or one of its business units is associated with ongoing lawsuits regarding denial of claims.

Market Disruption – (related to the risk above) the Group may be adversely impacted by developing claims experience arising from the pandemic, as well as the risk of Covid-19 exclusions on renewal.

Financial and Cyber Crime – financial and cyber criminals will seek and exploit potential weaknesses in any checks and balances which may arise from working remotely, amplified in the remote working environment.

People Risk – staff wellbeing and productivity may be compromised by medium- and long-term remote working, with longer terms impacts being attrition and fatigue.

Financial Risk – the Group's performance and financial strength may be impaired by a fall in investment performance, liquidity and cash flow, capital adequacy and counterparty vulnerability/failure as a result of Covid-19.

Operational Risk – the Group may be subject to a greater degree of operational risk through its people, processes, systems, and supply chains/distribution channels during Covid-19 and that the Group prioritises the management of Covid-19 to the detriment of business as usual.

Macroeconomic and External Factors – events outside the control of the Group develop in a manner which is unforeseen and to which the Group fails to respond (for example, behaviour and spread of the virus, worse than predicted economic downturn or government policy).

Recovery Strategy – the Group does not develop an appropriate recovery strategy for the eventual return to work and as part of this process does not define the 'new normal' and share experiences and lessons learned from the Covid-19 experience.

Business Development and Growth – the Group fails to progress its business pipeline to the closure and onboarding stage due to slowdown of these processes, and the risk that the Group fails to identify new business opportunities from the inability to travel and meet new potential counterparties.

"The oversight, management and reporting of the Group's principal risks and uncertainties was adapted to focus on the specific risk drivers arising from the pandemic."

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

William Spiegel (58)
Executive Chairman
C D Rx IC

Alan Quilter (70)
Chief Executive Officer
C D Ri Re Rx

Tom Solomon (51)
Chief Financial Officer
C Rx

Skills & Experience

William Spiegel is the Executive Group Chairman and joined R&Q in January 2020. William has over 30 years of experience in the financial services sector with particular expertise in insurance and insurance services. He joined R&Q from the U.S. private equity firm Pine Brook where he was a managing partner and which he co-founded in 2006

A significant part of William's career has focused on building and growing insurance companies in both the US, the UK and Bermuda. William has 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.

William has served on the Board of Directors of over 25 companies, including eight publicly traded corporations.

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.

Skills & Experience

Tom Solomon joined R&Q as Group Chief Financial Officer in August 2020.

Tom has over 25 years of experience in the financial services industry. Prior to joining Randall & Quilter, he was a managing director at Bank of America Securities and head of insurance investment banking for the Americas. Prior to joining Bank of America Securities, he worked at Citigroup in investment banking covering the insurance industry. Before joining Citigroup, Tom worked as a consulting actuary for PricewaterhouseCoopers.

Tom holds a B.S. in Mathematics from the University of Michigan and an M.B.A. from Columbia University. He is also a member of the Society of Actuaries.

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

Joanne Fox (57)
Non-Executive Director
A R Ri Re

Philip Barnes (60)
Non-Executive Director
A IC R Ri

Alastair Campbell (76)
Non-Executive Director
A R

Eamonn Flanagan (58)
Non-Executive Director
A IC R

Skills & Experience

Jo Fox is a finance professional with over 25 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. She has held several non-executive posts for global risk carriers and intermediaries operating within Lloyd's and the London Market.

As part of her board roles, Jo has chaired Audit, Risk, Capital and Compliance committees and was Chair of the IUA Solvency Working Group from 2014 to 2016. More recently, Jo was Chair and non-executive director of R&Q Managing Agency Limited, which was acquired by Coverys in 2017.

Skills & Experience

Philip Barnes is a Chartered Accountant and has worked in the insurance industry for the past 36 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.

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

Eamonn is a Fellow of the Institute of Actuaries, having qualified at Royal Insurance, before moving to the capital markets where he was director and head of European insurance at a leading investment bank. He co-founded Shore Capital Markets, a securities business, where he was a director and top-rated analyst, receiving a number of awards in the London insurance market.

As an analyst, Eamonn gained considerable experience of analysing the business and financial models of companies across the insurance world, observing how they responded to changes in regulation, accounting standards and strategic focus, whilst, at the same time, delivering good and appropriate outcomes for customers.

Eamonn is a non-executive director of AJ Bell, a technology driven investment platform, and chairs its Audit Committee and Disclosure Committee. Eamonn is also a non-executive Director of Chesnara, a FTSE main market listed life assurer.

GOVERNANCE

I am pleased to present, on behalf of the Board, my first corporate governance report.

Chairman's Introduction

In this part of the report we describe governance at R&Q and the principal activities of the Board and its committees during the 2020 financial year. As Chairman, I am responsible for leading the Board and its governance of the Group in the determination of its strategy and in achieving its objectives. I am responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda, and for the effective communication with our investors.

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.

Since the last report the Board has undergone significant change, most notably with the retirement of Ken Randall at the end of March 2021. Succession plans around this event have been in place for some time and in 2020 we appointed three new directors, including myself, and I am delighted with the strength and breadth of skills we have as a team.

Last year we reported on how we were planning to advance our approach to environmental, social and governance matters. The Board agreed to adopt the UN Principles for Sustainable Insurance, as being appropriate to the business and nature of the Group and we are proceeding with developing an ESG framework. Our actions and progress on sustainability are reported on pages 14 to 15 of this Annual Report.

We will be holding our Annual General Meeting on 21 June 2021. At the time of writing it remains uncertain whether the UK Government's restrictions and guidance on public gatherings will allow shareholders to attend in person; in order to facilitate as much engagement with our shareholders as possible I will be delighted to respond to questions submitted in advance and would encourage their participation in this way. Information on how to do this will be published in the Notice of Annual General Meeting and on our website.

Further details of how the Board has discharged its corporate governance responsibilities are set out in this report.

William Spiegel
Executive Chairman
21 May 2021

1. Vision and Strategy

The Group is a leading non-life global specialty insurance company focusing on the Program Management and Legacy Insurance businesses. We are market leaders in our target markets, both of which are experiencing strong secular growth. Our businesses have become key components of the global insurance market and have high barriers to entry which protects our competitive position. Our Program Management business is a balance sheet light recurring revenue business that charges annual fees for allowing insurance distribution to access its licences to connect with global reinsurers. The Program Management business plays an important role supporting the growth of independent insurance distribution. The Legacy Insurance business is a balance sheet business that earns high returns on capital deployed by acquiring or reinsuring already expired insurance risk, and managing off the exposure. The Legacy Insurance business provides an important form of capital management for existing insurance carriers. The Group leverages its core strengths in origination, underwriting and claims management to compete in the marketplace. The Group's success is a result of the entrepreneurial spirit of its employees, supported by a culture that prioritises initiative and responsibility to our stakeholders.

The key challenges that the Company faces in the execution of its strategy include: the identification of suitable pipeline opportunities in both core areas; the quality of potential partners; ensuring appropriate due diligence; appropriate returns on its investment portfolio; timely capital raising, and ongoing investment in bench strength and infrastructure to underpin its 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.

> Feedback from investors is obtained through direct interaction with William Spiegel, the Executive Chairman, Alan Quilter, the Chief Executive Officer and Tom Solomon our Chief Financial Officer."

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. As part of its risk management framework, the Group has an established and embedded emerging risks process. This process is forward looking and considers risks which are perceived to be potentially significant, but which may not be fully understood or controllable. The process also recognises that there are emerging elements of crystallised risks. One such example is pandemic risk, identified as an emerging risk pre-Covid-19. Accordingly, this continues to appear on the emerging risks radar owing to its ongoing unfolding nature and associated uncertainty. This enables the Group to proactively manage its known and potential risks and uncertainties and the interrelatedness between them.

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 William Spiegel, the Executive Chairman, Alan Quilter, the Chief Executive Officer and Tom Solomon our Chief Financial Officer. The voting record at the Company's general meetings is monitored and we are pleased that all resolutions proposed in 2020 were passed by shareholders. There is regular dialogue through the medium of the Company's corporate brokers, Barclays and Numis Securities, and the Company seeks to take the pulse of shareholder expectations and reactions through its retained advisers. Following a review process in early 2021 we appointed Barclays to assist us in the next stage of our global development. Our primary investors were offered the opportunity of meeting with William Spiegel following his appointment early in 2020 in order to establish direct and open communication. In addition, William Spiegel met with shareholders after the release of the Group's 2019 and half year 2020 results.

Due to the impact of Covid-19 related Government measures which were in place at the time of our AGM in July 2020 and the additional shareholder meetings held in May and October 2020, to restrict social gatherings in the interests of safety, these were held as closed meetings, with the presence in person of only sufficient members to form a quorum, with shareholders strongly encouraged to submit their votes by proxy in advance of the meeting. The executive directors made themselves available at a series of remotely held roadshows and individual sessions to ensure all questions and matters of interest raised by shareholders were fully addressed.

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

The Board has determined that the UN Principles for Sustainable Insurance provide an appropriate framework for the Group's approach to ESG. While our progress on sustainability is in its early stages, our actions so far are reported on pages 14 to 15. The Board is aware of the impact that its business activities have on the communities in which the Group's businesses operate. The Group's responsibilities to stakeholders including staff, suppliers, customers and wider society are also recognised through the Group's policies on, 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. Since the onset of the Covid-19 pandemic in March 2020, the Board has received an update and discussed the impact of Covid-19 on its staff at each of its meetings to ensure that appropriate steps have been taken to ensure their wellbeing.

R&Q is an equal opportunity employer and does not tolerate discrimination of any kind in any area of employment or corporate life. All decisions relating to recruitment, assessment, remuneration and promotion are based on the ability of the individual to do the job, without consideration to race, age, gender, sexual orientation, disability, beliefs, background (except as relevant to the requirements of a position, such as educational qualifications or prior employment experience) or nationality.

R&Q strives to be a responsible employer. Achieving this means creating a workplace that supports and fosters diversity and equal opportunities for all employees by supporting professional development, engagement events and activities that foster teamwork collaboration and employee recognition.

GOVERNANCE CONTINUED

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 National Westminster Bank, AM Best, and our auditors and external legal advisers to name a few. During 2020 we have had frequent engagement with our lenders in relation to optimising the Group's principal finance facilities.

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

4. Embedding Effective Risk Management

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 20 to 22 of our Annual Report. The Chairman of the Group Risk Committee has provided a report on the Committee's activities during 2020 on pages 42 to 43.

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 needs to ensure 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, 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 receives the papers submitted to the Board meetings of the Company and each of its key operating subsidiaries.

As the Group operates in an entrepreneurial, multi-jurisdictional and highly-regulated environment, the Board, via the 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 44 to 45 (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. The Group's principal risks and uncertainties, and a description of its risk appetites and its adherence to them are described in the Strategic Report on pages 20 to 24. In the Risk Management section, while the principal risks and uncertainties for the Group remain unchanged, the management and oversight thereof has been focussed through the lens of those identified inherent principal risks and uncertainties particularly germane to the business during Covid-19 as described on page 25.

The Board considers that the controls in place during 2020 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 19 May 2021 the Board comprises four non-executive directors and three executive directors. The notable change since our last report is the retirement of Ken Randall as a director and Executive Chairman of the Company. Ken retired from R&Q on 31 March 2021 and William Spiegel succeeded to the position as envisaged on his appointment as Deputy Chairman in January 2020. As Chairman of the Board, William Spiegel leads the Board in the determination of its strategy and in achieving its objectives. As an executive director, he is not considered to be independent.

In addition, we had two new board appointments during the year, Eamonn Flanagan as a non-executive director in June 2020, and Tom Solomon, Chief Financial Officer, who joined the Board in November 2020 as the Chief Financial Officer enabling Alan Quilter to focus on his role as Chief Executive Officer. We will continue to address board succession in anticipation of future retirements.

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 actuarial, accountancy governance 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 director's period of service in isolation to determine their independence.

The Senior Independent Director is Alastair Campbell. 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 28 to 29.

We encourage all directors to keep their skills and knowledge up-to-date; they are asked to confirm annually whether they would benefit from any relevant training. The Company Secretary provides updates during the year on significant developments in legal, governance and compliance areas.

New directors complete a tailored induction program to provide them with an in depth understanding of the business and how it operates and training is provided as required in each case. In 2020 we provided a bespoke training session (delivered as a webinar) on the duties and responsibilities of directors, attended by the key directors and senior managers across the Group.

We have an open and transparent approach to management information, with the Executive Chairman, Chief Executive Officer and Chief Financial 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.

