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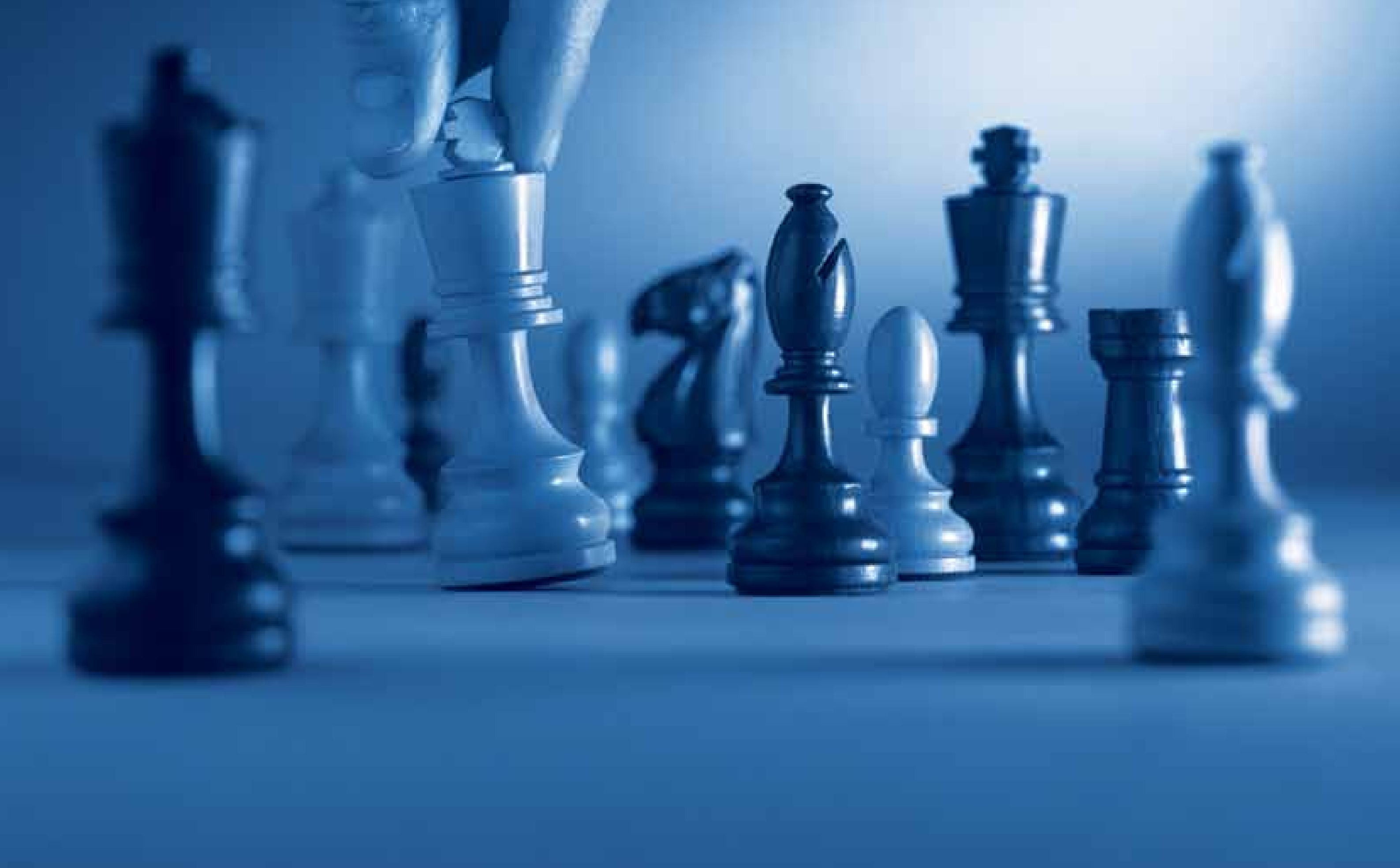
Annual Report and Financial Statements
Randall & Quilter Investment Holdings plc

31 December 2012

Annual Report and Financial Statements

For the year ended 31 December 2012



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Highlights and Summary of Results

For the year ended 31 December 2012

SUMMARY OF RESULTS	2012 £000	2011 £000
GROUP RESULTS		
Operating profit	11,537[1]	9,392[2]
Profit on ordinary activities before income taxes	10,728[1]	8,801[2]
Profit/(loss) after tax	10,101[1]	(488)
Earnings Per Share (Basic)	20.4p	(0.9)p
Net Tangible Assets per Share	114.4p	107.3p
DIVISIONAL PERFORMANCE		
Insurance Investments Division Operating Profit	9,923[1]	8,317[2]
Insurance Services Division Operating Profit	10,264	5,751
Underwriting Management Division Operating Loss	(1,456)	(1,113)

[1] After deduction of Minority Interests
[2] Prior to goodwill write-off

Chairman's Statement and Business Review

For the year ended 31 December 2012

The Group has delivered strong income and profit growth during 2012 whilst achieving important operational milestones, including the establishment of its own specialist active Lloyd's syndicate and the expansion of its investing activities into areas such as discontinued captives. These operational developments, together with the formation in Malta of a new insurance company consolidation vehicle for our EEA based run-off insurers, provide the Group with significant new growth opportunities and we are therefore delighted to announce today a successful placing of new ordinary shares, raising £24.1m, net of expenses, subject to shareholder approval. The new capital raised will be used to finance the Group's growing Lloyd's syndicate participations, the acquisition of additional legacy insurance companies, captives and insurance portfolios in run-off and insurance debt. Further details are included in the accompanying announcement relating to the proposed placing and in the circular which is being sent to shareholders on 25 April 2013.

It is proposed to redomicile the parent company to Bermuda in July through a UK Court approved Scheme of Arrangement, which will result in the new parent company being readmitted to AIM and shareholders receiving equivalent number of shares in the new Bermudian company. The Scheme and readmission are subject to shareholder approval. A circular detailing the proposals, together with a document required by the AIM rules providing detail on the new Group and its structure will be sent to shareholders on 18 May 2013. The redomicile is being proposed for regulatory, operational and commercial reasons. In particular, the move to Bermuda will alleviate uncertainty as regards the timing and nature of future regulatory capital requirements for the Group in the context of the continuing delays in the implementation of Solvency II in the UK and the rest of the EEA. The new parent company intends to maintain its tax domicile in the UK.

The strong 2012 pre-tax profits1 of £10.7m were due primarily to: (i) the excellent results from the run-off syndicates and UK insurance companies together with higher than anticipated investment income in the Insurance Investments Division; and (ii) the beneficial impact of an exceptional level of credit write-backs predominantly from certain US operations. Whilst the Underwriting Management Division produced an operating loss during the year, a significant portion of this loss was attributable to now discontinued activities and on-going investment. The launch of Syndicate 1991 brings both scale and exciting growth potential to the division and the wider Group and represents a significant broadening of operations.

The Group has delivered strong income and profit growth during 2012 whilst achieving important operational milestones, including the establishment of its own specialist active Lloyd's syndicate and the expansion of its investing activities into areas such as discontinued captives.

Distributions of 8.4p per share for the year were broadly in line with our former distribution policy (2011: 8.1p). In the light of the proposed placing and the substantial investment opportunities open to the Group, we have decided to amend slightly our distribution policy from the current year by maintaining the target distribution level at 8.4p per share for 2013. Thereafter we will adopt a standard progressive distribution policy, which will reflect the Group's financial performance, rather than committing to future distribution growth of at least 5% p.a.

Net tangible assets per share grew by 6.6% to 114.4p even after significant cash distributions to shareholders during the year.

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For the year ended 31 December 2012

DIVISIONAL PERFORMANCE

Insurance Investments Division

The Insurance Investments Division produced an excellent result for the year, driven by a strong performance in the run-off syndicates and R&Q Re (UK) from successful commutation activity and reserve redundancy. Investment income was also much higher than anticipated following capital gains arising from credit spread tightening, especially in the structured securities and high yield parts of the portfolio. The evidence of a pick-up in asbestos related claims in the US, which we have commented on for some time, resulted in a reversal of the first half reserve releases in R&Q Re (US) but the impact was relatively contained given substantial reinsurance coverage. The resolution of the legal disputes with the ACE Group during the latter part of the year as regards R&Q Re (US) also removed a significant source of uncertainty.

Once again, we managed to extract a significant amount of capital from the Group's legacy insurance assets with £8m of dividends and capital reductions during the year across the owned insurance companies and discontinued captives.

Having assumed a reinsurance to close of the open years of former Syndicate 1208, the acquisition of 5 captives (in Guernsey and Barbados), a Finnish reinsurance company in run-off and 10 new insurance receivable positions, 2012 was one of the most active years for the Group's legacy acquisition activity for some time. 2013 has already seen two new transactions relating to discontinued captives and the acquisition pipeline remains very strong. We are currently progressing a number of new opportunities to acquire attractively priced insurance companies, captives and portfolios in run-off in a variety of domiciles, some of which are more substantial in size than recently announced transactions. We are also pleased to have successfully received in principle approval to establish a new insurance company consolidator for our EEA run-off portfolios in Malta in recent weeks. This should optimise the capital and operational efficiency of the division, provide enhanced regulatory access and act as a superior fully licensed vehicle to merge in, portfolio transfer and reinsure other third party legacy business in a less onerous manner than before.

Insurance Services Division

A solid performance from the core insurance services business was significantly enhanced by exceptional levels of credit write backs predominantly from certain US operations. The captive management operations now incorporated into this division also performed strongly in the year, following the recent investment and product expansion. The UK business continued to expand its range of contracted services to certain large insurance groups with the niche credit control, broker-wrap products and the provision of a full back office service to live businesses in particular gaining further traction. Our US third party business won some new consultancy contracts during 2012, whilst there has been active cost management designed to improve future operating margins.

Underwriting Management Division

The Underwriting Management Division, which we view as a significant engine for future growth, again generated an operating loss, mainly arising from the substantial closure costs of the now discontinued Canadian MGA. Certain of the Group's other coverholders also grew premium at a lower rate than anticipated, mainly through capacity related and distribution issues which have now been resolved. The year also bore substantial costs associated with Solvency II and the scaling up of the division's operations.

Following the significant restructuring and investment in the division, the outlook is highly encouraging. A substantial organic growth opportunity exists from Syndicate 1991, a new specialist property and liability syndicate successfully launched by the Group from 1 January 2013. This syndicate accepts business on an exclusive basis from a highly selective number of coverholders and is headed up by an experienced underwriting team, formerly with Axis Capital. The launch of the syndicate, backed with a mixture of our own, traditional Lloyd's Names and industry capital, has given the division's Lloyd's managing agency operations both scale and prominence.

The turnkey market is also more active as Lloyd's appears receptive once again, following its Solvency II preparations, to support new syndicates provided they have high quality and accretive underwriting plans. This change of attitude by Lloyd's should bring further opportunities to expand out the number of syndicates managed by the Group with consequential revenue and profit growth potential.

Outlook

We have invested very heavily in the development of the Underwriting Management Division over the last three years; 2013 should see the Division move firmly into profit. The business is well positioned to benefit from the substantial growth opportunities offered by the expansion of newly launched Syndicate 1991 and from the management of new third party syndicates wishing to use the Lloyd's platform.

Furthermore, the Group has an exciting pipeline of attractive acquisition opportunities. The proceeds from the proposed placing, together with our innovation and improved infrastructure following the establishment of the EEA insurance company consolidation vehicle in Malta should ensure we are able to turn a number of these opportunities into completed transactions and continue to monetise our existing assets.