7. Evaluating Board Performance

The Board did not conduct a formal evaluation of its performance in 2020 in view of the significant changes in its composition. An externally evaluated performance review will be conducted during 2021. The diverse range of skills and leadership experience of the non-executive directors enables them to monitor the performance of the executive directors and provide constructive challenge and support to them. 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.

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.

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 2020, the Board held five full meetings and scheduled eleven additional meetings to discuss specific matters such as fund raising and M&A opportunities.

The decisions which can only be made by the Board are clearly defined in a formal schedule of matters reserved for its approval. This includes changes to the Group strategy, acquisitions and disposals of a material size and nature, the Group's risk management strategy and approval of the Group-wide policies and corporate governance arrangements.

The full schedule of matters reserved for the Board is available on the Company's website at www.rqih.com/investors/shareholder-information.

The Board regularly reviews the appropriateness of its committee structure from a governance and business perspective. In 2021, following such a review, the GCIC was replaced by a dedicated Investment Committee with delegated responsibility for delivery of the Group's investment strategy. Where appropriate, the key activities of the GCIC will be assumed by the Board to complete the governance framework. A non-decision making Transaction Advisory Group has been formed to provide advice across the Group functions in relation to program management and legacy transactions and delivery of the Group's business strategy.

GOVERNANCE CONTINUED

The following table sets out the attendance of the Company's directors at board and committee meetings during 2020.

	Board Meetings	Audit Committee	Remuneration & Nominations Committee	Risk Committee	Reinsurance Asset Committee	Disclosure Committee	Capital & Investment Committee	Regulatory Committee
Executive Directors								
Ken Randall (resigned 31 March 2021)	16/16					18/18	4/4	1/1
Alan Quilter	16/16			4/4	4/4	18/18	4/4	1/1
William Spiegel	16/16						3/4	1/1
Tom Solomon (appointed 1 November 2020)	3/3				1/1		1/1	
Non-Executive Directors								
Philip Barnes	16/16	5/5	4/4	4/4				
Alastair Campbell	16/16	5/5	4/4					
Eamonn Flanagan (appointed 1 June 2020)	7/8	2/2	2/2					
Joanne Fox	16/16	5/5	4/4	4/4	4/4			

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, 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/shareholder-information

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, Eamonn Flanagan 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 Executive Chairman, Chief Executive Officer and Chief Financial Officer attend the committee meetings by invitation.

The Audit Committee Report on page 36 contains more detailed information on the Committee's role.

Remuneration & Nominations Committee

The Remuneration & Nominations Committee (RemCo) is chaired by Alastair Campbell. Its other members are Philip Barnes, Eamonn Flanagan 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 Committee meets at least four times a year. The Executive Chairman and the Chief Human Resources Officer are routinely invited to attend although they do not take part in any discussion on their own benefits and remuneration.

The Remuneration & Nominations Committee Report on page 40 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 and the Chief Executive Officer. The Chief Risk Officer, the Head of Governance, 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 Executive Chairman and Chief Executive Officer attend the Committee's meetings by invitation.

The Risk Committee report on pages 42 to 43 contains more detailed information on the Committee's role and activities during 2020.

Reinsurance Asset Committee

The Reinsurance Asset Committee (RAC) is chaired by Jo Fox and comprises the Chief Executive Officer, Chief Financial Officer 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 2020.

Capital & Investment Committee

During 2020 the Group Capital & Investment Committee (GCIC) comprised the Executive Chairman, the Chief Executive Officer, the Chief Financial Officer and the Chief Actuary. It was chaired by the Chief Executive Officer.

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

The GCIC had a standing agenda for its quarterly meetings and also met frequently to consider M&A transactions and new program and investment opportunities. During 2020 the Committee reviewed 41 proposed program management and legacy transactions. Regular presentations were given by the Group's appointed Investment Managers on the performance of the R&Q funds and their views on the market outlook and future positioning.

The Capital & Investment Committee was disbanded on 30 April 2021.

Disclosure Committee

The Executive Chairman, the Chief Executive Officer and the Group General Counsel 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 on eighteen occasions in 2020. In addition, disclosure matters and share dealing applications were reviewed regularly throughout the year. A larger than usual number of meetings were held in 2020 to ensure careful monitoring for disclosures that might be required due to the impact of Covid-19.

Regulatory Committee

The Regulatory Committee acts 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 purpose of the Regulatory Committee is 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, William Spiegel, Alan Quilter and Tom Solomon, and the Group Head of Governance. The Committee held one formal meeting in 2020.

Investment Committee

The Investment Committee was established in May 2021 as a reflection of the increased scale and importance of the Group's investment portfolios to the business model. The Committee's key purpose is to determine, implement and review an investment strategy to deliver the Group's agreed investment objectives.

The Investment Committee is chaired by Eamonn Flanagan and its other members are Philip Barnes and the Executive Chairman, William Spiegel. The Chief Financial Officer, Chief Executive Officer, Chief Risk Officer and the head of investments within the finance function, may also attend by invitation. The Committee will meet at least four times a year.

10. Communicating with Stakeholders

The Board recognises the importance of effective communication with its shareholders. The Group maintains communication with institutional investors through individual face-to-face meetings with executive directors, particularly following publication of the Group's interim and full year results. Private shareholders have the opportunity to attend the Annual General Meeting at which questions can be answered. A range of corporate information (including copies of 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 Barclays Bank. In 2020, due to Covid-19 restrictions, in person meetings with investors were replaced by meetings held using teleconference facilities.

AUDIT COMMITTEE REPORT

Alastair Campbell FCA
Chair of the Audit Committee

The Committee

The Committee operates under written terms of reference which were reviewed and updated in January 2021. A copy of the current document is disclosed on the Company's website at www.rqih.com/investors/shareholderinformation/boardcommittees

Philip Barnes, Jo Fox and I served on the Committee for the whole of 2020; Eamonn Flanagan was appointed to the Committee in October 2020. The names, and brief biographical details of the current members are shown on pages 28 to 29.

Three of the four 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. Eamonn Flanagan qualified as an actuary and has spent many years analysing the published reports of insurers. 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 2020.

Generally, at each meeting the executive directors 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 Group Head of Governance and the Head of Group Tax.

The Committee reserves the right to meet without management present if required. That did not prove to be necessary in 2020.

Responsibilities and Activities during 2020

The principal responsibility of the Committee is to monitor the integrity of the published 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 function, and has oversight of the systems of internal control established throughout the Group.

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

Financial Statements

The Year Ended 31 December 2019

The Committee monitored the difficulties arising as a result of the Covid-19 pandemic experienced by Finance on the production of the 2019 financial statements and by the external auditors in completing their audit. While there was a delay of approximately one month in finalising matters, there were no areas where we felt that insufficient review work had been carried out.

We reviewed in detail the 2019 financial statements. 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
- 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

"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 2020 and had operated within its terms of reference."

- 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, including specific reference to the implications from the Covid-19 pandemic
- 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 their agreement with the adoption of the going concern basis of accounting for the financial statements. They further 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 external auditors to support their audit opinion. We approved their fees for their audit work on the 2019 financial statements.

We reviewed PKF's management letter following the 2019 audit and approved management's responses.

The Interim Results to 30 June 2020

The interim financial statements were also delayed by approximately one month as a result of the Covid-19 pandemic. With the experience gained on the 2019 financial statements the production and audit work proceeded more smoothly and we were again satisfied that all areas experienced sufficient review work.

We reviewed in detail the interim financial statements. 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. We again paid close attention to the going concern position in the light of the developing Covid-19 position and received a detailed paper from Finance supporting the decision to apply the going concern concept when preparing the financial statements.

In addition, we received a detailed report and briefing from the external auditors which set out their findings from their review work. They confirmed their agreement to the adoption of the going concern concept in the preparation of the financial statements. They further confirmed that they intended to report in unmodified terms.

We considered and approved the letter of representation requested by the external auditors to support their review. We approved PKF's fees for their review work on the interim financial statements.

The Year Ended 31 December 2020

We received a detailed report and presentation from the external auditors on their planning for their audit of the 2020 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 2020 consolidated financial statements.

AUDIT COMMITTEE REPORT CONTINUED

IFRS 17

The Committee continued to monitor the progress of the Group towards the introduction of IFRS 17. As I noted in the 2019 Annual Report, while having no effects on the fundamental economics of the insurance industry, this new accounting standard will result in major changes to accounting for insurance transactions and on the Company's annual reported results. The Committee heard from the Chief Financial Officer on the progress of the numerous workstreams currently reviewing different areas of the new standard and its impact on the Group financial statements. This review and monitoring will continue through 2021.

Taxation

The Audit Committee has an oversight role in relation to taxation matters. During the year we received regular reports from the Head of Group Tax on developments in tax law and practice across the Group. The Group operates in numerous jurisdictions and particular attention is paid to ensuring proper reporting arrangements are in place to meet the Group's obligations.

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. The partner responsible for the audit since then stood down under the rotation rules after the 2019 audit and we had intended to carry out a tender for the appointment during 2020 as part of our annual review; however in the light of the difficulties presented by Covid-19 we decided to recommend the re-appointment of PKF working under their proposed new audit partner.

We also reviewed the appointments of other auditors of certain overseas subsidiaries; no changes were found to be necessary.

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 keeps under review 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.

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 2021 plan and the related budget was discussed and approved by the Committee.

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 2020 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 Group Head of Governance which confirmed that no instances had been reported in 2020 relating to whistleblowing, fraud or bribery and corruption.

Review of the Committee's Own Performance

During 2020 the Committee carried out an internal review of its own performance. It scrutinised the range of matters considered in the context of its Terms of Reference 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 were some minor suggestions for improvements which we are taking forward; however there were no matters for concern.

To ensure that the Committee continues to satisfy its responsibilities as a committee of the Board through up-to-date skills and knowledge, the Committee members and its principal attendees benefitted from an externally provided training session on effective audit committees. This included the particular role of audit committees in financial services, what makes an effective audit committee and current issues for the Committee to be aware of such as Covid-19 impacts and external audit and financial reporting reform.

Planned Activity During 2021

Specific matters which are or are likely to be considered during 2021 include:

The Committee will continue to pay close attention to the published financial statements of the Group and to the control environment in the rapidly developing program business.

In particular, the Committee will carry out a detailed study considering the comparative merits of International Financial Reporting Standards (including in particular IFRS 17) and alternative accounting frameworks as the basis for reporting the Group's trading and financial results.

In January 2021 the Committee contracted for an external review of the Internal Audit function. The report showed that the function complied fully with regulatory requirements and scored highly on the assessments carried out by the reviewers. A number of recommendations were made for the future development of Internal Audit which are currently under review.

The Committee will also continue to review the other areas as set out above.

Due to Covid-19, it is currently looking unlikely that I will be able to meet our shareholders at the AGM in June, however I will be pleased to answer any questions arising from the work of the Committee, at any time.

Alastair Campbell FCA
Chair of the Audit Committee

"The Committee will continue to pay close attention to the published financial statements of the Group and to the control environment in the rapidly developing program business."

REMUNERATION & NOMINATIONS COMMITTEE REPORT

Alastair Campbell FCA
Chair of the Remuneration and Nominations Committee

The Committee

The Committee operates under written terms of reference which may be seen on the Company's website at www.rqih.com/investors/shareholderinformation/board committees

I was appointed by the Committee as acting chair in September 2019; I continued in that role during 2020, and through the planned changes in the Executive Board at the end of March 2021 in the interests of stability and continuity. I have agreed to continue while the succession arrangements for non-executive directors referred to under Priorities for 2021 below are confirmed.

Two further independent directors were members throughout 2020, being Philip Barnes and Jo Fox. In addition, Eamonn Flanagan was appointed to the Committee in July 2020.

The names and brief biographical details of the current members of the Committee are shown on pages 28 to 29 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.

During 2020, Ken Randall, the Executive Chairman, William Spiegel, the Deputy Executive Chairman, and Alan Quilter, the Chief Executive Officer, attended most meetings by invitation.

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

> "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."

- 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 2020

In addition to the routine matters set out above, 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

- we approved the 2019 bonus arrangements for executive directors and senior management. All bonus arrangements are discretionary and are subject to the recommendation of the Executive Chairman or the Chief Executive Officer respectively 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
- we approved the proposals from the Executive Chairman and Chief Executive Officer respectively in respect of the 2020 review of salaries for executive directors and senior management
- we requested and considered a report from Human Resources setting out the pension and termination arrangements for senior management and executive directors
- we received a report from advising solicitors on developments in employment law.

Nominations

- we recommended the appointment of Eamonn Flanagan as a new independent non-executive director and his appointment to this Committee and the Audit Committee
- we recommended the appointment of Thomas Solomon as Chief Financial Officer and approved the terms of his employment, his remuneration and his job specification
- we continued to monitor the transition arrangements from Ken Randall to William Spiegel as Executive Chair, including the progress of the handover plan and related matters
- we monitored progress in the recruitment to fill various senior management positions
- we considered the succession plans among senior management in key positions.

Priorities for 2021

Specific matters which have been or are likely to be addressed by the Committee during 2021 include:

- the continued monitoring of the arrangements for the transition from Ken Randall to William Spiegel as Executive Chair, together with any consequential changes in senior management responsibilities and reporting lines
- the succession arrangements for non-executive and other directors over the next two to three years in the light of current guidance
- the progress of the Board in implementing its Environmental, Social and Governance policies, including diversity and inclusion
- a review of the skills present in the current non-executive directors to ensure we have the specific skills and experience to support the future development of the Group
- a review of the current bonus arrangements.

Review of the Committee's Own Performance

In the fourth quarter of 2020 the Committee carried out a self-assessment review of its performance. The conclusions were favourable. There were some minor matters raised which will be addressed in 2021.

The members and regular attendees attended a training session in November. The session covered matters such as building and maintaining an effective board, remuneration issues, monitoring the Committee's effectiveness, and changes in UK requirements, and explored practices and pitfalls for remuneration committees and how to avoid them. It also considered trends and principles that regulators and stakeholders expect to be applied in the UK.

I will be happy to answer any questions arising from the work of the Committee.

Alastair Campbell FCA
Chair of the Remuneration and Nominations Committee

RISK COMMITTEE REPORT

Philip Barnes
Chair of the Group Risk Committee

This report sets out the ways in which the Committee has discharged its responsibilities and the significant issues it has considered during the year under review.

The Committee

The Committee continues to operate under its written terms of reference which are reviewed and updated annually. The most recent review took place at the Committee meeting in February 2021. A copy of the current document is disclosed on the Company's website at www.rqih/investors/shareholderpresentation/boardcommittees

During 2020, the Committee comprised myself and Jo Fox, both non-executive directors, Alan Quilter, Chief Executive officer and the Chief Risk Officer. All four Committee members served for the whole of 2020. The biographical details and names of the current members are shown on pages 28 to 29. All 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.

During 2020, the Committee meetings were also attended by the Executive Chairman, Deputy 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. The Chief Risk Officer presents a report including a commentary on the Group' s evolving risk profile as articulated by 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' from both a strategic and risk management perspective.

Roles and Responsibilities

The Group Risk Committee is principally responsible for the 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.

Additionally, the Committee 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 risk 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. The Committee 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 risk appetite statements. The risk appetite framework is reviewed at least annually for ongoing appropriateness in the context of the Group's strategic objectives.

A detailed description of the Group's principal risk and uncertainties, its identified emerging risks and the management of its risks and uncertainties in the context of Covid–19 appears on pages 20 to 25.

> The Committee ensures that the Group's risk management framework operates effectively in embedding risk management throughout the Group and its extended business."

Activities, Significant Issues and Considerations during 2020

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. Although the underlying principal risks and uncertainties remain unchanged, management and oversight of these risks has during 2020 been conducted largely through the lens of the Covid-19 pandemic as it has unfolded. This shaped and formed risk reporting to the Board.

The Committee standard agenda also contains an update on Group Supervision and related regulatory matters and an update on strategic priorities from the Chief Executive Officer.

During 2020, the Committee reviewed and focussed on the following topics:

- **Covid-19** – At each of its meetings during 2020, the Committee reviewed and monitored the ongoing pandemic and its impact on the Group from a risk perspective and how these risks are being managed in terms of the operational and physical impact on the business. This included the increased risk of cyber and financial crime, staff wellbeing, the issues arising out of the FCA test case on business interruption and also the impact on business development. Although business execution saw some deceleration initially through remote working, the pandemic has not had a significant negative impact.
- **Climate Change** – The Group's Emerging Risks Focus group (which reports to the Group Risk Committee) met twice during the year and climate change is an identified key emerging risk. The Committee acknowledged that the effects of climate change are potentially far reaching in addition to the intensifying regulatory scrutiny in many jurisdictions. The sustainability section on pages 14 to 15 has more details of the Group's activity in this area.
- **Program Performance** – As an area of significant growth for the Group, the Committee commissioned greater focus and scrutiny and the development of forward-looking metrics with an emphasis on tracking growth of actual premium written by its MGAs.
- **IFRS 17** – The Committee heard an update from the project manager on the Group's preparations for IFRS 17, including how the risks associated with the new standard (project, commercial and business as usual) are being addressed.
- **Brexit** – The Committee maintained a watching brief on the Group's Brexit readiness and in particular the progress of the Third Country Branch application to the Prudential Regulatory Authority for Accredited Insurance (Europe) Limited.
- **Meeting of Group Risk Committee Chairs** – The Group Risk Committee Chair, the Chief Risk Officer and the respective Chairs of the subsidiary Risk Committees met in November 2020. This is considered good practice in groups and provided an opportunity to meet, share information and to ensure that all risk committees are working towards the adoption of common approaches to risk management and the governance thereof across the Group.

Committee Effectiveness Review

Overall, the Committee considered that it operated effectively during 2020. However, the Committee considers on an ongoing basis how best to benchmark itself against emerging best practice and to this end, has compared its composition, structure, and operation, along with that of the Group Risk Management Function, against the Risk Coalition principles-based guidance published in December 2020. Other Corporate Governance standards and guidelines, for example the QCA Governance Code, are also taken into account. A high-level review against the Rick Coalition guidance was conducted in late 2020.

The Committee and the Group Risk Function will address any inconsistencies arising out of this review during 2021 in conjunction with a planned review by the Group Internal Audit function.

Planned Activity for 2021

In 2021, the Committee plans to review its composition, structure, and membership. It will also review with the Executive Directors the Group's top risks for ongoing currency against the Group's strategic plan. Emerging elements of climate change, pandemic risk and cyber risk will continue to be reviewed and monitored, as will the Group's overall operational resilience as we emerge from the Covid-19 pandemic. The Committee will also review and monitor the macroeconomic fallout including market and investment risk and the potential impact of negative interest rates.

The Group's risk appetite framework will undergo its annual review and in particular enhancement of risk metrics to further alignment with the Group's risk-based capital models.

Philip Barnes
Chair of the Group Risk Committee

RISK MANAGEMENT

Covid-19 has tested the rigour of the Group's risk management framework and control environment and its ability to adapt, respond and evolve.

Overall Responsibility for Risk Management

The Board and senior management continue to appreciate that the ongoing success depends in its collective understanding and management of the Group's known risks and exposures. At no time has this been brought into clearer relief than during 2020.

The Board has responsibility for ensuring that the Group has an appropriate and proportional approach to risk management across the Group, and that this approach is both generic 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 continues to be entrepreneurial and innovative, in spite of, and in many respects because of, the challenges of 2020. Covid-19 has tested the rigour of the Group's risk management framework and control environment and its ability to adapt, respond and evolve. Both the risk management framework and the control environment have responded well to the challenges posed.

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 the Board 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 monitor these risks. It is also responsible for monitoring that the business meets regulatory expectations around enterprise risk management and reporting in risk to the Board and the Group Risk Committee.

Group Risk Committee

The Group Risk Committee is a formally constituted Committee of the Board. A report from the Group Risk Committee Chair on its role, governance, activities, discharging of responsibilities, self-evaluation and plans for 2021 appears on pages 42 to 43.

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 risk 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 culture are all relevant.

The risk appetite framework, which is set at both 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 and or its business units.

The principal risks and uncertainties within the Strategic Report on pages 20 to 22 includes, for each principal risk, the title and a brief description of the risks, high level risk appetite statements and key mitigating actions.

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 2020 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.

The management of risk and uncertainty is ongoing and iterative and the following overarching process is adopted.

The Group's risk management framework and reporting mechanisms have, while remaining fundamentally unchanged, adapted during 2020, to address the ongoing challenges, and this is described in more detail both in the Strategic Report and later on in this section.

Risk Governance

Risk governance within the Group continues to adopt a three lines of defence model at both Group and indivisible business unit/entity level, as depicted in the diagram.

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 times.' The report produced as part of this process can be described as the 'shop window' of the business planning, capital setting and risk assessment process.

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. The ORSA process can be depicted diagrammatically as shown.

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 2020 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 2020 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We confirmed our understanding of management's going concern assessment process and also engaged with management to ensure all key factors were considered in their assessment.
- We obtained management's going concern assessment, including the cash forecast for the going concern period. We also verified credit facilities available to the group. The group has modelled various scenarios in their cash forecasts in order to incorporate unexpected changes to the forecasted liquidity of the group.
- We have reviewed the factors and assumptions included in the cash forecast. We considered the appropriateness of the methods used to calculate the cash forecasts and determined that the methods utilised were appropriate to be able to make an assessment for the group.
- We reviewed the group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 GBP
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.	2,900,000 (2019: 2,200,000)

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment. This was set at £2,175,000 (2019: £1,650,000).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £145,000 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.

Our approach to the 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) we identified, including 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.

<table>
<tr><th>Area</th><th>Reason</th><th>Audit response</th></tr>
<tr><td>Recognition of program income

Refer to Notes 2 f. and 5 to the group financial statements for disclosures of related accounting policies and balances.</td><td>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.</td><td>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.</td></tr>
<tr><td>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.</td><td>Total net insurance contract provisions for the year end 31 December 2020 are £900.5m.

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.</td><td>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.</td></tr>
</table>

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 2020 Refer to Notes 2 c. and 29 to the group financial statements for disclosures of related accounting policies and balances.	The group completed 12 business combinations during the year end 31 December 2020, giving rise to goodwill on bargain purchase of £65.5m. 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the group and the insurance sector in which it operates to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, industry research and the application of our cumulative audit knowledge and experience of the insurance sector.

- We determined the principal laws and regulations relevant to the company in this regard to be those that relate to the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included the prudential and supervisory requirements of the regulatory bodies across the group.
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the company with those laws and regulations. These procedures included, but were not limited to, making enquiries of management and those responsible for legal and compliance matters. We also reviewed the correspondence between the company and regulatory bodies and reviewed the minutes of the Board and papers provided to the Audit Committee to identify any indications of non-compliance.
- Any instances of non-compliance with laws and regulations were communicated by/to components and considered in our audit approach, if applicable.
- We also identified possible risks of material misstatement of the financial statements due to fraud. We considered in addition to the no-rebuttable presumption of a risk of fraud arising from management override of controls, that there was potential for management bias in the reporting of events and transactions in the financial statements relating to the valuation of the insurance contract provisions. To address this, we challenged the assumptions and judgements made by management when auditing this significant accounting estimate.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to, the testing of journals and reviewing accounting estimates for evidence of bias and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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 Carmine Papa.