The service business should benefit from the focus we have placed on improving operational efficiency and our niche offering. Expansion into the active market is also expected to compensate for the relative scarcity of traditional large run-off service opportunities. Our captive management business is growing steadily and we remain focused on continuing to develop the platform in line with the healthy pipeline of opportunities.

The proposed redomicile of the Group's parent to Bermuda should greatly alleviate the regulatory uncertainties faced by the Group following the further delays in solvency legislation in Europe and assist long term planning and capital allocation. It also provides the Group with a base in a premier insurance domicile with excellent access to the US markets. The move should present new business opportunities through improved access to the Bermuda and US markets, especially in the growing Insurance Linked Securities ('ILS') market. R&Q intends to maintain the tax residency of the parent company in the UK following the move.

The global investment markets remain challenging with ultra low interest rates persisting and ever tightening credit spreads but we remain pro-active in ensuring that our portfolios are well diversified and optimised in terms of risk-reward.

Overall, we look forward to the future with confidence.

DETAILED BUSINESS REVIEW

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

Insurance Investments Division

This division is engaged in the following activities:

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

	2012 £000	2011 £000
Net Earned Premium[1]	996	(156)
Net Investment Income[1]	12,550	6,239
Debt Purchase (RQLM) Income	621	803
Other Income	460	-
Net Insurance claims released[1]	5,807	11,531
Operating Expenses	(19,284)	(13,335)
Goodwill on bargain purchase	1,992	1,541
Insurance Companies operating result[2]	**3,142**	**6,623**
Net Earned Premium (Syndicates)[3]	2,887	496
Syndicates operating result[3]	**6,781**	**1,694**
Total Divisional Operating Result[2,3]	9,923	8,317

[1] Insurance companies only (ie excludes Syndicates)

[2] Excludes goodwill impairment

[3] After deduction of Minority Interests relating to Syndicate 3330

The Insurance Investment Division's performance was very strong in the year, producing an operating profit of £9.9m[3] (2011: £8.3m[2]).

Investment income of £12.6m for the insurance companies represented a 5.9% return (2011: £5.4m, 2.5%), which was outstanding and largely achieved by careful portfolio positioning in credit, where spreads tightened significantly. A more detailed analysis of performance and holdings is provided overleaf.

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RQLM's income, which is mostly related to the acquisition and management of claims against insolvent insurance companies, was £0.6m, representing our gross profit on the dividends we received on a number of our existing insurance debt positions. As a result, the carrying value (at cost) of insurance debt at the year end was down slightly at £6.6m, after additional small claims purchases during the year. The pipeline for new acquisitions continues to look positive both from estates where we currently hold positions and from new maturing estates. We also expect a significant portion of the current portfolio to run-off during 2013, bringing a strong income and profit contribution to the division.

At 31 December 2012, the owned run-off insurance company portfolio was as follows:

	Vendor	Country of Incorporation	Acquisition Date	NAV* £m (as at 31/12/12)	NAV* £m (as at 31/12/11)
La Metropole SA	Travelers Group	Belgium	29 Nov 2000	0.2	0.3
Transport Insurance Company	American Financial Group	USA	30 Nov 2004	7.1	8.1
R&Q Reinsurance Company (UK) Limited	Ace Group	UK	3 July 2006	18.4	11.9
R&Q Reinsurance Company (Belgium)	Ace Group	Belgium	3 July 2006	2.8	2.9
R&Q Reinsurance Company (US)	Ace Group	USA	3 July 2006	15.3	16.8
Chevanstell Limited	Trygg Forsikring	UK	10 Nov 2006	28.8**	30.7
R&Q Insurance (Guernsey) Limited	Deloitte LLP, Administrators for Woolworths Group plc	Guernsey	9 June 2009	2.0**	1.9
Goldstreet Insurance Company	Sequa Corporation & Columbia Insurance Company	US	14 Dec 2009	3.7	4.1
La Licorne S.A.	MAAF Assurances	France	22 Apr 2010	1.1**	2.9**
Principle Insurance Company	PICH Ltd	UK	29 Dec 2011	5.9	5.9
Capstan	Roger and Elizabeth Bullivant	Guernsey	1 Nov 2012	1.0**	-
LINPAC	LINPAC Finance Limited	Guernsey	21 Dec 2012	0.3**	-
Alma	Tapiola General	Finland	27 Dec 2012	4.7	-
TOTAL				**85.5**	**73.0**

*IFRS basis for Group consolidation purposes

** After £2m capital extraction during the year

We managed to successfully extract c.£8m of capital from the Group's owned insurance companies during the year, from Chevanstell, R&Q (Guernsey) and a number of the captives we acquired in the period. The net assets of the 13 owned insurance companies at 31 December 2012 was £91.3m, against £85.5m as at 31 December 2011.

The reserve releases were the result of a combination of significant commutation activity and other reserve redundancies, primarily in the UK companies. There were further releases from a number of the smaller owned portfolios, including R&Q Insurance (Guernsey), R&Q Re (Belgium) and Goldstreet where there was commutation activity and general IBNR release. In R&Q Re (UK), the significant net claims release arose predominantly as a result of a large commutation which generated savings on held reserves in the marine, asbestosis and general books of business. The effect of this commutation was to reduce the company's reserves by c.60%. In Chevanstell, there were continuing improvements to the incurred claims position over a number of different classes with a good overall net claims release.

The pick-up in asbestos related claims in the US, which we have commented on for some time, resulted in a significant gross and net reserve strengthening in R&Q Re (US). However, the net impact on the Group was mitigated by a recovery that is now triggered under the surplus maintenance reinsurance agreement with ACE. The resolution of the various disputes with the ACE group in respect of R&Q Re (US) has also eliminated an area of uncertainty for the Group. Our active claims management in this company continued with the settlement of over $43m of gross claims during the year. We have also made good progress on the reinsurance collections following significant recent claims settlement activity.

We believe that further commutation and settlement activity, particularly in our non US portfolios should produce additional releases in 2013 and that the substantial asbestos related reserve strengthening in R&Q Re (US) should prove adequate or be strongly mitigated by the company's extensive reinsurance programme and the surplus maintenance reinsurance.

Operating expenses rose considerably during the year as a result of: (i) the establishment of the new intermediate holding company for the division and the transfer into it of the costs of the acquisition team, including their annual bonuses and options; (ii) the substantial legal costs incurred in the US companies relating to specific claims disputes and the recent ACE settlement, (iii) the higher expenses associated with the expanded syndicate participations (s.3330) and new company and captive acquisitions; and (iv) the additional expenses relating to special claims projects in certain of the owned insurance companies.

There was 'goodwill on bargain purchase' of £2m during the year relating to the acquisitions of Capstan, RAB and Linpac (Guernsey captives in run-off now all amalgamated into Capstan, collapsing the operating expenses and potentially leading to further NAV releases and reserve savings), Northern Foods (a Guernsey captive in run-off now amalgamated into R&Q Insurance (Guernsey)) and Alma Insurance (a Finnish reinsurer in run-off, which we are expecting to be able to transfer to our new EEA run-off consolidation vehicle in Malta, reducing the required incremental solvency margin and effecting potential reserve redundancies). Trimac (a now wound-up Barbados captive, the business of which has been transferred to our Bermudian cell company) was also completed during the year but the small discount to net assets was treated as income due to the transaction structure.

This significant number of deals is proof of our ability to convert the strong acquisition pipeline which we have been referring to for some time. In particular, our captive exit solutions have attracted much interest, especially in the Guernsey market where we have seen a significant number of new opportunities, but potentially in other domiciles such as Bermuda and the Cayman Islands. We are also pursuing opportunities to acquire insurance companies in run-off, legacy opportunities in Lloyd's including partial account reinsurances, syndicate RITCs and acquisitions or capital replacement of third party corporate members supporting open years. We are in negotiations on a number of European acquisitions and the creation of our new insurance company consolidatior in Malta for our EEA run-off insurers will create an improved execution platform and significantly help to unlock capital. Through our proposed move to Bermuda we are exploring an opportunity to enter the Insurance Linked Securities market ("collateralised insurance contracts supported by capital markets investors") where we believe we can provide attractive exit solutions to capital market investors looking for liquidity in the event of a claim. We are currently working with a potential new ILS fund in Bermuda to offer exits/liquidity to investors in the event of a claim.

The overall result from our three syndicate participations (the 8.3% line on turnkey Syndicate 1897, the 20% line on RITC Syndicate 102 and the effective 55% line on RITC Syndicate 3330) was excellent with an operating profit of over £5.2m (2011: £1.7m). Our participation on run-off Syndicate 3330 (which reinsured the former open years of 1208 Syndicate) was especially strong following the partial release of the risk premium as well as specific reserve savings, especially relating to World Trade Center claims. There was also a good contribution from run-off Syndicate 102, mostly relating to recoveries on certain viatical claims which we had been pursuing through the US legal system for some time. Our share of turnkey Syndicate 1897 produced a loss as the syndicate had a small number of significant marine and energy losses and a subdued level of earned premium during the period. Our increased syndicate participations required the Group to put up c.£11m of

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'Funds-at-Lloyd's' during 2012, which increased further to over £20m for the 2013 underwriting year to support our 22.8% participation on our new active syndicate, with total capacity of £77m. Our 'Funds-at-Lloyd's' requirements are significantly lowered due to the diversity credits which we gain from partially non-correlating participations on active and run-off syndicates. As is customary under insurance annual accounting, we do not anticipate generating profits in the 2013 calendar year on this start-up syndicate participation due to the natural lag in recognition of earned premium but from 2014 and especially for 2015, we expect strong returns in line with the underwriting team's historic track record.

Operationally, we are pleased to have received the in principle licence to establish an insurance company consolidator in Malta, into which we intend to merge and portfolio transfer, subject to regulatory approval, certain of our EEA insurance company run-offs during the next 12 months beginning with Chevanstell through a UK Court sanctioned Part VII transfer and Alma, the recently acquired Finnish portfolio. Establishing this company will help operational and capital efficiency. Furthermore, we will have a better capitalised vehicle with on-going licences and good regulatory access to bring in future run-off portfolios from third party insurers in the EEA.

Investment Income

Investment income of £12.6m (representing a return of 5.9%) from the insurance company portfolios and 'Funds-at-Lloyd's' was an excellent result and achieved during a period when we implemented investment strategies to reduce interest rate duration significantly and increase asset diversification. We also generated £0.8m of investment income relating to our syndicate participations.

A substantial part of the return came from capital gains from the portfolio's debt securities, especially the structured products such as UK/ Dutch Residential Mortgage Backed Securities. The high yield corporate bond and senior secured loans funds and high yielding equities also performed well. The Group further benefited from the realisation of all of its bank perpetuals at prices above the year end 2011 values.

Overall the duration of the investment portfolio is now under one year given that a significant portion of the assets are now invested in floating rate securities.

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

The Group's running investment yield at year end was c.2.5% but subsequent portfolio repositioning has brought this back towards 3%. Whilst we have mitigated interest rate risk substantially through portfolio restructuring, we are still exposed to credit spread movements. We have however kept maturities short in the main and increased asset diversification to lessen the potential impact of this volatility. The 2013 year to date performance has been encouraging once again with capital gains adding to overall returns.

The overall Group insurance company* investment allocation by asset class at 31 December 2012 was as follows:

Asset Class	Share of Total Portfolio
ABS (almost exclusively Residential Mortgage Backed Securities)	23%
Group Loans	18%
CLOs (US)	15%
Corporate Bonds	12%
Cash	7%
US Treasuries	6%
Equities	5%
High Yield funds	5%
US Municipals	3%
Shariah Cash Deposits	3%
Other	2%
Money Market Funds	1%

*excludes syndicates

Invested funds totalled £212m equivalent, comprising of US$233m, £49m, €16m and Aus$5m. The non-sterling assets matched the currencies of the net insurance liabilities.