PKF Littlejohn LLP

PKF Littlejohn LLP
Chartered Accountants and Registered Auditor

15 Westferry Circus
Canary Wharf
London
E14 4HD

21 May 2021

Consolidated Income Statement

For the year ended 31 December 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000 restated
Gross premiums written		772,051		450,187	
Written premiums ceded to reinsurers		(405,170)		(285,033)	
Net written premiums			**366,881**		**165,154**
Change in provision for unearned premiums, gross		(75,556)		(94,315)	
Change in provision for unearned premiums, reinsurers' share		71,843		103,687	
Net change in provision for unearned premiums			(3,713)		9,372
Earned premium, net of reinsurance			**363,168**		**174,526**
Program fee revenue (earned)	6	14,438		7,241	
Gross investment income	7	22,243		21,993	
Other income	8	5,729		6,780	
			42,410		36,014
Total income			**405,578**		**210,540**
Gross claims paid		(210,764)		(183,438)	
Proceeds from commutations and reinsurers' share of gross claims paid		130,804		111,033	
Claims paid, net of reinsurance		(79,960)		(72,405)	
Movement in gross technical provisions		(347,870)		(125,978)	
Movement in reinsurers' share of technical provisions after adjusting for commutations		118,056		55,227	
Net change in provisions for claims		(229,814)		(70,751)	
Net claims provision increase			**(309,774)**		**(143,156)**
Operating expenses	9		(111,580)		(85,892)
Result of operating activities before goodwill on bargain purchase			**(15,776)**		**(18,508)**
Goodwill on bargain purchase	29		65,469		69,307
Amortisation and impairment of intangible assets	15		(11,047)		(3,162)
Share of profit of associates			1,314		–
Result of operating activities			**39,960**		**47,637**
Finance costs	10		(9,776)		(9,537)
Profit before income taxes	11		**30,184**		**38,100**
Income tax charge	12		(798)		(1,280)
Profit for the year			**29,386**		**36,820**
Attributable to:					
Shareholders of the parent			29,447		37,298
Non-controlling interests			(61)		(478)
			29,386		36,820

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

	Note	2020	2019
Earnings per share:			
Basic	13	13.6p	20.3p
Diluted	13	11.1p	20.3p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020	2019
	£000	£000
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Pension scheme actuarial losses	(583)	(1,698)
Deferred tax on pension scheme actuarial losses	258	51
	(325)	(1,647)
Items that may be subsequently reclassified to profit or loss:		
Exchange losses on consolidation	(10,284)	(8,147)
Other comprehensive income	(10,609)	(9,794)
Profit for the year	29,386	36,820
Total comprehensive income for the year	18,777	27,026
Attributable to:		
Shareholders of the parent	18,828	27,526
Non-controlling interests	(51)	(500)
Total comprehensive income for the year	18,777	27,026

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 2020

	Notes	Share capital £000	Share premium £000	Treasury shares £000	Convertible debt £000	Foreign currency translation reserve £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total £000
Year ended 31 December 2020										
At beginning of year		3,918	134,905	–	–	1,148	148,361	288,332	443	288,775
Profit for the year		–	–	–	–	–	29,447	29,447	(61)	29,386
Other comprehensive income										
Exchange losses on consolidation		–	–	–	–	(10,294)	–	(10,294)	10	(10,284)
Pension scheme actuarial losses		–	–	–	–	–	(583)	(583)	–	(583)
Deferred tax on pension scheme actuarial losses		–	–	–	–	–	258	258	–	258
Total other comprehensive income for the year		–	–			(10,294)	(325)	(10,619)	10	(10,609)
Total comprehensive income for the year		–	–	–		(10,294)	29,122	18,828	(51)	18,777
Transactions with owners										
Share based payments		–	11,345	–	–	–	–	11,345	–	11,345
Issue of shares	25	570	15,637	–	–	–	–	16,207	–	16,207
Issue of convertible debt		–	–	–	64,273	–	–	64,273	–	64,273
Purchase of shares		–	–	(150)	–	–	–	(150)	–	(150)
Issue of AD shares		8,523	(8,523)	–	–	–	–	–	–	–
Cancellation of AD shares	14	(8,523)	–	–	–	–	–	(8,523)	–	(8,523)
Non-controlling interest in subsidiary disposed		–	–	–	–	–	–	–	(769)	(769)
At end of year		4,488	153,364	(150)	64,273	(9,146)	177,483	390,312	(377)	389,935

	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 restated								
At beginning of year		2,520	51,135	9,273	112,710	175,638	349	175,987
Profit for the year		–	–	–	37,298	37,298	(478)	36,820
Other comprehensive income								
Exchange gains on consolidation		–	–	(8,125)	–	(8,125)	(22)	(8,147)
Pension scheme actuarial gains		–	–	–	(1,698)	(1,698)	–	(1,698)
Deferred tax on pension scheme actuarial gains		–	–	–	51	51	–	51
Total other comprehensive income for the year		–	–	(8,125)	(1,647)	(9,772)	(22)	(9,794)
Total comprehensive income for the year		–	–	(8,125)	35,651	27,526	(500)	27,026
Transactions with owners								
Share based payments		2	138	–	–	140	–	140
Issue of shares	25	1,396	102,047	–	–	103,443	–	103,443
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	1,148	148,361	288,332	443	288,775

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 2020

Company Number 47341	Notes	2020 £000	2019 £000
Assets			**restated**
Intangible assets	15	60,577	46,082
Investments in associates	18	33,387	–
Property, plant and equipment	16	1,533	969
Right of use assets	17	4,141	3,191
Investment properties	18a	1,350	1,480
Financial instruments			
– Investments (fair value through profit and loss)	18b	863,142	559,963
– Deposits with ceding undertakings	4b	132,947	19,504
Reinsurers' share of insurance liabilities	23	869,888	471,412
Deferred tax assets	24	4,227	4,008
Current tax assets	24	–	1,988
Insurance and other receivables	19	508,122	419,535
Cash and cash equivalents	20	267,829	252,741
Total assets		**2,747,143**	**1,780,873**
Liabilities			
Insurance contract provisions	23	1,770,402	1,072,208
Financial liabilities			
– Amounts owed to credit institutions	22	243,350	142,693
– Lease liabilities	22	4,979	3,210
– Deposits received from reinsurers		2,105	1,068
Deferred tax liabilities	24	13,259	9,465
Insurance and other payables	21	313,871	255,823
Current tax liabilities	24	1,918	294
Pension scheme obligations	27	7,324	7,337
Total liabilities		**2,357,208**	**1,492,098**
Equity			
Share capital	25	4,488	3,918
Share premium	25	153,364	134,905
Convertible debt	25	64,273	–
Treasury share reserve		(150)	–
Foreign currency translation reserve		(9,146)	1,148
Retained earnings		177,483	148,361
Attributable to equity holders of the parent		**390,312**	**288,332**
Non-controlling interests in subsidiary undertakings	30	(377)	443
Total equity		**389,935**	**288,775**
Total liabilities and equity		**2,747,143**	**1,780,873**

The Consolidated Financial Statements were approved by the Board of Directors on 21 May 2021 and were signed on its behalf by:

W L Spiegel **A K Quilter** **T S Solomon**

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 2020

	Notes	2020 £000	2019 £000
Cash flows from operating activities			**restated**
Profit for the year		29,386	36,820
Tax included in consolidated income statement		798	1,280
Finance costs	10	9,776	9,537
Depreciation and impairment	16 & 17	2,337	2,242
Share based payments	25	11,345	138
Share of profits of associates		(1,314)	–
Profit on divestment		(532)	–
Goodwill on bargain purchase	29	(65,469)	(69,307)
Amortisation and impairment of intangible assets	15	11,047	3,162
Fair value gain on financial assets		(4,361)	(6,602)
Loss on revaluation of investment property	18	130	40
Loss on disposal of property, plant and equipment		4	89
Contributions to pension plan		(795)	(1,400)
Loss on net assets of pension schemes		199	173
Increase in receivables		(83,511)	(145,830)
(Increase)/decrease in deposits with ceding undertakings		(114,614)	1,294
Increase in payables		17,953	72,220
Increase in net insurance technical provisions		233,527	61,379
Income taxes paid		–	(2,330)
Net cash from/(used in) operating activities		**45,906**	**(37,095)**
Cash flows from investing activities			
Purchase of property, plant and equipment	16	(1,039)	(958)
Proceeds from sale of property, plant and equipment	16	9	–
Purchase of intangible assets	15	(16)	(143)
Proceeds from sale of intangible assets		–	1,952
Proceeds from sale of financial assets		78,106	68,997
Purchase of financial assets		(284,058)	(94,364)
Proceeds from disposal of investment properties	18	–	361
Acquisition of subsidiary undertakings (offset by cash acquired)		22,801	(1,615)
Divestment (offset by cash disposed of)		(4,009)	–
Payments to acquire minority interest		–	(221)
Net cash used in investing activities		**(188,206)**	**(25,991)**
Cash flows from financing activities			
Repayment of borrowings		(44,138)	(34,966)
Proceeds from new borrowing arrangements		145,101	41,751
Interest and other finance costs paid	10	(9,776)	(9,537)
Cancellation of shares	14	(8,523)	(18,415)
Receipts from issue of shares		16,207	103,445
Receipts from issue of convertible debt		64,273	–
Purchase of treasury shares		(150)	–
Net cash from financing activities		**162,994**	**82,278**
Net increase in cash and cash equivalents		20,694	19,192
Cash and cash equivalents at beginning of year		252,741	236,923
Exchange losses on cash and cash equivalents		(5,606)	(3,374)
Cash and cash equivalents at end of year	20	**267,829**	**252,741**
Share of Syndicates' cash restricted funds		26,852	15,320
Other funds		240,977	237,421
Cash and cash equivalents at end of year		**267,829**	**252,741**

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 2020

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 21 May 2021.

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.

These Consolidated Financial Statements have been restated for a prior year adjustment relating to the finalisation of the fair value review of the 2019 acquisition of Sandell Re, which was reported as provisional, and has been adjusted in accordance with IFRS3. The impact of this is a reduction in the 2019 profit after tax of GBP2,025k.

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 2020.

IFRS 16 Amendments, Leases Covid-19 Related Rent Concessions. Lessees are provided with an exemption from assessing whether a Covid-19-related rent concession is a lease modification. The Group has not applied this exemption and the amendment has not had an impact on the Consolidated Financial Statements.

IFRS 3 Amendments, Business Combinations. The amendment is aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments provide further clarity on what constitutes an acquired business, and this clarification has not impacted the Group's recognition of acquired business in the year and has not had an impact on the Consolidated Financial Statements.

IFRS 9, IAS 39 and IFRS 7 Amendments, Interest Rate Benchmark Reform. The amendments deal specifically with interest rate hedge accounting and is the first phase of change relating to interest rate benchmark reform and the replacement of LIBOR. The Group has not been impacted by these amendments for hedge accounting but is undergoing review of internal and external contracts where LIBOR has been the interest rate reference point, ready for phase 2 which is effective 1 January 2021.

IAS 1 and IAS 8 Amendments, Definition of Material. The amendments clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards themselves. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Financial Statements have been prepared in accordance of this clarification.

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 Phase 2. (IASB effective date 1 January 2021).

Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets. (IASB effective date 1 January 2022).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

2. Accounting policies continued

a. Basis of preparation continued

IAS 1 Presentation of Financial Statements Amendments, Classification of Liabilities as Current or Non-current. (IASB effective date 1 January 2023).

IAS 8 Accounting Policies Amendments, Changes in Accounting Estimates and Errors. (IASB effective date 1 January 2023).

Of the upcoming accounting standards and amendments, IFRS 9 and IFRS 17 will result in major changes to accounting for insurance and investment transactions and on the Company's annual reported results, whilst having no effects on the fundamental economics of the insurance industry. Impact analysis in respect of these standards continues to be monitored and project plans are being implemented to deliver the changes to systems and accounting practices required to meet the effective date of 1 January 2023. A brief overview of these standards and the progress in implementation 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 accounting for financial instruments to supersede IAS 39 Financial Instruments: Recognition and Measurement. 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. Workstreams within the IFRS 17 Project are being developed to cater for the requirements of IFRS 9, ready for implementation on 1 January 2023.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Under IFRS 9, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost unless the entity applies the fair value option. All other financial assets, including equity investments are measured at their fair values at the end of subsequent accounting periods. Under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in the fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

IFRS 17 Insurance Contracts, published in May 2017, addresses recognition, measurement, presentation and disclosure for insurance contracts. The measurement approach is based on the following building blocks: (i) a current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfils its contracts; (ii) the effect of the time value of money; (iii) a risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and (iv) a contractual service margin which represents the unearned profit in a contract (that is recognised in net earnings as the insurer fulfils its performance obligations under the contracts). Estimates are required to be re-measured each reporting period. In addition, a simplified measurement approach is permitted for short-duration contracts in which the coverage period is approximately one year or less. The standard is effective for annual periods beginning on or after 1 January 2023. This new standard introduces significant changes to the statutory reporting of insurance entities that prepare financial statements according to IFRS, changing the presentation and measurement of insurance contracts, including the effect of technical reserves and reinsurance on the value of insurance contracts. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently being considered but these changes can be expected to, among other things, alter the timing of IFRS profit recognition, costs and distributable reserves and impact the Group's reported results of operations and financial position.

During 2019, the Group engaged with external consultants to carry out an operational gap analysis and implementation plan. In 2020 a financial impact assessment was carried out and a sub-ledger selection process finalised. The Group has a roadmap in place to mobilise an implementation program in 2021 which will include the provision of technical training on the main interpretations of the standard to all directors and relevant internal stakeholders, as well as the development of the sub-ledger system in conjunction with an external service provider and consultancy firm.

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 2020 and 2019. 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, Capita Managing Agency Limited and Vibe Syndicate Management 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 Syndicate 5678, and these Consolidated Financial Statements include 100% of the economic interest in these Syndicates. For Syndicate 1991, the Group provides 0.4% of the capacity on the 2018, 2019 and 2020 years of account. For Syndicate 3330, the Group provides 10% of the capacity 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 2021 and 2022 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.

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.