The credit rating of the debt securities held by the Group at 31 December 2012 was as follows:

	Share of Total Portfolio
AAA	17%
AA	38%
A	39%
BB	6%

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For the year ended 31 December 2012

Insurance Services Division

The Insurance Services Division's activities include:

- Claims management
- Reinsurance management
- Broker services (eg broker replacement and run-off, active back office support)
- Premium credit control, bordereau management & broker performance monitoring
- Captive and cell management for corporates and risk-retention groups
- Audit & inspection of delegated underwriting facilities (for coverholders)
- Accounting services
- Compliance & company secretarial services

As well as providing full scale claims and reinsurance management services to the Group's owned company portfolios and managed syndicates, the Group offers a broad range of specialist insurance services to a wide range of clients in both the legacy and active insurance markets.

	2012 £000	2011 £000
UK Claims & Reinsurance Management Services		
Internal portfolio management fees	11,887	10,415
Third party Income	6,360	9,258
Total Income	**18,247**	**19,673**
Operating Profit	**4,502**	**3,570**
UK Broker Services		
Total Income	4,828	4,983
Operating Profit	**897**	**1,050**
UK Liquidity Management		
Total Income	2,641	2,079
Operating Profit/(loss)	**23**	**(164)**
US Services		
Internal Portfolio management fees	3,817	2,902
Third party Income	9,630	5,611
Total Income	**13,447**	**8,513**
Operating Profit	**4,180**	**1,190**
Captive Management		
Total Income	5,827	4,720
Operating profit	**662**	**105**
TOTAL INCOME	**44,990**	**39,968**
TOTAL DIVISIONAL OPERATING PROFIT	**10,264**	**5,751**

The Insurance Services Division's operating profit of £10.3m (2011: £5.8m), reflected a good core performance in UK services, especially in the claims and reinsurance management area, a much improved result in captive management (previously reported as a separate division) and a satisfactory core performance in US Services, which was boosted by exceptional levels of credit write-backs during the period.

Total Income increased to £45.0m (2011: £40.0m) with a reduction in third party income in the UK claims and reinsurance services and in US services being compensated for by increases in income from Liquidity Management and Captive Management as well as higher internal revenue.

In UK Broker Services revenue was broadly flat as was operating profit with the back office support of active businesses a significant contributor. The broker run-offs we have acquired continue to perform well and we have scale and efficiency in this area. We are also creating new solutions to support the recent regulations on broker solvency, which should bring additional income opportunities.

In UK Claims and Reinsurance Management Services, revenue fell due to the absence of the substantial profit commission on the now discontinued Advent syndicate run-off contract which benefited the 2011 figures and the move of the full syndicate servicing to the Underwriting Management Division. Outside of this, success was achieved with cross-selling the Group's niche services to the larger UK based insurance groups, focused on reducing costs by outsourcing specialist work. Traditional run-off portfolio management contracts remain scarce however given the acquisition of such portfolios by specialist groups with in-house resource and the prevalence of solvent schemes. The contraction in potential run-off contracts further supports our recent diversification strategy into the active market, where our liquidity management operations increased revenues substantially. We continue to focus on subscription market business, especially Lloyd's, where our services offer a highly cost effective alternative to internal resourcing by individual syndicate managers.

The operating profit of £4.5m in the core UK claims and reinsurance management operations was considerably higher than 2011 (£3.5m) and represented a 25% operating margin. This showed the clear benefit of recent cost reduction measures which should continue to filter through during the current year.

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

Captive management, now incorporated into the Insurance Services Division, performed well during the period with a significantly higher level of operating profits of £0.7m (2011: £0.1m) on income of £5.8m (2011: £4.7m). There was a strong operating performance from the Bermuda based operations at R&Q Quest due to revenue from the growing captive exit solutions as well as new client wins. 2012 also benefited from a full year contribution from the Norwegian business, Triton, which continues to perform well. The income from the management contracts transferred to our new US captive management business also contributed to top line growth but slower progress in our US farming co-operative initiative due to unusual weather conditions and delays in the medical related risk retention group project dampened new business income and led to a broadly break-even result. R&Q's Gibraltar operations had a broadly similar year's trading to 2011 but the pipeline of new business is improving. The Group also established a small presence in two additional key captive domiciles during the year; the Cayman Islands and the Isle of Man. This broadens the operational platform further in a cost controlled manner whilst improving the access to local captive exit opportunities.

The outlook in captive management for 2013 and beyond looks positive and we are pleased that recent investment is now delivering an improving operational performance. We are assessing further opportunities to expand through widening our product offering and expanding geographically or within our existing domiciles by acquisition or people hires. The operations continue to capitalise on the successful joint marketing initiative with the Insurance Investments Division to provide captives with an array of exit solutions.

Overall in the Insurance Services Division, our scale and expertise in niches such as broker run-off, liquidity management, captive management, and in medical malpractice and workers' compensation claims (in the US), provide good income growth opportunities but there remains a relative scarcity of sizeable traditional third party run-off contracts. Sustaining or growing the internal service revenue and profits is also dependent on new portfolio acquisitions as the existing ones mature but there are encouraging signs emerging here as discussed in the Insurance Investments Division above. We continue moreover to focus on the consolidation and re-engineering of the division's operations and on cost control.

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For the year ended 31 December 2012

Underwriting Management Division

The Underwriting Management division is engaged in the following activities:

- Management of the Group's own active syndicate and 'turnkey' syndicate
- Management of RITC (run-off) syndicates
- Delegated underwriting through a number of specialist managing general agents ('MGAs') with niche underwriting accounts

	2012 £000	2011 £000
Lloyd's Managing Agency Operations		
Fee Income	5,548	3,630
Profit Commissions	2,077	1,032
Operating Profit	**2,378**	**1,746**
MGAs		
Premium Income	28,133	2,402
Income	3,645	710
Operating Loss	**(1,876)**	**(1,932)**
Underwriting Management Holdings		
Income	297	19
Operating Loss	**(1,958)**	**(927)**
TOTAL INCOME	**11,567**	**5,391**
TOTAL OPERATING LOSS	**(1,456)**	**(1,113)**

The Underwriting Management Division generated an operating loss of £1.5m on revenue of £11.6m (2011: (£1.1m), £5.4m). Adjusting for the operating losses and closure costs of the Canadian MGA, the division made a significantly reduced operating loss of £0.5m. The financial result was nonetheless weaker than originally anticipated due to: (i) slower premium development in certain of the new coverholder operations, where capacity and distribution issues were only resolved later in the year; (ii) the costs associated with the Solvency II project; and (iii) the costs associated with the scaling up of the underwriting management operations. The division however is now well positioned for substantial growth, especially following the launch of R&Q Syndicate 1991, which is expected at least to double premiums across the 2013-2015 underwriting years. The division is therefore expected to make a positive contribution to the Group's operating result during 2013 and beyond.

The Group's Lloyd's managing agency operations had a good year with strong fee income growth following the transfer of certain services previously provided to the Group's managed syndicates from the Insurance Services Division and the addition of Syndicate 3330 following the Reinsurance-to-Close ('RITC') of the open years of former Syndicate 1208. Profit commission of £2.1m was generated from the two run-off syndicates and was significantly higher than the year prior (£1.0m). These contributions resulted in an operating profit of £2.4m (2011: £1.7m).

The MGA commission income was significantly higher than during 2011 at £3.6m (2011: £0.7m) as a result primarily of the addition of R&Q Marine Services, the new Yachts and Marine Trades MGA, which traded very well during its first year at R&Q. The acquisition of Synergy, the high net worth MGA, together with organic growth in Commercial Risk Services, the UK SME Commercial MGA, also added new revenue. After excluding Canada, there was still an operating loss in the MGA operations due primarily to significant losses at Synergy which was impacted by legacy costs and capacity issues, which were only resolved later in the year. JUST, the specialist sports, leisure and entertainment MGA has had its business transferred to the R&Q syndicate from 2013 and any non-Lloyd's business transferred to Commercial Risk Services.

2013 should see a much improved operational result in the MGA operations now that R&Q's Canada MGA operations have been discontinued and as capacity improvements, product expansion and improved distribution in the other MGAs bring further benefits. Strong competition in the high net worth market and our commitment to underwriting discipline are affecting Synergy's income, which may consequently take longer to reach break-even, reducing the overall contribution of the MGA activities during the current year. Additional underwriting hires and re-engineering initiatives should improve performance over time and we remain open to other opportunities to bring further scale to our specialist MGA operations.

As has already been commented on, the division was impacted again by costs associated with compliance with the Lloyd's Solvency II project but much of that preparatory work has now been completed. Whilst the maintenance of the increased risk management, actuarial, operational and governance standards brings on-going costs, it is less burdensome than the initial model creation and the expected increase in our agency operations should reduce the residual costs retained by the agency.

A significant amount of energy and resource was expended in ensuring Syndicate 1991 was approved and fully operational for a 1 January 2013 start. The launch of Syndicate 1991 is an exciting development for the division's agency operations. In addition to providing scale and bringing additional cost recoveries, the syndicate offers significant organic growth prospects for fee income and profit commissions in the years to come as well as raising the profile and standing of R&Q within the active Lloyd's market. The underwriting team, previously from Axis, has an excellent track record and has a focused and specialist approach to property and liability delegated authority selection and management, with real-time data monitoring and specialist claims handling.

The syndicate attracted an excellent mix of capital support from traditional Lloyd's Names (private individuals), industry capital from Bermuda and Europe (including SCOR and XL Group) and R&Q itself (22.8%). The syndicate capacity for 2013 is £77m, with the aim of steadily growing capacity to more than two times current level by the 2015 year of account. Whilst start-up syndicates, as has been mentioned above, rarely make underwriting profits in their first calendar year of operation, due to the slow recognition of earned premium, we expect the team to deliver strong underwriting results in years to come as the book matures and grows, potentially bringing sizeable profit commissions to the division.

The turnkey market appears to be improving with an increased number of enquiries from international insurance groups looking to enter the Lloyd's market. Provided the business is accretive and the team has a strong underwriting track record, Lloyd's has been generally supportive. The Group is well placed in the turnkey market to support and manage such ventures but the lead time to launch tends to be considerable and our current pipeline is probably more likely to convert during 2014 than the current year. We remain fully committed to managing new turnkey syndicates, which should bring additional consultancy revenue, fee income, cost recovery and profit commissions over time. We are also exploring other opportunities to expand the agency by taking over the management of existing active or run-off syndicates.

Overall, we are excited about the prospects for the division. A much improved operating result is expected in 2013 and potentially strong contributions to the Group's profit in the future, especially from 2015.

Return of Cash via an L/M Share Scheme and Distribution Policy

The Return of Value, details of which were outlined in a circular posted to shareholders on 14 March 2013, gave shareholders the option of receiving their payment as capital or income and provided a more flexible and efficient mechanism of returning capital. The payment of 5.0p per share is expected to be made through the scheme on 3 May 2013 to those shareholders on the register at 5.00 p.m. on 2 April 2013, bringing total cash distributions to shareholders in respect of the 2012 financial year to 8.4p.

The return of cash to shareholders through an L/M share scheme came in a period when once again the Group successfully managed to release capital from a number of our insurance investments.

The Return of Value was in place of the final dividend for the 2012 year but the Group may choose to make future returns of value in addition or instead of ordinary dividend payments.

Further to the proposed placing and issue of new shares, the Group has decided to maintain the total distributions to shareholders at 8.4p per share in respect of the 2013 financial year, absent unforeseen circumstances. Thereafter the Group will follow a standard progressive distribution policy that reflects its financial performance and remains committed to providing strong cash returns to shareholders.

Litigation

During the period, we reached an agreement to resolve the legal dispute with various companies of the ACE Group ("ACE") including litigation that the Group filed against various ACE subsidiaries in May 2012 in the Supreme Court of New York. Through the resolution of this dispute, we have been able to remove a significant source of uncertainty for the Group and have now resumed normal commercial relations with ACE.

All other outstanding litigation is in the ordinary course of business and is claims and reinsurance related in the owned insurance companies and managed syndicates.

Staffing

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

During the past year, the staff have continued to make valuable contributions to the success of the Group and I wish to express my gratitude for this. It is of course regrettable that at the same time that we are expanding the number of staff in certain areas of the business, we have to contract in others in order to reflect business priorities and to manage our cost base. This in no way reflects on staff performance. We continue to reward staff and management primarily based on the Group's financial performance but we also offer equity incentives and profit shares to key people in certain of the new underwriting ventures to help retain and attract the best industry talent.

Chairman's Statement and Business Review

For the year ended 31 December 2012

Key Performance Indicators

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

- Revenue growth and Operating Profit margins in the Insurance Services division
- Operating Profit in the:
  - Insurance Investments Division
  - Underwriting Management Division
- EPS
- Distributions per share (i.e dividends and any other capital return to shareholders)
- Net Tangible Asset Value per share
- Total Shareholder return

Insurance Services	Revenue Growth	Operating Profit Margin
2012	12.6%	22.8%
2011	12.3%	14.4%

Operating Profit (£m)	Insurance Investments	Underwriting Management
2012	9.9[1]	(1.5)
2011	8.3[2]	(1.1)

Key per share indicators	Basic EPS	Distributions p/s	NTA p/s	Total Shareholder Return[3]
2012	20.4p	8.4	114.4	+20.9p
2011	(0.9p)	8.1	107.3[4]	+11.1p

[1] After deduction of Minority Interests

[2] Excludes goodwill impairment

[3] Includes change in share price between 1 January and 31 December together with distributions per share relating to that accounting period

[4] Assumed share cancellation had been completed

KE Randall

Chairman and Chief Executive Officer

24 April 2013

Report of the Directors

For the year ended 31 December 2012

The Directors present their report together with the audited Financial Statements of the Company and its subsidiaries for the year ended 31 December 2012.

Principal Activities

The Company is a holding and investment company.

Group companies carry on business in the UK, Continental Europe, United States, Canada and Bermuda as owners, managers and acquirers of insurance companies and captives in run off, as participators and managers of active Lloyd's syndicates, as underwriting managers for active insurers, as purchasers of insurance receivables and as consultants to the non-life insurance market.

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

Results and Distributions

The results for the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 25.

The Directors declared and paid distributions for the year of 8.4 pence per share on the ordinary shares amounting to £4,162,000 (2011: £4,032,000).

Future distribution intentions are disclosed in the Chairman's Statement and Business Review on page 5.

Directors

The present Directors are shown on page 3.

Directors' Interests in Shares

As at 31 December 2012, the following Directors held ordinary shares as below. The total ordinary shares in issue at 31 December 2012 amounted to 50,133,002.

K E Randall and family	21,749,515
A K Quilter	4,346,456
K P McNamara	139,106
J M Welman	100,000
M G Smith	25,000

Business Review

An overview of the Company's business and review of the activities of the Group in the year are contained in the Chairman's Statement and Business Review on pages 5 – 16 and the key performance indicators are shown on page 16.

Risk Management

The Group has within it a dedicated Risk Management Function which has been focussed primarily within the Group's wholly owned Lloyd's Managing Agency in preparation for Solvency II. The Risk Management Function has continued to work with the other divisions within the group in identifying, assessing, reviewing and monitoring risks and mitigating controls, and developing the Risk Management and Reporting framework.

The following risks are deemed to be the principal risks facing the Group. Risks relating specifically to the Group's owned insurance entities service operations and underwriting management division are dealt with separately towards the end of this section.

Group Risks:

General economic climate and natural disasters

The markets in which the Group operates are directly affected by many national and international factors that are beyond its control. Any one of the following factors, among others, may cause a substantial decline in the financial markets in which the Group operates: legislative, legal and regulatory changes; economic and political conditions in the UK, continental Europe, the US and elsewhere in the world; changes in the supply and demand of capital, industrial disruption, concerns about terrorism and war; natural disasters; the level and volatility of equity, property and commodity markets; the level and volatility of interest rates and foreign currency exchange rates and concerns over inflation and changes in institutional and consumer confidence levels. Uncertain economic prospects or declines in investment markets for any of the foregoing reasons could adversely affect the operations, business and profitability of the Group.

Group Cash Flow Risk

The Group must actively manage its cash flow to ensure that operating cash flow requirements, debt repayments (together with interest payable) and claims payments can be met and the Group's distribution policy sustained. The Group undergoes a thorough annual budgeting process, which includes a monthly Group cash flow projection, against which actual movements are regularly monitored through, for example, the weekly circulation of the cash balances in each of the Group's entities. If cash flows are not managed, this will adversely affect the Group's ability to meet debt and claims repayments and sustain its distribution policy.

Capital Management

Growth within the Group may be constrained by the availability of capital. As part of the yearly budget process, the Directors work together with the finance team to consider any requirements for capital to expand the Group's existing operations and to fund the likely acquisition pipeline of legacy insurance assets or investment in further syndicate participations. This capital requirement is monitored on an ongoing basis. The visibility of pipeline acquisitions is however limited and the ability to complete transactions on the terms desired uncertain.

Report of the Directors

For the year ended 31 December 2012

The majority of the Group's insurance entities are subject to external risk based or minimum capital requirements. The Directors have overall responsibility for managing the Group's overall capital base and for maintaining sufficient capital within the Group's insurance entities, including the Funds at Lloyd's requirement to support its syndicate participations to satisfy external regulatory requirements. The Group receives timely information regarding the levels of capital each entity is required to hold and the prevailing surpluses, which facilitates the Group's active capital management strategy. The Group is also required to meet its Group Capital Adequacy Requirement under the Insurance Group's Directive. This requires constant monitoring both of the Group's capital resources and requirements, which may vary, especially following new insurance company acquisitions. The Group has recently established more robust monitoring and forecasting processes designed to confirm compliance on a daily basis.

The Group has a five year credit facility with Clydesdale Bank which has over three years until expiration. There is no guarantee that the Group will be able to secure refinancing of this facility or alternative finance on comparable terms.

Competition

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

Regulatory Risk

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

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

In the United Kingdom, the Group is subject to the regulation of the Council of Lloyd's, the PRA and the FCA, whilst in the United States, the Group is subject to the regulations of each of the states in which it is admitted. Each of these regulatory authorities has substantial powers of intervention in relation to the companies and the markets which they regulate, with the ability to remove the authorisations and licences required by carriers and markets such as Lloyd's to conduct insurance business. Such authorisations and licences are fundamental to the Group's business.

In particular, the Council of Lloyd's has wide discretionary powers to regulate members' underwriting at Lloyd's. It may, for instance, vary the method by which the solvency ratio of Lloyd's and that of its members is calculated, or the investment criteria applicable to funds at Lloyd's. Either action could affect the amount of the Group's underwriting capacity and, consequently, the return on an investment in a given year of account.

Similarly, the PRA and the FCA have wide regulatory powers under FSMA and the Financial Services Act 2012, including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation, to investigate marketing and sales practices and to require the maintenance of adequate financial resources. The PRA and the FCA have the power to take a range of investigative, disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and to award compensation. The PRA and FCA may make enquiries of the companies which they regulate regarding compliance with regulations governing the operation of business and, like all UK-regulated financial service companies, the Group faces the risk that the PRA and the FCA could find that the Group has failed to comply with applicable regulations or has not undertaken corrective action as required.

In addition, the relevant members of the Group may not be able to comply fully with, or obtain appropriate exemptions from, any amendments to a regulatory regime. Failure to comply with or to obtain appropriate exemptions under any applicable laws could result in restrictions on the Group's ability to conduct business in one or more of the jurisdictions in which it operates and could result in the imposition of fines and other sanctions, each of which could have a material adverse effect on its reputation, financial condition and/or operating results.

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

The Group also faces the potential risk of an onerous Group solvency test under the proposed Solvency II legislation which may result in the Group being deemed to be insufficiently capitalised. As a result, the Group is planning to reduce this uncertainty and contain the potential consequences of these risks by establishing an insurance company consolidator in Malta and moving the Parent company to Bermuda.

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

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

Exposure to litigation

The extent and complexity of the legal and regulatory environment in which the Group operates and the products and services the Group offers mean that many aspects of the business involve substantial risks of liability. Any litigation brought against the Group or any companies within it in future could have a material adverse effect on the Group.

In addition, litigation may have a material adverse effect upon the Group's business in that legal decisions between third parties may expand the apparent scope of legal liabilities, which in turn could increase the amount of claims which have to be paid by the Group, thereby reducing profits. The Group's owned insurance companies are also exposed to potential tort claims including claims for punitive or exemplary damages that could have a materially adverse effect on profitability.

Distribution and third party capital support

The Group's active underwriting operations are dependent on maintaining strong relationships with insurance brokers and delegated authorities, who are the key source of distribution. The ability of the syndicates and Managing General Agents to maintain or grow their underwriting is also dependent on the continued support of the existing third party capital providers or the ability of the Group to secure alternative sources of capital.

Investment performance will affect the profitability and solvency position of the Group

The insurance companies in run-off owned by the Group and the syndicates (both run-off and active) on which the Group participates hold significant investments to support their liabilities and their earnings will be affected by the returns achieved on their investment portfolios. Therefore despite the Group's asset and liability management strategies, changes in credit spreads, interest rates, credit ratings, default rates and other economic variables could substantially affect the Group's profitability. The capital value of the Group's investments may fall as well as rise and the income derived from them may fluctuate. A fall in such capital values may adversely affect the Group's solvency position.

Industry wide developments could adversely affect the Group's business

The availability and price of insurance coverage and the number and nature of insurance companies entering run-off have been affected in the past by industry wide factors such as asbestos and environmental liability claims, other liability claims such as directors' and officers' liability and medical malpractice and major hurricanes. Similar or new industry wide factors in future may result in changes in market conditions or governmental intervention in the insurance markets, which may affect the ability of the Group to obtain suitable run-off reinsurance protection or potential businesses or companies for acquisition as well as impact the general insurance rating environment and demand for the Group's insurance products offered by both its active syndicates and Managing General Agents.

Business Growth and Integration Risk

The Group's operations have grown significantly in recent years both organically and through acquisition. Where growth occurs without requisite management controls in place there is an increased risk that business objectives are not aligned, new business targets not met and costs not adequately managed. The Directors seek to mitigate this risk through detailed budgeting, a regular flow of management information, including the preparation and analysis of monthly management accounts, and regular communication within the divisions.

Failure to Deliver Strategic Objectives

All operations within the Group are expected to work together to meet strategic divisional and Group objectives. Where there is a lack of understanding, cooperation or potentially even conflict across divisions, there is a risk that these objectives will not be met. The Directors seek to mitigate this risk through regular reporting in the various divisional and Group committees outlined above and through a clearly communicated strategy disseminated across the Group. The group's PR representatives also help ensure that the full breadth of the business is understood both internally and externally.

Key Man Dependency

Appropriate succession planning arrangements are considered by the Directors to ensure that business operations are not disrupted by the loss of key staff. The Group has developed strength and depth across its management structures and believes its Human Resource policies are appropriate to retain such staff and recruit any appropriately skilled people required. However, the Group's reputation and standing is still significantly linked to the involvement of its founding directors, Ken Randall and Alan Quilter. A significant amount of knowledge, especially with regard to the terms of acquisition and detail of certain of the insurance company subsidiaries also lies with Ken Randall especially and is not easily replaceable.