The Group's operations have not been materially impacted by the COVID-19 pandemic and it has continued to operate effectively during the period.

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 GBP, 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

2. Accounting policies continued

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.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

2. Accounting policies continued

l. Financial instruments continued

iii) Fair value measurement continued

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. Insurance receivables and payables are not discounted.

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 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.

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. This includes intangibles assets calculated by measuring the difference between the discounted and undiscounted fair value of net technical provisions acquired.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

2. Accounting policies continued

q. Employee Benefits continued

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.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

3. Estimation techniques, uncertainties and contingencies continued

Claims provisions continued

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 de-recognition of assets and liabilities in run-off

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

Defined benefit pension scheme

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

Litigation, mediation and arbitration

The Group in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectorial inquiries in the normal course of its business. The Directors do not believe that, in the aggregate, current litigation, governmental or sectorial inquiries and pending or threatened litigation or dispute is likely to have a material impact on the Group's financial position. However, if the outcome of any individual dispute differs substantially from expectation, there could be a material impact on the Group's profit or loss, financial position or cash flows in the year in which that impact is recognised.

Changes in foreign exchange rates

The Group's Consolidated Financial Statements are prepared in GBP. Therefore, fluctuations in exchange rates used to translate other currencies, particularly the Euro and US Dollar, into GBP 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 GBP 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 established a dedicated Investment Committee which has taken over responsibility from the former Group Capital and Investment Committee for setting and recommending to the Board a strategy for the management of the Group's investment assets owned or managed by companies within the Group within an acceptable level of risk as set out in the Group's Risk Management Framework. The investment of the Group's financial assets, except certain deposits with ceding undertakings, is managed by external investment managers, appointed by the Investment Committee. The 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 Investment Committee is also responsible for keeping under review the investment control procedures, monitoring and amending (where appropriate) the investment policies and oversight and reviewing the making of loans and guarantees between Group companies.

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

4. Management of insurance and financial risks continued

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

The investment allocation (including surplus cash) at 31 December 2020 and 2019 is shown below:

	2020	2019
	£000	£000
Government and government agencies	229,753	188,030
Corporate bonds	573,383	345,296
Equities	5,502	10,991
Cash-based investment funds	54,504	15,646
Cash and cash equivalents	267,829	252,741
	1,130,971	812,704
	%	%
Government and government agencies	20.3	23.1
Corporate bonds	50.7	42.5
Equities	0.5	1.4
Cash-based investment funds	4.8	1.9
Cash and cash equivalents	23.7	31.1
	100.0	100.0

Corporate bonds include asset backed mortgage obligations totalling GBP30,356k (2019: GBP10,914k).

Based on invested assets at external managers of GBP863,142k as at 31 December 2020 (2019: GBP559,963k), 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 2020 of GBP8,631k (2019: GBP5,600k).

(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.

2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Government and government agencies	229,401	352	–	229,753
Corporate bonds	547,035	26,348	–	573,383
Equities	5,282	220	–	5,502
Cash-based investment funds	–	54,504	–	54,504
Purchased reinsurance receivables (Note 19)	–	–	4,652	4,652
Total financial assets measured at fair value	**781,718**	**81,424**	**4,652**	**867,794**

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**

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:

	2020 £000	2019 £000
Opening balance	5,969	3,393
Total net gains/(losses) recognised in the Consolidated Income Statement	351	(93)
Acquisitions	–	3,528
Disposals	(1,506)	(692)
Exchange adjustments	(162)	(167)
Closing balance	4,652	5,969

Level 3 investments (purchased reinsurance receivables) have been valued using detailed models outlining the anticipated timing and amounts of future receipts. The net gains recognised in the Consolidated Income Statement in other income for the year amounted to GBP351k (2019: losses GBP93k). The Group purchased no further reinsurance receivables in 2020 (2019: GBP3,528k). 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 2020

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	857,640	166,940	152,052	123,273	119,974	295,401

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	0.13-10.00	0.13-8.25	0.10-7.88	0.14-9.75	0.37-9.00

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

Liquidity risk is managed by the 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

4. Management of insurance and financial risks continued

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

iii) Interest rate risk

Fixed income investments represent a significant proportion of the Group's assets and the 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 2020	A rated £000	B rated £000	Less than B £000	Other* £000	Exposures of less than GBP200k £000	Total £000
Deposits with ceding undertakings	96,010	6,716	–	29,771	450	132,947
Reinsurers' share of insurance liabilities	628,203	43,946	–	194,792	2,947	869,888
Receivables arising out of reinsurance contracts	140,890	9,856	–	43,687	661	195,094

As at 31 December 2019	A rated £000	B rated £000	Less than B £000	Other* £000	Exposures of less than GBP200k £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

* 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 2020	0–6 months %	6–12 months %	12–24 months %	> 24 months %
Percentage of receivables	50.7	8.8	11.0	29.5

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

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.

4. Management of insurance and financial risks continued

b. Credit risk continued

As at 31 December 2020	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	132,793	–	–	154	132,947
Reinsurers' share of insurance liabilities	789,231	–	–	80,657	869,888
Receivables arising out of reinsurance contracts	88,689	238	211	105,956	195,094

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

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

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

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

Capita, Vibe and Coverys are the Lloyd's Managing Agents which manage the Syndicates on which the Group participates. Capita, Vibe and Coverys 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 Capita, Vibe and Coverys 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 GBP 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

4. Management of insurance and financial risks continued

c. Currency risk continued

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

31 December 2020	Sterling £000	US Dollar £000	Euro £000	Total £000
Intangible assets	26,666	33,780	131	60,577
Reinsurers' share of insurance liabilities	527,336	323,498	19,054	869,888
Financial instruments	205,889	806,189	18,748	1,030,826
Insurance receivables	216,900	116,908	953	334,761
Cash and cash equivalents	133,048	133,719	1,062	267,829
Insurance liabilities and insurance payables	(1,054,791)	(874,817)	(39,302)	(1,968,910)
Deferred tax and pension scheme obligations	(3,036)	(17,439)	(108)	(20,583)
Trade and other (payables)/receivables	(66,163)	(110,775)	(7,138)	(184,076)
Total	(14,151)	411,063	(6,600)	390,312

31 December 2019	Sterling £000	US Dollar £000	Euro £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)	(75,047)	(6,331)	(110,586)
Total	6,426	288,156	(6,250)	288,332

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 2020		31 December 2019	
	Changes in variables	Impact on profit £000	Impact on equity* £000	Impact on profit £000	Impact on equity* £000
Euro weakening	10%	1,480	(149)	101	105
US Dollar weakening	10%	6,781	(37,225)	4,209	(28,965)
Euro strengthening	10%	(1,811)	181	(122)	(127)
US Dollar strengthening	10%	(8,289)	45,497	(5,144)	35,402

* 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.

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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 Accredited Speciality Insurance Company, and in Europe by Accredited Insurance (Europe) Limited, the Companies 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
2689	2021	70,700	50	Open
1991	2020	110,000	43	Open
1991	2019	126,750	50	Open
1991	2018	126,750	50	Closed
1110	2020	3,000	3,000	Open
1110	2019	3,000	3,000	Open
1110*	2017	280,000	280,000	Open
5678	2019	122,800	122,800	Open
5678	2018	114,100	114,100	Open
3330	2018	3,000	300	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, 1991, 5678 and 3330 are classified by Lloyd's as run-off Syndicates and their capacity shown above is reflective of this status. Syndicate 1110 is 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 2017.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

4. Management of insurance and financial risks continued

e. Insurance risk

(iv) Reserving risk continued

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

Gross	Group entities at 1 January 2017 £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	Entities acquired by the Group during 2020 £000
Gross claims at:					
1 January/acquisition	553,726	270,945	16,842	293,422	730,511
First year movement	(82,104)	(43,749)	(1,091)	(30,261)	(32,635)
Second year movement	(59,235)	(63,559)	(7,293)	(92,233)	
Third year movement	(47,365)	(27,341)	(1,729)		
Fourth year movement	(83,600)	(25,800)			
Gross provision at 31 December 2020	281,422	110,496	6,729	170,927	697,876
Gross claims at:					
1 January/acquisition	553,726	270,945	16,842	293,422	730,511
Exchange adjustments	(772)	(21,477)	(6,132)	(19,728)	(22,771)
Payments	(303,077)	(164,109)	(4,095)	(110,455)	(3,487)
Gross provision at 31 December 2020	(281,422)	(110,496)	(6,729)	(170,928)	(697,876)
(Deficit)/surplus to date	(31,545)	(25,137)	(114)	(7,689)	6,377

Net	Group entities at 1 January 2017 £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	Entities acquired by the Group during 2020 £000
Net claims at :					
1 January/acquisition	350,994	198,513	16,120	275,466	499,559
First year movement	(35,259)	(45,734)	(1,653)	(25,098)	(31,868)
Second year movement	(20,026)	(69,592)	(6,980)	(95,588)	
Third year movement	(18,790)	(27,516)	(1,382)		
Fourth year movement	(64,366)	(18,046)			
Net provision at 31 December 2020	212,553	37,625	6,104	154,781	468,190
Net claims at :					
1 January/acquisition	350,994	198,513	16,120	275,466	499,559
Exchange adjustments	6,013	(26,802)	(6,617)	(23,250)	(13,855)
Payments	(176,541)	(113,043)	(4,022)	(108,226)	(3,487)
Net position at 31 December 2020	(212,553)	(37,625)	(6,104)	(154,781)	(468,190)
Surplus/(deficit) to date	(32,088)	21,042	(623)	(10,790)	14,026

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.

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

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

Segmental results for the year ended 31 December 2020

	Note	Program Management £000	Legacy Insurance £000	Corporate/ Other £000	Total £000
Underwriting income	(i)	(2,365)	80,650	–	78,285
Fee income	(ii)	18,808	–	–	18,808
Investment income	(iii)	1,983	13,092	1,093	16,168
Gross Operating Income	(iv)	**18,426**	**93,742**	**1,093**	**113,261**
Fixed operating expenses	(v)	(15,795)	(55,621)	(16,409)	(87,825)
Interest expense		–	–	(9,392)	(9,392)
Pre-Tax Operating Profit	(vi)	**2,631**	**38,121**	**(24,708)**	**16,044**
Unearned program fee revenue	(vii)	(3,111)	–	–	(3,111)
Net intangibles	(viii)	–	15,479	–	15,479
Net unrealised and realised gains/(losses)		(296)	5,568	–	5,272
Non-core and exceptional items		–	–	(3,500)	(3,500)
Profit Before Tax		**(776)**	**59,168**	**28,208**	**30,184**
Segment assets		669,950	1,939,764	137,428	2,747,143
Segment liabilities		629,050	1,489,050	239,107	2,357,208

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

5. Segmental information continued

Segmental results for the year ended 31 December 2019

	Note	Program Management £000	Legacy Insurance £000	Corporate/ Other £000	Total £000
Underwriting income	(i)	(2,766)	66,300	–	63,534
Fee income	(ii)	9,976	–	–	9,976
Investment income	(iii)	1,975	9,600	821	12,396
Gross Operating Income	(iv)	**9,185**	**75,900**	**821**	**85,906**
Fixed operating expenses	(v)	(10,568)	(49,820)	(8,624)	(69,012)
Interest expense		–	–	(8,937)	(8,937)
Pre-Tax Operating Profit	(vi)	**(1,383)**	**26,080**	**(16,740)**	**7,957**
Unearned program fee revenue	(vii)	(2,766)	–	–	(2,766)
Net intangibles	(viii)	–	28,754	–	28,754
Net unrealised and realised gains/(losses)		2,272	7,283	–	9,555
Non-core and exceptional items		–	–	(5,400)	(5,400)
Profit Before Tax		**(1,877)**	**62,117**	**(22,140)**	**38,100**
Segment assets		441,444	1,215,626	123,803	1,780,873
Segment liabilities		429,144	908,299	154,655	1,492,098

Notes:

(i) Underwriting Income represents Legacy Insurance tangible day one gains and reserve development/savings, net of claims costs and brokerage commissions. Underwriting income also includes Program Management retained earned premiums, net of claims costs, acquisition costs, claims handling expenses and premium taxes/levies.

(ii) Fee Income represents Program Fee Revenue (ix) and earnings from minority stakes in MGAs.

(iii) Investment Income represents income arising on the investment portfolio excluding net realised and unrealised investment gains on fixed income and leased-based assets.

(iv) Gross Operating Income represents Pre-Tax Operating Profit before fixed operating expenses (v).

(v) Fixed operating expenses includes employment, legal, accommodation, information technology, Lloyd's Syndicate and other fixed expenses of ongoing operations, excluding non-core and exceptional items.