Reliance on Group I.T and Communications

The Group may be unable to operate efficiently or in a timely manner in the event of a partial or complete failure of the I.T infrastructure and/or telephone systems. This is particularly important for the Group's active underwriting operations. The Group has reviewed its IT and telephony operations and has now contracted with a third party outsourcing partner to provide resilience and performance improvements across the IT estate. The improvements are already in place for the Group's live underwriting operation and have already undergone disaster recovery testing to demonstrate the effectiveness of the new IT model.

Interest rate/Credit risk

The Group's main exposure to fluctuation in interest rates arises in its effect on the value of funds invested in bonds. In order to mitigate this risk, the Group investment committee and insurance company boards, together with the external investment managers, attempt to anticipate any future interest rate movement and to take appropriate action to mitigate its effect on the value of investments held. The Group is also exposed to credit risk through holding collateralised loan obligations, mortgage backed securities, corporate bonds and loans, depending on actual default rate and/or changes in the perceived default rates, which may fluctuate over time. The Group is therefore exposed to absolute loss and mark to market movements in the valuations of these securities. In order to mitigate this risk the vast majority of securities held by the Group are investment grade and credit spread duration is kept low.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The cash position of each of the insurance companies is monitored on a regular basis to ensure that sufficient funds are available to meet liabilities as they fall due. Funds required to meet immediate and short term needs are invested in money market funds or short term deposits. Funds in excess of those required to meet short term needs are managed by external fund managers or placed in UCITS funds or Collective Investment Schemes. The investment performance of the fund managers and pooled funds is closely monitored throughout the year by the Group investment committee and insurance company boards.

The management contracts within the service companies are typically structured such that fees are payable by clients quarterly or annually in advance, providing the Group's Insurance Services Division with sufficient working capital to support the obligations of all companies within the division. The cash position of each of the service companies is monitored on a regular basis to ensure that sufficient funds are available to meet liabilities as they fall due.

Currency fluctuations

The Group will have businesses with funds, assets, investments and liabilities denominated in currencies other than sterling and may, from time to time, experience losses resulting from fluctuations in the values of US dollars, Euros and other non-UK currencies, which could adversely affect its operating results. Where possible, the Group manages the impact of this risk by broadly matching the currency of assets and liabilities. The Group however holds the surplus of the US insurance companies in US dollars and there is thus an impact on the Group's consolidated net asset position as a result of any fluctuations between Sterling and the US dollar. The Group has in the past hedged this exposure at times and the cost-benefit of such protection is regularly assessed.

Risk Management – Insurance Companies and Syndicates

The activities of the Group's insurance companies expose each of them to financial and non financial risks.

Other than as reported in Note 2a and Note 3, the Parent Company and its other subsidiaries bear no financial responsibility for any liabilities or obligations of individual insurance companies. Should any of the insurance companies cease to be able to continue as a going concern, any loss to the Parent company and its other subsidiaries is restricted to the book value of their investment in that individual insurance company and any intra group balances due by them or due to them.

Although the Directors strategically manage the risks within the Group, it is the responsibility of the Directors of the insurance companies to adhere to the Group's ethos in managing their company's exposure to these risks and, where possible, introduce controls and procedures that mitigate the effects of the exposure to risk.

Insurance Risk

The very nature of insurance business is that insurers are exposed to the possibility that claims will arise on business written. The risk attaching to insurance contracts is based on the fortuity that events will occur which will lead to a claim under the contract.

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

- Pricing risk – the risk that coverage provided by the Group's insurance policies is inadequately priced, resulting in underwriting losses which in turn could lead to capital impairment.
- Claims risk – a series of claims in respect of a latent liability that the insurance industry is not currently aware of and/or a higher level of attritional losses and catastrophe related losses than anticipated and/or modelled on the policies underwritten in the active syndicates.
- Reinsurance risk – the risk that the reinsurers of the insurance companies will dispute the coverage of losses and/or inadequate or inappropriate reinsurance cover, especially of large catastrophe related losses in the active syndicates on which the Group participates.
- Legal risk – changes in statute or legal precedent.
- Reserving risk – the risk that the provisions established by the companies prove to be inadequate.

Receivables

There is a credit risk on reinsurance receivables in the owned companies and managed syndicates. Reinsurance receivables are evaluated each quarter as to credit risk and existing bad debt provisions are evaluated as to adequacy.

The carrying value (i.e. original acquisition cost) of the insurance debt acquired by the Group in the Insurance Investments Division may also prove to be overstated and/or may not be realisable.

There is also a risk that the Group is unable to realise the carrying value of certain life policies which are carried as a debtor in Syndicate 102.

There is a risk that structured settlements the Group has put in place with a number of life companies to settle certain of its liabilities may not pay out if the life companies were to default.

Currency Risk

The insurance companies are potentially exposed to currency risk in respect of liabilities generated through regular trading activity which are denominated in currencies other than Sterling. The most significant foreign currencies to which the companies are exposed are the US Dollar and the Euro. Group policy requires that the Directors seek to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. However, in certain asset classes, much better priced investment opportunities exist in Sterling and Euros rather than US Dollar denominated investments due to an aversion to non-US risk by US investors following the recent credit crisis. In certain of the Group's insurance company portfolios we have therefore put in place rolling foreign exchange hedges to mitigate any foreign exchange mismatch between the investments held and the underlying liabilities, rather than directly hold assets and liabilities in the same currency.

Reliance on Investment Income

The Group's accounting policy in its consolidated financial statements, in relation to the insurance company subsidiaries is not to discount insurance reserves and only to take a provision for future run-off operating expenses if estimated investment income is insufficient over the Group as a whole to cover future anticipated operating expenses. Each insurance company is modeled in detail to ascertain the quantum of any provision required, taking into account estimated investment returns, average funds held and operating costs over the expected life of the run-off.

The investments held in the insurance company subsidiaries are however subject to market risks, which include interest rate and credit risk, dealt with in detail below. Returns may not therefore meet expectations or losses may materialise. To mitigate these risks the Group has an Investment Committee, formed of the Executive Directors which advises the boards of the insurance companies on asset allocation and manager selection. The Investment Committee is also assisted by an independent investment advisor. Timely and accurate performance information is regularly made available to both the Group Investment Committee and insurance company boards to assist active management, which the Group believes is vital in this prolonged period of low interest rates and economic uncertainty.

The level of funds held in the insurance company subsidiaries may also decrease faster than anticipated due to accelerated claims payments and this may have an impact on the sufficiency of investment income to meet operating expenses, provided the latter does not reduce proportionately.

Reserving/Actuarial Risk

Failure to adopt the correct reserving techniques exposes the Group to reserving risk and may present liquidity issues. The Directors actively manage this risk through the appointment of both internal and external actuaries to perform all reserve calculations.

Risk Management – Service Companies

The activities of the Group's service companies expose each of them to financial and non-financial risks.

Although the Directors strategically manage the risks within the Group, it is the responsibility of the Directors of the service companies to adhere to the Group's ethos in managing the companies' exposures to these risks and, where possible, introduce controls and procedures that mitigate the effects of the exposure to risk.

Dependence on Clients

The service companies derive a significant proportion of their income from management contracts, which vary in length by up to five years. Failure to retain key clients on renewal will have an adverse impact on income. The Group enjoys a diverse client base with no single contract accounting for more than 10% of service income.

Risk Management – Underwriting Management

Strategic/Capital Risk

The Group manages the Syndicates in return for a managing agency fee, management charges and profit commission out of which it must meet retained expenses. The Group must maintain certain regulatory solvency surpluses to maintain an adequate capital base and to this end, the Group monitors its financial position by way of quarterly management accounts and regular cash flow reports and action would be taken to maintain the regulatory solvency position where appropriate.

Report of the Directors

For the year ended 31 December 2012

Operational risk

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

Legal and Regulatory Risk

The Group's approval as a Managing Agent of Lloyd's Syndicates is subject to continuing approval by Lloyd's, Prudential Regulation Authority and the Financial Conduct Authority. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to a Lloyd's Managing Agent and the operation of its managed Syndicates.

Share Capital

Details of the changes in the Company's share capital structure, rights and obligations attaching to, and any restrictions on the transfer or voting rights of the Company's shares are given in Note 24 to the Financial Statements.

Charitable Donations

During the year the Group contributed £nil (2011: £559) for charitable purposes.

Employee Involvement

Review meetings are held with employees to discuss the financial position and prospects of the Group. Opportunity is given at these meetings for senior executives to be questioned about matters which concern the employees.

Employment of Disabled Persons

The Company and its subsidiaries have continued their policy of offering equal rights to employment training, career development and promotion to all their employees including disabled employees.

Creditor Payment Policy

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

Purchase of own shares

During the year, the group completed the acquisition and cancellation of 3,959,914 of its own shares. Details of this are disclosed in note 24 to the Consolidated Financial Statements.

Disclosure of information to Auditors

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

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

Auditors

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

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

By order of the Board

Signed by

M L Glover

Company Secretary

24 April 2013

Statement of Directors' Responsibilities

For the year ended 31 December 2012

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

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law the Directors have elected to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and elected to prepare the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice.

Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that 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 the Group Financial Statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements;
- state whether the Parent Company Financial Statements have been prepared in accordance with UK Accounting Standards, subject to any material departures disclosed and explained in the Parent Company Financial Statements and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Report of the Directors that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

to the Shareholders of Randall & Quilter Investment Holdings plc

For the year ended 31 December 2012

We have audited the Financial Statements of Randall & Quilter Investment Holdings plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Financial Position, the Parent Company Balance Sheet, together with its accompanying notes, the Consolidated Cash Flow Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances, and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the Consolidated Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Carmine Papa

Carmine Papa (Senior Statutory Auditor)

For and on behalf of Littlejohn LLP

Statutory Auditor
1 Westferry Circus
Canary Wharf
London
E14 4HD

Consolidated Income Statement

For the year ended 31 December 2012
Company number 03671097

	Note	2012 £000	2012 £000	2011 £000	2011 £000
Gross premiums written		6,162		2,290	
Reinsurers' share of gross premiums		(696)		(1,080)	
Net written premiums		5,466		1,210	
Change in gross provision for unearned premiums		(1,583)		(871)	
Change in provision for unearned premiums, reinsurers' share		-		-	
Net change in provision for unearned premiums		(1,583)		(871)	
Earned premium, net of reinsurance			3,883		339
Net investment income	6	11,966		6,358	
Other income	7	36,109		30,096	
			48,075		36,454
Total income			51,958		36,793
Gross claims paid		(79,871)		(80,777)	
Reinsurers' share of gross claims paid		55,199		51,278	
Claims paid, net of reinsurance		(24,672)		(29,499)	
Movement in gross technical provisions		53,819		94,000	
Movement in reinsurers' share of technical provisions		(13,343)		(51,135)	
Net change in provisions for claims		40,476		42,865	
Net insurance provisions released			15,804		13,366
Operating expenses	8		(52,916)		(42,308)
Result of operating activities before goodwill on bargain purchase			14,846		7,851
Goodwill on bargain purchase	31		1,992		1,541
Impairment of intangible assets			(120)		(13,458)
Result of operating activities			16,718		(4,066)
Finance costs	9		(809)		(591)
Profit/(Loss) on ordinary activities before income taxes	10		15,909		(4,657)
Income tax (charge)/credit	11		(625)		4,169
Profit/(Loss) for the year			15,284		(488)
Attributable to equity holders of the parent					
Attributable to owners of the parent			10,103		(488)
Non-controlling interests			5,181		-
			15,284		(488)
Earnings per ordinary share for the profit/(loss) attributable to the ordinary shareholders of the Company:					
Basic	12		20.4p		(0.9p)
Diluted	12		19.9p		(0.9p)

The accounting policies and notes on pages 30 to 78 form part of these Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2012
Company number 03671097

	Note	2012 £000	2011 £000
Assets			
Intangible assets	14	15,675	14,510
Property, plant and equipment	15	1,719	1,717
Financial instruments			
- Investment properties	16a	1,004	1,022
- Investments (fair value through profit or loss)	16b	174,274	198,012
- Deposits with ceding undertakings		3,589	3,766
Reinsurers' share of insurance liabilities	22	148,988	166,745
Current tax assets	19	4,365	2,769
Deferred tax assets	23	5,383	5,358
Insurance and other receivables	17	68,486	76,198
Cash and cash equivalents	18	52,263	37,183
Total assets		475,746	507,280
Liabilities			
Insurance contract provisions	22	329,467	362,229
Financial liabilities			
- Amounts owed to credit institutions	21	18,939	23,224
- Deposits received from reinsurers		1,674	2,291
Deferred tax liabilities	23	1,818	470
Insurance and other payables	20	39,267	43,392
Current tax liabilities		2,570	601
Pension scheme obligations	27	4,381	2,641
Total liabilities		398,116	434,848
Equity			
Share capital	24	1,036	1,118
Shares to be issued		744	254
Share premium account	24	4,752	12,096
Capital redemption reserve		-	1,636
Treasury share reserve	24	(434)	(704)
Retained earnings		66,390	58,032
Attributable to equity holders of the parent		72,488	72,432
Non-controlling interest in subsidiary undertakings		5,142	-
Total equity		77,630	72,432
Total liabilities and equity		475,746	507,280

The Financial Statements were approved by the Board of Directors on 24 April 2013 and were signed on its behalf by:-

K E Randall **T A Booth**

The accounting policies and notes on pages 30 to 78 form part of these Financial Statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Note	2012 £000	2011 £000
Cash flows from operating activities			
Profit/(loss) before income taxes		15,909	(4,657)
Finance costs	9	809	591
Depreciation	15	746	513
Share based payments		621	51
Goodwill on bargain purchase	31	(1,992)	(1,541)
Impairment of intangible assets		-	13,458
Amortisation of intangible assets	14	120	-
Fair value (gain)/loss on financial assets		(6,466)	679
Gain on net assets of pension schemes		(86)	(157)
Decrease/(increase) in receivables		5,024	(20,011)
Decrease in deposits with ceding undertakings		293	251
(Decrease)/increase in payables		(77,083)	5,188
Decrease in net insurance technical provisions		(40,476)	(42,865)
		(102,581)	(48,500)
Sale of financial assets		101,303	40,063
Purchase of financial assets		(11,492)	(3,568)
Cash used in operations		(12,770)	(12,005)
Income taxes paid		(78)	(739)
Income taxes repaid		254	-
Net cash used in operating activities		(12,594)	(12,744)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(721)	(1,405)
Acquisition of subsidiary undertakings (offset by cash acquired)		7,890	(2,379)
Share of cash from reinsurance of Syndicate		29,912	-
Cash injection by non-controlling interest in subsidiary		100	-
Net cash generated from/(used in) investing activities		37,181	(3,784)
Cash flows to financing activities			
Repayment of borrowings		(3,931)	(23,362)
Proceeds from new borrowing arrangements		-	26,940
Equity dividends paid	13	(1,270)	(1,172)
Interest and other finance costs paid	9	(809)	(591)
Receipts from issue of shares		-	33
Cancellation of G and J shares	13	(2,840)	(2,816)
Payment to purchase own shares	24	-	(6,166)
Sale of treasury shares		90	686
Net cash to financing activities		(8,760)	(6,448)
Net increase/(decrease) in cash and cash equivalents		15,827	(22,976)
Cash and cash equivalents at beginning of year		37,183	60,109
Foreign exchange movement on cash and cash equivalents		(747)	50
Cash and cash equivalents at end of year	18	52,263	37,183
Share of Syndicates' cash restricted funds		2,747	1,547
Unrestricted funds		49,516	35,636
Cash and cash equivalents at end of year		52,263	37,183

The accounting policies and notes on pages 30 to 78 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 £000	2011 £000
Other Comprehensive Income:-		
Exchange losses on consolidation	(395)	(31)
Pension scheme actuarial losses	(1,807)	(2,851)
Deferred tax on pension scheme actuarial losses	416	713
Other comprehensive income	(1,786)	(2,169)
Profit/(loss) for the year	15,284	(488)
Total comprehensive income for the year	13,498	(2,657)
Attributable to:-		
Equity holders of the parent	8,356	(2,657)
Non-controlling interests	5,142	-
Total recognised comprehensive income for the year	13,498	(2,657)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012
Attributable to equity holders of the parent

	Share capital	Shares to be issued	Share premium	Capital redemption reserve	Treasury shares	Retained profit	Total	Non-controlling interest	Total
Year ended 31 December 2012									
At beginning of year	1,118	254	12,096	1,636	(704)	58,032	72,432	-	72,432
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	10,103	10,103	5,181	15,284
Other comprehensive income									
Exchange losses on consolidation	-	-	-	-	-	(356)	(356)	(39)	(395)
Pension scheme actuarial losses	-	-	-	-	-	(1,807)	(1,807)	-	(1,807)
Deferred tax on pension scheme actuarial losses	-		-	-	-	416	416	-	416
Total other comprehensive income for the year	-	-	-	-	-	(1,747)	(1,747)	(39)	(1,786)
Total comprehensive income for the year	-	-	-	-	-	8,356	8,356	5,142	13,498
Transactions with owners									
Purchase of own shares	(82)	-	(3,182)	(1,636)	-	-	(4,900)	-	(4,900)
Issue of G-K shares	4,162	-	(4,162)	-	-	-	-	-	-
Cancellation of G&J shares	(2,892)	-	-	-	52	-	(2,840)	-	(2,840)
Cancellation of H&K shares	(1,270)	-	-	-	-	1,270	-	-	-
Share based payments	-	514	-	-	-	-	514	-	514
Treasury shares	-	(24)	-	-	218	2	196		196
Dividends	-	-	-	-	-	(1,270)	(1,270)	-	(1,270)
At end of year	1,036	744	4,752	-	(434)	66,390	72,488	5,142	77,630

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012
Attributable to equity holders of the parent

	Share capital	Shares to be issued	Share premium	Capital redemption reserve	Treasury shares	Retained profit	Total	Non-controlling interest	Total
Year ended 31 December 2011									
At beginning of year	1,135	250	16,029	1,614	(1,334)	61,855	79,549	(164)	79,385
Total comprehensive income for the year									
(Loss)/Profit for the year	-	-	-	-	-	(488)	(488)	171	(317)
Other comprehensive income									
Exchange losses on consolidation	-	-	-	-	-	(31)	(31)	(7)	(38)
Pension scheme actuarial losses	-	-	-	-	-	(2,851)	(2,851)	-	(2,851)
Deferred tax on pension scheme actuarial losses	-	-	-	-	-	713	713	-	713
Total other comprehensive income for the year	-	-	-	-	-	(2,169)	(2,169)	(7)	(2,176)
Total comprehensive income for the year	-	-	-	-	-	(2,657)	(2,657)	164	(2,493)
Transactions with owners									
Issues of shares	5	(20)	99	-	-	-	84	-	84
Issue of C-F shares	4,032	-	(4,032)	-	-	-	-	-	-
Redemption of ordinary shares	(22)	-	-	22	-	(1,266)	(1,266)	-	(1,266)
Cancellation of C&E Shares	(2,816)	-	-	-	-	-	(2,816)	-	(2,816)
Cancellation of D&F shares	(1,216)	-	-	-	-	1,216	-	-	-
Share based payments	-	51	-	-	-	-	51	-	51
Treasury shares	-	(27)	-	-	630	56	659	-	659
Dividends	-	-	-	-	-	(1,172)	(1,172)	-	(1,172)
At end of year	1,118	254	12,096	1,636	(704)	58,032	72,432	-	72,432

The accounting policies and notes on pages 30 to 78 form part of these Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. Corporate information

Randall & Quilter Investment Holdings plc (the "Company") is a company domiciled and incorporated in England and Wales. Group companies carry on business in the UK, continental Europe, United States, Canada and Bermuda as owners and managers of insurance companies and captives in run off, as underwriting managers for active insurers, as participators in Lloyd's syndicates, as purchasers of insurance receivables, as managers of insurance 'captives' and as consultants to the non-life insurance market. The Financial Statements were approved by the Board of Directors on 24 April 2013.

2. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a. Basis of preparation

The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), endorsed by the European Union ("EU"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected to prepare its Parent Company Financial Statements in accordance with UK GAAP; these are presented on pages 79 - 83.

The Group Consolidated Financial Statements have been prepared under the historical cost convention except that financial assets are stated at their fair value.

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

The Directors have assessed the position of the Company and it is expected to generate positive cash flows. The Directors of the subsidiary companies have confirmed that each will continue in operational existence for the foreseeable future. On this basis the Directors have reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future. Accordingly the Financial Statements have been prepared on a going concern basis.

New and Amended Standards Adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated Financial Statements. None of these is expected to have a significant effect on the financial statements of the Group, except the following set out below:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

IFRS 13, 'Fair value measurement', aims to provide consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

IAS 19, 'Employee benefits', was amended in June 2011. The impact on the Group will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount calculated by applying the discount rate to the net defined benefit liability (asset). The Group is yet to assess the full impact of the amendments.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics for the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in entities, including joint arrangements, associates, special purpose vehicles and other off Statement of Financial Position vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Significant uncertainty in technical provisions

Significant uncertainty exists as to the accuracy of the provisions for claims outstanding and the amounts due from reinsurers established in the insurance company subsidiaries and the Lloyd's Syndicates on which it participates as shown in the Consolidated Statement of Financial Position. Further details of the uncertainties inherent in estimating technical provisions are set out in Note 3. The ultimate costs of claims and the amounts ultimately recovered from reinsurers could vary materially from the amounts established at the yearend. The consolidated Financial Statements have been prepared and consolidated on a going concern basis since the Directors are of the opinion, based on information currently available, that the Group continue in operational existence and be able to meet all their liabilities and obligations for the foreseeable future.

In the event that further information were to become available to the directors of an insurance company subsidiary which gave rise to material additional liabilities, the going concern basis might no longer be appropriate for that company and adjustments would have to be made to reduce the value of its assets to their realisable amount, and to provide for any further liabilities which might arise. However, should this occur it will not impact on the going concern basis applicable to the Group.

The Company and its other subsidiaries bear no financial responsibility for any liabilities or obligations of any insurance company subsidiary in run-off. Should any insurance company subsidiary cease to be able to continue as a going concern in the light of further information becoming available, any loss to the Company and its other subsidiaries would thus be restricted to the book value of their investment in and amounts due from that subsidiary and any guarantee liability that may arise.

b. Selection of accounting policies

The Directors exercise judgement in selecting each Group accounting policy. The accounting policies of the Group are selected by the Directors to present consolidated Financial Statements that they consider provide the most relevant information. For certain accounting policies there are different accounting treatments that could be adopted, each of which would be in compliance with IFRS and would have a significant influence upon the basis on which the consolidated Financial Statements are presented. The bases of selection of the accounting policies in accounting for financial assets and for the recognition of actuarial gains and losses related to pension obligations are set out below:

- The Group accounting policy is to designate all financial assets that meet the necessary conditions as fair value through profit or loss. This designation allows the Group to recognise investment return against the movement in insurance technical provisions.
- The Group accounting policy is to recognise actuarial gains and losses arising from the recognition and funding of the Group's pension obligations in equity in the year in which they arise. This policy has been adopted as it provides the most relevant basis of recognition of such gains and losses. The amount of any surplus recognised will be restricted as required by IAS19.

c. Consolidation

The consolidated Financial Statements incorporate the Financial Statements of the Company, and entities controlled by the Company (its subsidiaries), for the years ended 31 December 2012 and 2011. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial results of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs associated with acquisitions are charged to the Consolidated Income Statement in the year in which they are incurred.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in preparing the consolidated Financial Statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the Consolidated Income Statement and Statement of Comprehensive Income and within equity in the Consolidated Statement of Financial Position, separately from the equity attributable to the shareholders' of the parent.