(vi) Pre-Tax Operating Profit is a measure of how the Group core businesses performed adjusted for unearned program fee revenue, intangibles created in Legacy acquisitions and net realised and unrealised investment gains on fixed income and lease-based assets.

(vii) Unearned program fee revenue represents the portion of program fee revenue (ix) which has not yet been earned on an IFRS basis.

(viii) Net intangibles is the aggregate movement of intangible assets arising on acquisitions in the year less the amortisation costs of existing intangible assets in the year.

(ix) Program fee revenue represents the fee revenue from insurance policies already bound (written), regardless of the length of the underlying policy period (earned). The Board believe Program fee revenue is a more appropriate measure of the revenue of the business during periods of high growth, due to a larger than normal gap between gross written and gross earned premium.

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

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5. Segmental information continued

Geographical analysis

As at 31 December 2020	UK £000	North America £000	Europe £000	Total £000
Gross assets	959,793	1,426,541	638,954	3,025,288
Intercompany eliminations	(85,746)	(145,282)	(47,117)	(278,145)
Segment assets	874,047	1,281,259	591,837	2,747,143
Gross liabilities	798,450	1,279,899	557,004	2,635,353
Intercompany eliminations	(114,520)	(157,308)	(6,317)	(278,145)
Segment liabilities	683,930	1,122,591	550,687	2,357,208
Revenue from external customers	124,791	227,263	53,524	405,578

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	1,099,281	411,178	1,803,635
Intercompany eliminations	(55,826)	(250,150)	(5,561)	(311,537)
Segment liabilities	237,350	849,131	405,617	1,492,098
Revenue from external customers	84,860	105,955	19,725	210,540

6. Program fee revenue

Program fees are reinsurance overriding commissions earned on quota share treaties which reinsure the Program business underwritten by Accredited Insurance (Europe) Limited in Europe, and Accredited Surety & Casualty Company Inc. in the USA.

Program fee revenue for Program Management represents the commission revenue from insurance policies already bound (written), regardless of the length of the underlying policy period (earned).

	2020 £000	2019 £000
Program fee revenue	17,467	9,976
Unearned Program fee revenue	(3,111)	(2,766)
Program fee revenue (earned)	14,356	7,210

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

7. Gross investment income

	2020	2019
	£000	£000
Investment income	17,882	15,391
Realised net (losses)/gains on financial assets	(3,536)	4,581
Unrealised gains on financial assets	7,897	2,021
	22,243	**21,993**

8. Other income

	2020	2019
	£000	£000
Income from contracts with customers		
Management fees	3,355	4,082
Income from other sources		
Insurance commissions	2,000	2,923
Interest expense on pension scheme deficit	(140)	(173)
Rental income from investment properties	163	41
Purchased reinsurance receivables	351	(93)
	5,729	**6,780**

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.

9. Operating expenses

	2020	2019
Continuing operations	£000	£000
Expenses of insurance company subsidiaries	41,306	22,895
Expenses of syndicate participations	5,774	9,344
Employee benefits	46,456	40,856
Other operating expenses	18,044	12,797
	111,580	**85,892**

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

Operating expenses have increased as a result of the organic and acquisitive growth of the Group's Program Management and Legacy Insurance segments in 2019 and 2020.

	2020	2019
Auditor remuneration	£000	£000
Fees payable to the Group's auditors for the audit of the parent company and its Consolidated Financial Statements	168	153
Fees payable for the audit of the Group's subsidiaries by:		
– Group auditors	654	504
– Other auditors	891	815
Other services under legislative requirements	150	131
Total	**1,863**	**1,603**

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

10. Finance costs

	2020	2019
Continuing operations	**£000**	**£000**
Bank loan and overdraft interest	2,515	4,455
Interest on lease liabilities	128	147
Subordinated debt interest	7,133	4,935
	9,776	**9,537**

11. Profit before income taxes

Profit before income taxes is stated after charging:

	2020	2019
	£000	**£000**
Employee benefits (Note 26)	46,456	40,856
Legacy acquisition costs (including aborted transactions)	3,504	3,169
Depreciation and impairment of fixed assets and right-of-use assets (Note 16 & 17)	2,337	2,242
Short-term and low value lease rental expenditure	93	57
Amortisation of pre contract costs	809	425
Amortisation and impairment of intangibles (Note 15)	11,047	3,162

12. Income tax charge

a. Analysis of charge in the year

	2020	2019
	£000	**£000**
Current tax		
Current year	–	–
Adjustments in respect of prior periods	(1,545)	3,870
Foreign tax	4,598	(6,176)
	3,053	(2,306)
Deferred tax		
Current year	(3,759)	4,389
Adjustments in respect of prior periods	1,504	1,672
Foreign tax	–	(2,475)
Income tax charge for the year	**798**	**1,280**

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

12. Income tax charge continued

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:

	2020 £000	2019 £000
Profit before income taxes	**30,184**	**38,100**
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	5,735	7,239
Income not taxable for tax purposes	(20,916)	(14,565)
Expenses not deductible for tax purposes	2,494	1,740
Deferred tax not recognised on capital allowances	(31)	43
Differences in taxation treatment	(28)	4,478
Unrelieved tax losses carried forward	15,565	6,631
Utilisation of brought forward losses	(150)	(72)
Deferred tax not recognised on foreign tax pool	–	303
Foreign tax	4,598	(8,651)
Tax rate differential	(6,428)	(1,408)
Adjustments in respect of previous years	(41)	5,542
Income tax charge for the year	**798**	**1,280**

c. Factors that may affect future tax charges

In addition to the recognised deferred tax asset, the Group has other trading losses of approximately GBP210,214k (2019: GBP118,263k) 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 GBP27,514k (2019: GBP27,514k).

In the Finance Bill 2021, it was announced that the main rate of UK corporation tax would increase to 25% from April 2023.

The Group's 2020 results are taxed at 19%.

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:

	2020	2019
	£000	£000
Profit for the year attributable to ordinary shareholders from:	29,447	37,298
	No. 000's	**No. 000's**
Shares in issue throughout the year	200,827	125,984
Weighted average number of ordinary shares issued in year	15,199	57,469
Weighted average number of ordinary shares	**216,026**	**183,453**
Basic earnings per ordinary share for:	**13.6p**	**20.3p**

13. Earnings and net assets per share continued

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:

	2020	2019
	£000	£000
Profit/(loss) for the year attributable to ordinary shareholders	29,447	37,298
	No. 000's	**No. 000's**
Weighted average number of ordinary shares issued in year	216,026	183,453
Dilution effect of options	49,772	–
	265,798	183,453
Diluted earnings per ordinary share:	**11.1p**	**20.3p**

c. Net asset value per share

	2020	2019
	£000	£000
Net assets attributable to equity shareholders as at 31 December	390,312	288,332
	No. 000's	**No. 000's**
Ordinary shares in issue as at 31 December	224,395	195,918
Less: shares held in treasury	(112)	–
	224,283	195,918
Net asset value per ordinary share	**174.0p**	**147.2p**

d. Diluted net asset value per share

	2020	2019
	£000	£000
Net assets attributable to equity shareholders as at 31 December	390,312	288,332
	No. 000's	**No. 000's**
Ordinary shares in issue as at 31 December	224,395	195,918
Less: shares held in treasury	(112)	–
Dilution effect of convertible shares	49,772	–
	274,055	195,918
Net asset value per ordinary share	**142.4p**	**147.2p**

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

14. Distributions

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

	2020 £000	2019 £000
Bonus share award (2019: distribution on cancellation of AB shares)	–	10,971
Distribution on cancellation of AD (2019: AC) shares	8,523	7,444
Total distributions to shareholders	**8,523**	**18,415**

2019 final distribution was completed by a bonus share award of 1 for every 22 shares held.

15. Intangible assets

	US state licences & customer contracts £000	Arising on acquisition £000	Goodwill £000	Other £000	Total £000
Cost					
As at 1 January 2019	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**
Exchange adjustments	(81)	(1,065)	(682)	(2)	(1,830)
Acquisition of subsidiaries	–	26,526	–	–	26,526
Additions	–	–	–	16	16
Disposals	(2,573)	(4,780)	–	–	(7,353)
As at 31 December 2020	**3,683**	**64,685**	**18,466**	**675**	**87,509**
Amortisation/impairment					
As at 1 January 2019	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**
Exchange adjustments	(1)	(165)	(662)	(2)	(830)
Charge for the year	2,574	7,681	714	78	11,047
Disposals	(2,573)	(4,780)	–	–	(7,353)
As at 31 December 2020	**–**	**8,817**	**17,633**	**482**	**26,932**
Carrying amount					
As at 31 December 2020	**3,683**	**55,868**	**833**	**193**	**60,577**
As at 31 December 2019	6,337	37,923	1,567	255	46,082

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.

Intangible assets arising on acquisition are calculated by measuring the difference between the discounted and undiscounted fair value of net technical provisions acquired. These intangible assets are amortised over the estimated pattern of run-off of the net technical provisions.

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.

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% (2019: 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 (2019: 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	£000
Cost					
As at 1 January 2019	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**
Exchange adjustments	(40)	–	(11)	(70)	(121)
Additions	89	–	778	172	1,039
Disposals	(184)	–	(238)	(77)	(499)
As at 31 December 2020	**1,044**	**18**	**1,601**	**1,206**	**3,869**
Depreciation					
As at 1 January 2019	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**
Exchange adjustments	(37)	–	(2)	(53)	(92)
Charge for the year	145	4	176	108	433
Disposals	(180)	–	(231)	(75)	(486)
As at 31 December 2020	**989**	**7**	**730**	**610**	**2,336**
Carrying amount					
As at 31 December 2020	**55**	**11**	**871**	**596**	**1,533**
As at 31 December 2019	118	15	285	551	969

As at 31 December 2020, the Group had no significant capital commitments (2019: none). The depreciation charge for the year is included in operating expenses.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

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
Depreciation charge for the year	(1,771)	(5)	(1,776)
Exchange adjustment	(94)	–	(94)
As at 31 December 2019	3,183	8	3,191
Depreciation charge for the year	(1,839)	(65)	(1,904)
Additions in the year	2,729	187	2,916
Exchange adjustment	(62)	–	(62)
As at 31 December 2020	**4,011**	**130**	**4,141**

The cost of leases with a rental period of less than 12 months or with a contract value of less than GBP4,000 was GBP93k for the year (2019: GBP57k) and is reflected within expenses in the Consolidated Income Statement.

18. Investment properties and financial assets

a. Investment properties

	2020 £000	2019 £000
As at 1 January	1,480	1,881
Decrease in fair value during the year	(130)	(40)
Disposal	–	(361)
As at 31 December	**1,350**	**1,480**

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

Rental income from the investment properties for the year was GBP163k (2019: GBP163k) 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)

	2020 £000	2019 £000
Equities	5,502	10,991
Debt and fixed interest securities	803,136	533,326
Cash-based investment funds	54,504	15,646
	863,142	**559,963**

Included in the above amounts are GBP38,388k (2019: GBP18,660k) pledged as part of the Funds at Lloyd's in support of the Group's underwriting activities. 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 GBP98,131k (2019: GBP90,100k) of funds withheld as collateral for certain of the Group's reinsurance contracts.

c. Shares in subsidiary and associate undertakings

The Company had interests in the following subsidiaries and associates at 31 December 2020:

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
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
Tradesman Program Managers, LLC	USA	–	35	35
Sandell Re Ltd. ^	Bermuda	–	100	100
Mondi Reinsurance Ltd*	Bermuda	–	100	100
R&Q Quest Management Services (Cayman) Limited	Cayman Island	–	100	100
Marillac Insurance Company, Ltd	Cayman Island	–	100	100
R&Q Re (Cayman) Ltd.	Cayman Island	–	100	100
R&Q Alpha Insurance Company SE -	Malta	–	100	51
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 Capital No. 8 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 Eta Company Limited	England and Wales	–	100	100
R&Q Gamma Company Limited	England and Wales	–	100	100
Inceptum Insurance 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 Overseas Holdings 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
The World Marine & General Insurance Company PLC	England and Wales	–	100	100
La Licorne Compagnie de Reassurances SA	France	–	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
R&Q Epsilon Insurance Company SE [	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
Accredited Speciality Insurance Company	USA	–	100	100
CMAL LLC }	USA	–	–	–