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

2. Accounting policies (continued)

d. Premiums

Premium and reinsurance premium adjustments are recognised in the year that they arise.

Unearned premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the end of the reporting period, calculated on a time apportionment basis having regard where appropriate, to the incidence of risk.

e. Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

f. Claims provisions and related reinsurance recoveries

Provisions are made in insurance company subsidiaries and in the Lloyd's syndicates on which the Group participates for the full estimated costs of claims notified but not settled, including claims handling costs, on the basis of the best information available, taking account of inflation and latest trends in court awards. The Directors of the subsidiaries, with the assistance of run-off managers, independent actuaries and internal actuaries, have established such provisions on the basis of their own investigations and their best estimates of insurance payables. Legal advice is taken where appropriate. Deductions are made for salvage and other recoveries as appropriate.

The approach taken in establishing claims provisions is as follows:-

- Where we have agreed the quantum they are treated as case reserves
- Where claims are not agreed or are in dispute, an assessment will be made whether the estimate of the liabilities is to be held as case reserves or incurred but not reported ("IBNR")

The provisions for claims IBNR have been based on a number of factors including previous experience in claims and settlement patterns, the nature and amount of business written, inflation and the latest available information as regards specific and general industry experience of trends.

A reinsurance asset (reinsurers' share of insurance liabilities) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the outstanding claims reported and IBNR under insurance liabilities. The amount recoverable from reinsurers is initially valued on the same basis as the underlying claims provision. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Group may not receive all amounts due under the contract and the event has a reliably measurable impact on the expected amount that will be recovered from the reinsurer. Neither the outstanding claims nor the provisions for IBNR have been discounted.

The uncertainties which are inherent in the process of estimating are such that, in the normal course of events, unforeseen or unexpected future developments may cause the ultimate cost of settling the outstanding liabilities to differ materially from that presently estimated. Any differences between provisions and subsequent settlements are dealt with in the income statement in the year which they arise. Having regard to the significant uncertainty inherent in the business of insurance as explained in Note 3, and in the light of the information presently available, in the opinion of the Directors the provisions for outstanding claims and IBNR in the consolidated Financial Statements are fairly stated.

Unexpired risks provision

Provisions for unexpired risks are made where the costs of outstanding claims, related expense and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the end of the reporting period. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

Closed years of account

At the end of the third year, the underwriting year of account of a Lloyd's syndicate is normally closed by way of a Reinsurance to Close into the following underwriting year of account of the same syndicate. The amount of the Reinsurance to Close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated costs of administering those claims. Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

Run-off years of account

Where an underwriting year of account of a Lloyd's syndicate is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that underwriting year of account. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the members participating therein until the relevant underwriting year of account is closed by way of a Reinsurance to Close into the successor underwriting year of account or a later underwriting year of account of another syndicate. As a result any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

g. Provisions for future costs

Claims handling costs

Full provision is made for anticipated costs of running off the business of the insurance company subsidiaries and syndicates to the extent that the provision exceeds the estimated future investment return expected to be earned by those subsidiaries. Changes in the estimates of such costs and future investment return are reflected in the year in which the estimates are made.

When assessing the amount of future investment income to be recognised, the investment return and claims handling and all other costs of all the insurance company subsidiaries are considered in aggregate.

The uncertainty inherent in the process of estimating the period of run off and the payout pattern over that period, the anticipated run off administration costs to be incurred over that period and the level of investment return to be made are such that in the normal course of events unforeseen or unexpected future developments may cause the ultimate costs of settling the outstanding liabilities to differ from that previously estimated.

h. Structured settlements

Certain of the US insurance company subsidiaries have entered into structured settlements whereby their liability has been settled by the purchase of annuities from third party life insurance companies in favour of the claimants. The subsidiary retains the credit risk in the unlikely event that the life insurance company defaults on its obligations to pay the annuity amounts. Provided that the life insurance company continues to meet the annuity obligations, no further liability will fall on the insurance company subsidiary. The amounts payable to policyholders are recognised in liabilities. The amount payable to claimants by the third party life insurance companies are also shown in liabilities as reducing the Groups liability to nil.

In the opinion of the Directors, this treatment reflects the substance of the transaction on the basis that any remaining liability of group companies under structured settlements will only arise upon the failure of the relevant third party life insurance companies.

Should the Directors become aware that a third party life insurance company responsible for the payment of an annuity under a structured settlement may not be in a position to meet its annuity obligations in full, provision will be made for any such failure.

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

i. Segmental reporting

A business segment is a component of an entity that is engaged in business combinations from which it may earn revenues and incur expenses, whose results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available.

j. Foreign currency translation

i) Functional and presentational currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated Financial Statements are presented in thousands of sterling, which is the Group's functional and presentational currency.

ii) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period; the resulting foreign exchange gain or loss is recognised in the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated.

The assets and liabilities of overseas subsidiaries, including associated goodwill, held in functional currencies other than sterling are translated from their functional currency into sterling at the exchange rate at the balance sheet date. Income and expenses are translated at average rates for the period.

Foreign exchange differences arising from retranslation of the opening net assets of each overseas subsidiary, the translation of income and expenses at the average rate, the associated goodwill of the overseas subsidiaries and the opening net assets held in currency by each UK insurance company subsidiary are recognised initially in other comprehensive income and subsequently in the income statement in the year in which the entity is disposed of.

k. Financial instruments

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

Financial assets

i) Acquisition

On acquisition of a financial asset, the group is required to classify the asset into one of the following categories: financial assets at fair value through the profit and loss, loans and receivables, held to maturity and available for sale. The group does not currently make use of the held to maturity and available for sale classifications.

ii) Financial assets at fair value through profit and loss

All financial assets, other than cash, loans and receivables are currently designated as fair value through the profit and loss upon initial recognition because they are managed and their performance is evaluated

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2. Accounting policies (continued)

k. Financial instruments(continued)

ii) Financial assets at fair value through profit and loss (continued)

on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the group's key management. The group's investment strategy is to invest and evaluate their performance with reference to their fair values.

iii) Fair value measurement

When available, the group measures the fair value of an instrument using quoted prices in an active market for that instrument.

If a market for a financial instrument is not active, the group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same or discounted cash flow analyses.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the group entity and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the group believes a third-party market participant would take them into account in pricing a transaction.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through profit or loss are recognised in the income statement when incurred. Financial assets at fair value through the income statement are measured at fair value, and changes therein are recognised in the income statement. Net changes in the fair value of financial assets at fair value through the income statement exclude interest and dividend income, as these items are accounted for separately as set out below.

iv) Insurance receivables and payables

Insurance receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Insurance receivables are classified as 'loans and receivables' as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance receivables are measured at amortised cost less any provision for impairments. Insurance payables are stated at amortised cost.

v) Other receivables

Other receivables principally consist of prepayments, accrued income and sundry debtors and are carried at amortised cost less any impairment losses.

vi) Investment income

Investment income consists of dividends, interest, realised and unrealised gains and losses and foreign exchange gains and losses on financial assets at fair value through the profit and loss. The realised gains or losses on disposal of an investment are the difference between the proceeds and the original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the reporting date, and the carrying value at the previous period end or purchase value during the period.

Financial liabilities

i) Borrowings

Borrowings are initially recorded at fair value less transaction costs incurred. Subsequently borrowings are stated at amortised cost and interest is recognised in the income statement over the period of the borrowings.

ii) Preference shares

Preference A and B shares are classified as equity.

l. Employee benefit trust

The Group makes contributions to an Employee Benefit Trust ("EBT"). The assets and liabilities of the EBT are consolidated until such time as the contributions vest unconditionally with identified beneficiaries. The income statement expense reflects the period in which the Company benefits from the employees services.

m. Leases

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

n. Property, plant and equipment

All assets included within property, plant and equipment ("PPE") are carried at historical cost. Depreciation is calculated to write down the cost less estimated residual value of motor vehicles, office equipment, computer equipment and leasehold improvements by the straight line method over their expected useful lives. The principal rates per annum used for this purpose are:

	%
Motor vehicles	25
Office equipment	8 – 50
IT equipment	25 – 33.3
Leasehold improvements	Term of lease

The gain or loss arising on the disposal of an item of PPE is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

o. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the fair value of the consideration paid for the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment biannually or if events or changes in circumstances indicate that the carrying value may be impaired.

Assets and liabilities for insurance companies acquired are included in the Groups balance sheet in accordance with the Groups accounting policies for insurance contracts. Any material differences that arise between the amounts included in the Groups Financial Statements and the fair value of those assets and liabilities is regarded as an intangible asset and accounted for in accordance with IFRS 4.

When assessing the amount of future investment income to be recognised, the investment returns, the claims handling and all other costs of all the insurance company subsidiaries are considered in aggregate.

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 on acquisitions are quantified according to a fair value exercise. The assessment of such intangibles may include consideration of customer contracts and customer relationships.

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

	%
Purchased IT software	20 – 33.3 per annum
On acquisition of insurance companies	Estimated period of run-off
On acquisitions - other	Useful life

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement to reduce the carrying amount to the recoverable amount.

q. Employee benefits

The Group makes contributions to defined contribution schemes and a defined benefit scheme.

The pension cost in respect of the defined contribution schemes represents the amounts payable by the Group for the year. The funds of the schemes are administered by trustees and are separate from the Group. The Group's liability is limited to the amount of the contributions.

The defined benefit scheme is funded by contributions from a subsidiary company and its assets are held in a separate Trustee administered fund. Pension scheme assets are measured at market value, and liabilities are measured using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability.

Current service cost, interest cost, the expected return on scheme assets and any curtailments/settlements are charged to the income statement. Pension liabilities are recognised and disclosed separately in the statement of financial position. Surpluses are only recognised up to the aggregate of any cumulative unrecognised net actuarial gains and past service costs, and the present value of any economic benefits available in the form of any refunds or reductions in future contributions.

Subject to the restrictions relating to the recognition of a pension surplus, all actuarial gains and losses are recognised in full in other comprehensive income in the period in which they occur.

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.

s. Finance costs

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

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

Operating expenses are accounted for on an accruals basis.

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

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

Onerous contract provisions are provided for in circumstances where a legal commitment exists to provide services for which we will receive no management fee income. The costs of administrating such contracts are projected based on management assessment. Investment income on associated funds is taken into account when calculating the level of provision required.

2. Accounting policies (continued)

u. Other income

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

Management and consultancy fees

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

Debt collection fees

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

Purchased reinsurance receivables

Purchased reinsurance receivables are generally purchased at a discount to their principal amount. They are initially recorded at cost.

When receivables are purchased in bulk, the Directors allocate the cost to individual or groups of receivables based on the characteristics and quality of the respective elements.

When purchased reinsurance receivables are realised, the book value of such receivables is charged to the income statement. When interim distributions are received from liquidations, a proportion of the original cost is matched against the receipt. The proportion allocated is based on the estimate of the probable ultimate dividends to be received.