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

18. Investment properties and financial assets continued

c. Shares in subsidiary and associate undertakings continued

		% of ordinary shares held via:		
Principal activity and name of subsidiaries/associate	Country of incorporation/ registration	The Company	Subsidiary and associate undertakings	Overall effective % of share capital held
Excess and Treaty Management Corporation	USA	–	100	100
GLOBAL Reinsurance Corporation of America	USA	–	100	100
GLOBAL U.S. Holdings Incorporated	USA	–	100	100
Grafton US Holdings Inc.~	USA	–	100	100
ICDC Ltd	USA	–	100	100
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
Risk Transfer Underwriting Inc.	USA	–	100	80
RSI Solutions International Inc	USA	–	100	100
Transport Insurance Company	USA	–	100	100

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

* Merged into R&Q Re (Bermuda) Ltd. on 31 December 2020

+ Sold to Quest Bermuda Holdings Limited on 28 January 2021

^ Sold to Tradesman Program Managers LLC

~ Randall & Quilter America Holdings Inc increased its shareholding in Grafton US Holdings Inc. to 100% by acquiring the remaining 20% issued share capital on 31 July 2020

- Merged into Accredited Insurance (Europe) Limited on 30 March 2021

/ Sold to Stride Limited on 23 April 2021

{ Has a UK and an Italian Branch

} Membership interest held by R&Q Capital No.1 Limited

[Redomiciled to Malta on 16 March 2020

@Renamed on 6 May 2021. The Company was previously named Vibe Corporate Member Limited

19. Insurance and other receivables

	2020	2019
	£000	£000
Receivables arising from direct insurance operations	139,667	110,379
Receivables arising from reinsurance operations	195,094	212,234
Insurance receivables	334,761	322,613
Trade receivables/ Receivables arising from contracts with customers	2,298	4,097
Other receivables	96,587	49,933
Purchased reinsurance receivables	4,652	5,969
Prepayments and accrued income	69,824	36,923
	173,361	96,922
Total	**508,122**	**419,535**

The purchased reinsurance receivables balance is expected to be received after 12 months (2019: before 12 months GBP1,513k: after 12 months GBP4,456k).

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 USD190,000k 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 GBP63,932k (2019: GBP57,075k) 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 USA interest rate rises which have enhanced the amounts recoverable under the policies. The movement of GBP11,049k (2019: GBP14,100k) has been included in the GBP130,804k (2019: GBP111,033k) shown as proceeds from commutations and reinsurers' share of claims paid in the Consolidated Income Statement.

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 0.4% in total Group assets.

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

Prepayments and accrued income includes gross deferred acquisition costs which have increased in accordance with the growth of Program Management.

20. Cash and cash equivalents

	2020	2019
	£000	£000
Cash at bank and in hand	267,829	252,741

Included in cash and cash equivalents is GBP553k (2019: GBP574k) 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

	2020	2019
	£000	£000
Structured liabilities	380,484	400,910
Structured settlements	(380,484)	(400,910)
	–	–
Payables arising from reinsurance operations	163,565	118,528
Payables arising from direct insurance operations	32,838	66,271
Insurance payables	196,403	184,799
Trade payables	1,378	2,259
Other taxation and social security	10,678	1,633
Other payables	59,752	40,052
Accruals and deferred income	45,660	27,080
	117,468	71,024
Total	**313,871**	**255,823**

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

22. Financial liabilities

	2020 £000	2019 £000
Amounts owed to credit institutions	243,350	142,693
Lease liabilities	4,979	3,210
	248,329	**145,903**

Amounts due to credit institutions are payable as follows:

	2020 £000	2019 £000
Less than one year	51,000	37,651
Between one to five years	31,022	15,500
Over five years	161,328	89,542
	243,350	**142,693**

As outlined in Note 31, GBP63,000k (2019: GBP55,141k) 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.	USD70,000k	6.35% above USD LIBOR	2028
Randall & Quilter Investment Holdings Ltd.	USD125,000k	6.75% above USD LIBOR	2033
Accredited Insurance (Europe) Limited	EUR20,000k	6.7% above EURIBOR	2025
Accredited Insurance (Europe) Limited	EUR5,000k	6.7% above EURIBOR	2027
R&Q Re (Bermuda) Limited	USD20,000k	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 USD70,000k Notes issued by Randall & Quilter Investments Holding Ltd.

Lease liabilities maturity analysis – contractual undiscounted cash flows

	2020 £000	2019 £000
Less than one year	1,375	1,069
Between one to five years	3,801	2,058
Over five years	142	356
Total undiscounted lease liabilities at 31 December	**5,318**	**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.

	2020 £000	2019 £000
Balance at 1 January	142,693	140,243
Financing cash flows *	100,963	6,785
Non-cash exchange adjustment	(306)	(4,335)
Balance at 31 December	**243,350**	**142,693**

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

23. Insurance contract provisions and reinsurance balances

	2020			2019		
	Program Management £000	Legacy Insurance £000	Total £000	Program Management £000	Legacy Insurance £000	Total £000
Gross						
Insurance contract provisions at 1 January	299,273	772,935	1,072,208	107,304	591,774	699,078
Claims paid	(102,754)	(108,010)	(210,764)	(52,996)	(130,442)	(183,438)
Increases/(decreases) in provisions arising from the (disposal)/ acquisition of subsidiary undertakings and Syndicate participations	–	331,885	331,885	–	174,551	174,551
Increases in provisions arising from acquisition of reinsurance portfolios	–	286,750	286,750	–	132,234	132,234
Increase in claims provisions	239,116	32,768	271,884	144,051	33,131	177,182
Increase/(decrease) in unearned premium reserve	77,986	(2,430)	75,556	107,608	(13,293)	94,315
Net exchange differences	(10,669)	(46,448)	(57,117)	(6,694)	(15,020)	(21,714)
As at 31 December	**502,952**	**1,267,450**	**1,770,402**	**299,273**	**772,935**	**1,072,208**
Reinsurance						
Reinsurers' share of insurance contract provisions at 1 January	288,922	182,490	471,412	101,946	198,411	300,357
Proceeds from commutations and reinsurers' share of gross claims paid	(95,425)	(35,379)	(130,804)	(50,165)	(60,868)	(111,033)
Increases/(decreases) in provisions arising from the (disposal)/ acquisition of subsidiary undertakings and Syndicate participations	–	220,458	220,458	–	18,644	18,644
Increases in provisions arising from acquisition of reinsurance portfolios	–	1,092	1,092	–	–	–
Increase in claims provisions	226,408	21,360	247,768	137,775	28,485	166,260
Increase/(decrease) in unearned premium reserve	71,842	1	71,843	104,255	(568)	103,687
Net exchange differences	(10,055)	(1,826)	(11,881)	(4,889)	(1,614)	(6,503)
As at 31 December	**481,692**	**388,196**	**869,888**	**288,922**	**182,490**	**471,412**
Net						
Net insurance contract provisions at 1 January	10,351	590,445	600,796	5,358	393,363	398,721
Net claims paid	(7,329)	(72,631)	(79,960)	(2,831)	(69,574)	(72,405)
Increases/(decreases) in provisions arising from the (disposal)/ acquisition of subsidiary undertakings and Syndicate participations	–	111,427	111,427	–	155,907	155,907
Increases in provisions arising from acquisition of reinsurance portfolios	–	285,658	285,658	–	132,234	132,234
Increase/(decrease) in claims provisions	12,708	11,408	24,116	6,276	4,646	10,922
Increase/(decrease) in unearned premium reserve	6,144	(2,431)	3,713	3,353	(12,725)	(9,372)
Net exchange differences	(614)	(44,622)	(45,236)	(1,805)	(13,406)	(15,211)
As at 31 December	**21,260**	**879,254**	**900,514**	**10,351**	**590,445**	**600,796**

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

23. Insurance contract provisions and reinsurance balances continued

	2020			2019		
	Program Management £000	Legacy Insurance £000	Total £000	Program Management £000	Legacy Insurance £000	Total £000
Gross						
Claims reserves	257,847	1,267,085	1,524,932	128,286	745,425	873,711
Unearned premiums reserves	245,105	365	245,470	170,987	27,510	198,497
As at 31 December	**502,952**	**1,267,450**	**1,770,402**	**299,273**	**772,935**	**1,072,208**
Reinsurance						
Claims reserves	247,903	388,196	636,099	123,404	182,256	305,660
Unearned premiums reserves	233,789	–	233,789	165,518	234	165,752
As at 31 December	**481,692**	**388,196**	**869,888**	**288,922**	**182,490**	**471,412**
Net						
Claims reserves	9,944	878,889	888,833	4,882	563,169	568,051
Unearned premiums reserves	11,316	365	11,681	5,469	27,276	32,745
As at 31 December	**21,260**	**879,254**	**900,514**	**10,351**	**590,445**	**600,796**

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 GBP63,932k (2019: GBP57,075k) 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.

Other than as described above, insurance liabilities are not discounted.

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 GBP9,005k (2019: GBP6,008k).

24.Current and deferred tax

Current tax

	2020 £000	2019 £000
Current tax assets	–	1,988
Current tax liabilities	(1,918)	(294)
Net current tax assets/(liabilities)	**(1,918)**	**1,694**

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 19% for the UK (2019: 17%) and 21% for the US (2019: 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 2019	3,205	(3,449)	(244)
Movement in year	803	(6,016)	(5,213)
As at 31 December 2019	**4,008**	**(9,465)**	**(5,457)**
Movement in year	219	(3,794)	(3,575)
As at 31 December 2020	**4,227**	**(13,259)**	**(9,032)**

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 2019	(39)	10,031	1,167	(11,403)	(244)
Movement in year	1	5,129	80	(10,423)	(5,213)
As at 31 December 2019	**(38)**	**15,160**	**1,247**	**(21,826)**	**(5,457)**
Movement in year	–	(1,781)	144	(1,938)	(3,575)
As at 31 December 2020	**(38)**	**13,379**	**1,391**	**(23,765)**	**(9,032)**

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

24. Current and deferred tax continued

Deferred tax

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 2019	(1,678)	(3,586)	51	(5,213)
Movement in 2020	(6,088)	2,255	258	(3,575)

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

	2020 £000	2019 £000
Deferred tax assets – relating to trading losses		
Deferred tax assets to be recovered after more than 12 months	5,767	11,038
Deferred tax assets to be recovered within 12 months	7,612	4,122
Deferred tax assets	**13,379**	**15,160**

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 GBP13,379k (2019: GBP15,160k) 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	Treasury share reserve £000	Total £000
At 1 January 2019	**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**
Issue of ordinary shares	21,578,813	570	15,637	–	16,207
Share-based payments	6,898,903	–	11,345	–	11,345
Treasury	(111,525)	–	–	(150)	(150)
Issue of AD shares	222,563,380	8,523	(8,523)	–	–
Redemption/cancellation of AD shares	(222,563,380)	(8,523)	–	–	(8,523)
At 31 December 2020	**224,283,759**	**4,488**	**153,364**	**(150)**	**157,702**

During the year, the Group issued 11,902,318 ordinary shares at GBP1.35 per share.

During the year, a Group subsidiary issued 47,609,270 USD0.01 convertible preference shares for cash consideration of USD80,000k. These preference shares converted into ordinary share capital of the Company upon certain regulatory conditions being met on 21 January 2021. The convertible preference share are entirely accounted for within equity in accordance with IAS 32 as the conversion to ordinary share capital is at a fixed amount.

In the year, the Group commenced a share repurchase programme and purchased 111,525 of its ordinary shares for total consideration of GBP150k. These ordinary shares are held in treasury.

	2020 GBP	2019 GBP
Allotted, called up and fully paid		
224,283,759 ordinary shares of 2 pence each (2019: 195,917,568 ordinary shares of 2 pence each)	4,487,904	3,918,350
1 Preference A Share of GBP1	1	1
1 Preference B Share of GBP1	1	1
	4,487,906	**3,918,352**

	2020 GBP	2019 GBP
Included in equity		
224,283,759 ordinary shares of 2 pence each (2019: 195,917,568 ordinary shares of 2 pence each)	4,487,904	3,918,350
1 Preference A Share of GBP1	1	1
1 Preference B Share of GBP1	1	1
	4,487,906	**3,918,352**

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 USD5,000k.
- 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 USD10,000k.
- 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 AD shares (with an aggregate value of GBP8,523k) (2019: AB and AC shares (with an aggregate value of GBP18,415k) which were all cancelled.

26. Employees and Directors

Employee benefit expense for the Group during the year

	2020 £000	2019 £000
Wages and salaries	38,297	35,987
Social security costs	3,657	3,767
Pension costs	1,303	1,102
Share-based payment charge	3,199	–
	46,456	**40,856**

Pension costs are recognised in operating expenses in the Consolidated Income Statement and include GBP1,303k (2019: GBP1,102k) in respect of payments to defined contribution schemes.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

26. Employees and Directors continued

Average number of employees

	2020 Number	2019 Number
Program	71	55
Legacy	169	167
Other	40	37
	280	**259**

Remuneration of the Directors and key management

	2020 £000	2019 £000
Aggregate Director emoluments	9,565	5,368
Aggregate key management emoluments	3,318	2,061
Share-based payments – Directors	3,019	–
Share-based payments – Key management	65	169
Key management pension contributions	–	10
	15,967	**7,608**
Highest paid Director		
Aggregate emoluments	5,234	2,447

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	Share award cost £000	Total £000	Total USD000
K E Randall (resigned 31 March 2021)	769	1000	2,538	–	4,307	5,600
A K Quilter	525	600	927	–	2,052	–
W L Spiegel (appointed 10 January 2020)	1,124	166	1,153	2,791	5,234	6,805
T S Solomon (appointed 2 November 2020)	147	23	769	228	1,167	1,517
A H F Campbell	101	–	–	–	101	–
P A Barnes	88	–	–	–	88	115
J P Fox	87	–	–	–	87	–
E M Flanagan (appointed 1 June 2020)	49	–	–	–	49	–
Dr R Sellek (resigned 14 January 2020)	498	–	–	–	498	648

W L Spiegel, T S Solomon, K E Randall, Dr R Sellek and P A Barnes have been remunerated in US dollars.

Bonus payments relating to the reporting year are paid in the following 3 years being 50%, 25% and 25% annually, and reflect the performance of the Group and the individuals. The costs in the 2020 financial year represent the amounts paid in 2020 and provision for costs relating to the 2018, 2019 and 2020 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. Where contractual arrangements supersede the above policy the contractual arrangements are included.

During the year share awards were granted to W L Spiegel and T S Solomon, the shares are held in Escrow and have a three-year vesting period. The costs of issue are charged over the vesting period.

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

	2020 £000	2019 £000
Fair value of plan assets	27,811	26,003
Present value of funded obligations	(35,135)	(33,340)
Net defined benefit liability	(7,324)	(7,337)
Related deferred tax asset	1,392	1,247
Net position in the Consolidated Statement of Financial Position	**(5,932)**	**(6,090)**

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

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

	Present value of obligation £000	Fair value of plan assets £000	Deficit of funded plan £000
As at 31 December 2019	(33,340)	26,003	(7,337)
Interest (expense)/income	(647)	507	(140)
	(33,987)	26,510	(7,477)
Remeasurements:-			
Return on plan assets, excluding amounts included in interest expense	–	2,573	2,573
Loss from changes in financial assumptions	(3,115)	–	(3,115)
Loss from changes in demographic assumptions	(127)	–	(127)
Gain from new valuation data	–	–	–
Experience gain	86	–	86
Loss on curtailments	(23)	–	(23)
Past service cost	(36)	–	(36)
	(37,202)	29,083	(8,119)
Employer's contributions	–	795	795
Benefit payments from the plan	2,067	(2,067)	–
As at 31 December 2020	**(35,135)**	**27,811**	**(7,324)**

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

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)**

c. Significant actuarial assumptions

i) Financial assumptions

	2020	2019
Discount rate	1.35%	2.0%
RPI inflation assumption	3.0%	3.2%
CPI inflation assumption	2.7%	2.4%
Pension revaluation in deferment:		
– CPI, maximum 5%	2.7%	2.4%
Pension increases in payment:		
– RPI, maximum 5%	3.0%	3.2%

ii) Demographic assumptions

Assumed life expectancy in years, on retirement at 60

Assumed life expectancy in years, on retirement at 60	2020	2019
Retiring today		
– Males	26.2	26.0
– Females	28.7	28.1
Retiring in 20 years		
– Males	27.4	27.6
– Females	30.0	29.7

d. Sensitivity to assumptions

The results of the IAS 19 valuation at 31 December 2020 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 8.0%
Rate of inflation	Increase by 0.5%	Increase by 1.4%
Life expectancy	Increase by 1 year	Increase by 3.9%

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	2020 £000 Total	Level 1	Level 2	2019 £000 Total
Cash and cash equivalents	–	368	368	–	921	921
Investment funds:						
– equities	–	17,527	17,527	–	16,350	16,350
– bonds	–	2,805	2,805	–	2,950	2,950
– property	–	–	–	–	–	–
– liability driven	–	7,111	7,111	–	5,782	5,782
	–	**27,811**	**27,811**	**–**	**26,003**	**26,003**

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

f. Contributions and present value of defined benefit obligation

Funding levels are monitored on an annual basis. GBP795k contributions have been made directly into the scheme during 2020 (2019: GBP1,400k). A recovery plan has been agreed with the Trustees to reduce the plan deficit starting from 1 January 2020. GBP795k 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 were entitled to the following distributions during the year:-

	2020 £000	2019 £000
K E Randall and family	499	1,222
A K Quilter and family	119	328
W L Spiegel	64	–
T S Solomon	46	–
M G Smith	–	5

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

28. Related party transactions continued

Transactions with associate

On 10 September 2020 the Group invested in Tradesman Program Managers, LLC which is treated as an investment in associate. The Group receives income through its Program operations as detailed below.

	2020 £000
Written premium	103,677
Commissions	25,303
Funds due at year end	512

The summarised financial information of the amounts presented in the financial statements of the associate for the full year of the associate is as follows:

	2020 £000
Assets	14,464
Liabilities	14,025
Net assests	439
Revenue for the year	14,457
Profit for the year	10,097

29. Business combinations

Business combinations

The Group made 12 business combinations during 2020, 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
Vigneron	103	–	1,479	–	(1,041)	–	**541**	–	**541**
Anglo French	1,304	–	5,670	–	(5,670)	–	**1,304**	–	**1,304**
ICIICL	103	–	9,705	–	(2,342)	–	**7,466**	5,213	**2,253**
Citadel	4	3	1,042	(64)	(33)	(2)	**950**	740	**210**
Premier Temps	40	–	615	–	(402)	–	**253**	–	**253**
TAEP	512	–	3,465	–	(2,998)	(125)	**854**	–	**854**
Nations Builders	444	390	8,264	(984)	(5,291)	–	**2,823**	1,382	**1,441**
Vibe	17,924	80,784	168,314	(23,893)	(174,746)	(3,405)	**64,978**	20,500	**44,478**
Marillac	1,630	928	19,115	(381)	(13,873)	–	**7,419**	1,721	**5,698**
Mondi Re	780	–	15,419	–	(5,427)	–	**10,772**	8,277	**2,495**
Inceptum	3,658	973	20,364	(221)	(7,654)	(695)	**16,425**	12,100	**4,325**
WMG	24	41	12,908	(52)	(94)	(5)	**12,822**	11,205	**1,617**
	26,526	**83,119**	**266,360**	**(25,595)**	**(219,571)**	**(4,232)**	**126,607**	**61,138**	**65,469**

Gross deal contribution represents the net asset value acquired in excess of any consideration paid, gross of any transaction expenses or commissions.

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 2020:

Vigneron

On 22 January 2020, ICDC Ltd completed the acquisition of the entire issued ordinary shares of Vigneron Insurance Company Inc (Vigneron), a Montana, USA domiciled captive insurance company. Vigneron provided workers' compensation, auto and general liability coverage to affiliates from 2004 to 2018.

Anglo French

Effective 5 March 2020, the Group completed the Part VII transfer of policies underwritten by Anglo French Insurance Company Limited on or prior to 31 December 1969 to R&Q Gamma Company Limited. External costs incurred were GBP400k.

ICIICL

On 9 April 2020, RQIIH completed the acquisition of the entire issued share capital of ICI Insurance Company Limited (ICIICL), a Cayman domiciled captive insurance company. ICIICL's remaining liabilities relate to general liability and workers' compensation claims arising from policies written from 1974 to 2009. External costs incurred were GBP32k.

Citadel

On 16 June 2020, ICDC Ltd completed the acquisition of the entire issued ordinary shares of Citadel Assurance Company (Citadel), a Vermont, USA domiciled captive insurance company. Citadel provided workers' compensation, auto and general liability coverage from 2002 to 2015. External costs incurred were GBP12k. The Company subsequently merged into ICDC Ltd on 15 October 2020.

Premier Temps

On 1 September 2020, the Group completed the novation of policies from three Bermuda segregated cells, collectively known as Premier Temps, to a 100% owned segregated cell within R&Q Quest (SAC) limited. The policies provided for workers' compensation coverage for 2006-2008.

TAEP

On 30 September 2020, the Group completed the novation of policies from The Texas Alliance of Energy Works Compensation Self-Insured Group Trust (TAEP) to Accredited Surety & Casualty Company, Inc (ASC). The policies provided workers' compensation coverage from 2005 to 2011.

Nations Builders

On 31 July 2020, the ICDC Ltd completed the acquisition of NationsBuilders Insurance Company (Nations Builders), a Washington D.C. domiciled captive insurance company. Nations Builders provided commercial auto liability, general liability and workers' compensation coverage from 2006 to 2019.

Vibe

On 23 December 2020, the Group completed the acquisition of Vibe Corporate Member Limited (Vibe). Vibe is the sole member of Syndicate 5678, which ceased underwriting at the end of 2019 and was placed into run-off. Syndicate 5678 was established in 2007 to underwrite legacy business and completed 22 Reinsurance to close contracts (RITCs) which cover years 1993 to 2003. The Group has also agreed, subject to regulatory approval, to acquire Vibe Services Management Limited and Vibe Syndicate Management Limited. External costs incurred were GBP235k. The Company was subsequently renamed R&Q Capital No. 8 Limited on 6 May 2021.

Marillac

On 23 December 2020, the Group completed the acquisition of Marillac Insurance Company, Ltd (Marillac), a Cayman domiciled captive insurance company. Marillac provided workers' compensation and professional and general liability coverage to its parent from 2002 to 2020. External costs incurred were GBP45k.

Mondi Re

On 29 December 2020, the Group completed the acquisition of Mondi Reinsurance, Ltd (Mondi), a Bermuda domiciled captive insurance company. Mondi provided freight forwarder's liability and commercial general liability covered from 2004 to 2019. Subsequent to the acquisition, on 31 December 2020, Mondi was merged into R&Q Re (Bermuda) Ltd with R&Q Re (Bermuda) Ltd being the surviving entity.

Inceptum

On 31 December 2020, the Group completed the acquisition of Inceptum Insurance Company Limited (Inceptum), an insurance company domiciled in England & Wales. Inceptum provided UK motor coverage from 1996 to 2009 when it was placed into run-off. External costs incurred were GBP78k.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2020

29. Business combinations continued

WMG

On 31 December 2020, the Group completed the acquisition of The World Marine & General Insurance Plc (WMG), an insurance company domiciled in England & Wales, from BHP Group Limited. From 1987 to 2001 WMG operated as a captive insurer and wrote a mix of property and casualty business on both a direct and reinsurance basis. WMG also has some historical exposures from 1973 to 1982 and a pre-1973 book which is fully indemnified.

30. Non-controlling interests

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

31 December 2019	2020 £000	2019 £000
Non-controlling interests		
Equity shares in subsidiaries	3	3
Share of retained earnings	(380)	380
Share of other reserves	–	60
	(377)	443
Movements in the year		
Balance at 1 January	443	349
Profit for the year attributable to non-controlling interests	(61)	(478)
Exchange adjustments	10	(22)
Comprehensive profit attributable to non-controlling interests	(51)	(500)
Changes in non-controlling interest in subsidiaries	(769)	594
Balance at 31 December	**(377)**	**443**

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 2020 was GBP63,000k (2019: GBP55,141k).

The Group also gives various other 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:

	2020		2019	
	Average	Year end	Average	Year end
USD	1.28	1.36	1.28	1.31
EUR	1.13	1.11	1.14	1.17

33. Events after the reporting date

As disclosed in note 25, 47,609,270 USD0.01 convertible preference shares issued by a Group subsidiary converted into ordinary share capital of the Company on 21 January 2021.

On 31 March 2021, K E Randall retired from his role as Executive Chairman with W L Spiegel succeeding him in the role. Mr Randall also stepped down as a Director of the Company on the same date.

On 23 April 2021 R&Q Commercial Risk Services Limited was sold to Stride Limited.

On 13 May 2021, Randall & Quilter II Holdings Limited completed the acquisition of Electric Insurance Ireland Designated Activity Company, an insurance undertaking incorporated in Ireland.

34. Ultimate controlling party

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

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