Proceeds arising from the sale or recovery of purchased reinsurance receivables are recognised when received.

Profit commission on managed Lloyd's syndicate

Profit commission from managed syndicates is recognised when earned as the related underwriting profits from the managed syndicates are recognised.

Profit commission receivable on open underwriting years may be subject to further adjustment (up or down) as the results are reported prior to closure of the account in accordance with Lloyd's reinsurance to close arrangements. Adjustments to profit commission as a result of such movements are recognised when a reliable estimate of any adjustments can be made.

Distribution of profits and collection of losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

Insurance commissions and fees

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

v. Share based payments

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

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

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 income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised respectively in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Deferred tax liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated Financial Statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination and which, at the time of the transaction, affects neither accounting nor taxable profit or loss, it is not provided for.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are determined using tax rates that have been enacted by the balance sheet date or substantively enacted and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

x. Share capital

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

y. Distributions

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

3. Estimation techniques, uncertainties and contingencies

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

Claims provisions

The Group participates on a number of syndicates and owns a number of insurance companies in run-off. The consolidated Financial Statements include provisions for all outstanding claims and IBNR, for related reinsurance recoveries and for all costs expected to be incurred to run-off its liabilities.

The provision for claims outstanding and IBNR is based upon actuarial and other studies of the ultimate cost of liabilities including exposure based and statistical estimation techniques. There are significant uncertainties inherent in the estimation of each insurance company subsidiary's insurance liabilities and reinsurance recoveries. There are many assumptions and estimation techniques that may be applied in assessing the amount of those provisions which individually could have a material impact on the amounts of liabilities, related reinsurance assets and reported shareholders' equity funds disclosed in the consolidated Financial Statements. Actual experience will often vary from these assumptions, and any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified. Potential adjustments arising in the future could, if adverse in the aggregate, exceed the amount of shareholders' equity funds of an insurance company subsidiary.

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

The business written by the insurance company subsidiaries consists in part of long tail liabilities, including asbestos, pollution, health hazard and other US liability insurance. The claims for this type of business are typically not settled until several years after policies have been written. Furthermore, much of the business written by these companies is re-insurance and retrocession of other insurance companies, which lengthens the settlement period.

Significant delays occur in the notification and settlement of certain claims and a substantial measure of experience and judgement is involved in making the assumptions necessary for assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The gross provisions for claims outstanding and related reinsurance recoveries are estimated on the basis of information currently available. Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

The provision for claims outstanding includes significant amounts in respect of notified and potential IBNR claims for long tail liabilities. The settlement of most of these claims is not expected to occur for many years, and there is significant uncertainty as to the timing of such settlements and the amounts at which they will be settled.

While many claims are clearly covered and are paid quickly, many other claims are subject to significant disputes, for example over the terms of a policy and the amount of the claim. The provisions for disputed claims are based on the view of the directors of each insurance company subsidiary as to the expected outcomes of such disputes. If the outcome differs substantially from expectation there could be a material impact on the Group's liabilities. Claim types impacted by such disputes include asbestos, pollution and certain health hazards and retrocessional reinsurance claims.

Uncertainty is further increased because of the potential for unforeseen changes in the legal, judicial, technological or social environment, which may increase or decrease the cost, frequency or reporting of claims, and because of the potential for new sources or types of claim to emerge.

Asbestos, pollution and health hazard claims

The estimation of the provisions for the ultimate cost of claims for asbestos, pollution and health hazard is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of asbestos, pollution and health hazard claims with the same degree of reliability as with other types of claims. Consequently, traditional techniques for estimating claims provisions cannot wholly be relied upon. The Group employs further techniques which utilise, where possible the exposure to these losses by contract to determine the claims provisions.

3. Estimation techniques, uncertainties and contingencies (continued)

Insurance run-off expenses

The provision for the cost of handling and settling outstanding claims to extinction and all other costs of managing the run off is based on an analysis of the expected costs to be incurred in run-off activities, incorporating expected savings from the reduction of transaction volumes over time.

The period of the run off may be between 5 and 50 years depending upon the nature of the liabilities within each insurance company subsidiary. Ultimately, the period of run-off is dependent on the timing and settlement of claims and the collection of reinsurance recoveries; consequently similar uncertainties apply to the assessment of the provision for such costs.

Reinsurance recoveries

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

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

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

Defined benefit pension scheme

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

Litigation, mediation and arbitration

The Group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectorial inquiries in the normal course of its business. The Directors do not believe that, any current mediation, arbitration, regulatory, governmental or sectorial inquiries and pending or threatened litigation or dispute could have a material adverse effect on the Group's financial position, although there can be no assurance that losses resulting from any current mediation, arbitration, regulatory, governmental or sectorial inquiries and pending or threatened litigation or dispute will not materially affect the Group's financial position or cash flows for any period.

Changes in foreign exchange rates

The Group's consolidated Financial Statements are prepared in pounds sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly the Euro and the US dollar, into pounds sterling will impact the reported consolidated financial position, results of operations and cash flows from year to year. These fluctuations in exchange rates will also impact the pound sterling value of our investments and the return on our investments. Income and expenses for each income statement item are translated at average exchange rates. Statement of financial position assets and liabilities are translated at the closing exchange rates at the balance sheet date.

4. Risk management

The Group's activities expose it to a variety of financial and non-financial risks. The Board is responsible for managing the Group's exposure to these risks and, where possible, for introducing controls and procedures that mitigate the effects of the exposure to risk. A full detail of how the Group manages risks is detailed in the Report of the Directors, including how the Group manages its capital risk.

The following describes the Group's exposure to the more significant risks and the steps management have taken to mitigate their impact from a quantitative and qualitative perspective.

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

The investment of the Group's financial assets, except certain deposits with ceding undertakings, is managed by external investment managers. The Group investment committee set the policy followed by the investment managers. The investment strategy strives to mitigate the impact of interest rate fluctuation and credit risks and to provide appropriate liquidity.

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

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

	2012 £m	2011 £m
Government and government agencies	18.7	62.2
Corporate bonds	111.7	112.0
Equities	12.4	7.2
Cash based investment funds	31.6	16.6
Cash and cash equivalents	52.2	37.2
	226.6	235.2

	%	%
Government and government agencies	8.3	26.4
Corporate bonds	49.3	47.6
Equities	5.5	3.1
Cash based investment funds	13.9	7.1
Cash and cash equivalents	23.0	15.8
	100.0	100.0

Corporate bonds include asset backed mortgage obligations totalling £105.0m (2011: £29.5m)

Based on invested assets at external managers of £174.3m as at 31 December 2012 (2011: £198.0m) a 1 percentage increase/decrease in market price would result in an increase/decrease in the profit before income taxes for the year to 31 December 2012 of £1.7m (2011: £2.0m).

In excess of 98% (2011: 97%) of all Group investments are valued based on quoted prices in active markets, which are classified as level 1 under IFRS 7, there is no requirement to analyse them further in this regard.

4. Risk management (continued)

a. Investment risks (including market risk) (continued)

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

As at 31 December 2012

Maturity date or contractual re-pricing date

	Total £m	Less than one year £m	After one year but less than two years £m	After two years but less than three years £m	After three years but less than five years £m	More than five years £m
Fixed rate	162.0	53.5	10.6	22.8	41.8	33.3

Interest rate ranges (coupon-rates)

	Less than one year %	After one year but less than two years %	After two years but less than three years %	After three years but less than five years %	More than five years %
Fixed rate	0.5-6.5	0.451-6.95	0.464-9.875	0.304-6.25	0.304-5.75

As at 31 December 2011

Maturity date or contractual re-pricing date

£m	Total £m	Less than one year £m	After one year but less than two years £m	After two years but less than three years £m	After three years but less than five years £m	More than five years
Fixed rate	190.8	24.1	9.8	23.1	78.4	55.4

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 %
Fixed rate	0.5-7	1.375-6.5	1-8.5	0.273-9.875	0.594-9.85

b. Credit risk

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

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

As at 31 December 2012

	A rated £000	B rated £000	Less than B £000	Other * £000	Exposures of less than £0.2m £000	Total £000
Deposits with ceding undertakings	1,062	451	-	-	2,076	3,589
Reinsurers' share of insurance liabilities	111,439	4,476	331	10,580	22,162	148,988
Receivables arising out of reinsurance contracts	25,275	542	-	4,030	13,193	43,040

* Other includes reinsurers who currently have no credit rating

The reinsurers' share of insurance liabilities is based upon a best estimate given the profile of the insurance provisions outstanding and the related IBNR.

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

	0-6 months %	6-12 months %	12-24 months %	> 24 months %
Percentage of receivables	35.2	21.2	18.6	25.0

A substantial section of the Group's business consists of acquiring debts or, companies with debts, which are normally past due. Any further analysis of these debts is not meaningful. The Directors monitor these debts closely and make appropriate provision for impairment.

The Directors believe the amounts past due but not impaired, after allowing for any provision made, are recoverable in full.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4. Risk management (continued)

b. Credit risk (continued)

As at 31 December 2011

	A rated £000	B rated £000	Less than B £000	Other * £000	Exposures of less than £0.2m £000	Total £000
Deposits with ceding undertakings	824	-	-	253	2,689	3,766
Reinsurers' share of insurance liabilities	94,106	7,634	399	43,205	21,401	166,745
Receivables arising out of reinsurance contracts	16,228	1,763	-	13,541	13,730	45,262

* Other includes reinsurers who currently have no credit rating

The reinsurers' share of insurance liabilities is based upon a best estimate given the profile of the insurance provisions outstanding and the related IBNR.

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

	0-6 months %	6-12 months %	12-24 months %	> 24 months %
Percentage of receivables	51.9%	15.6%	11.4%	21.1%

A substantial section of the Group's business consists of acquiring debts or, companies with debts, which are normally past due. Any further analysis of these debts is not meaningful. The Directors monitor these debts closely and make appropriate provision for impairment.

The Directors believe the amounts past due but not impaired, after allowing for any provision made, are recoverable in full.

c. Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's principal transactions are carried out in UK sterling and its exposure to foreign exchange risk arise primarily with respect to US dollar and Euros.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities. This mitigates the foreign currency exchange rate risk for the overseas operations. Thus, the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment contract liabilities are expected to be settled. The currency risk is effectively managed by the Group through derivative financial instruments. Forward currency contracts are in place to eliminate the currency exposure on individual foreign transactions. The Group will not enter into these forward contracts until a firm commitment is in place.

The significant exchange rates as at the 31 December were USD 1.61 (2011: 1.54) and EUR 1.22 (2011: 1.19).

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

31 December 2012	STG £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Intangible assets	10,346	5,329	-		15,675
Reinsurance assets	8,879	139,859	250	-	148,988
Financial investments	28,657	133,090	16,517	603	178,867
Insurance receivables	4,957	40,839	816	-	46,612
Cash and cash equivalents	38,117	4,900	8,827	419	52,263
Insurance liabilities including provisions	(65,827)	(274,258)	(15,616)	-	(355,701)
Other provisions	(5,997)	(167)	-	-	(6,164)
Trade and other (payables)/receivables	19,847	(22,189)	(4,764)	(946)	(8,052)
31 December 2011	**STG £'000**	**US Dollar £'000**	**Euro £'000**	**Other £'000**	**Total £'000**
Intangible assets	8,982	5,528	-		14,510
Reinsurance assets	(4,404)	171,000	149	-	166,745
Financial investments	36,568	148,999	16,743	490	202,800
Insurance receivables	8,898	36,808	1,051	-	46,757
Cash and cash equivalents	16,369	14,630	5,617	567	37,183
Insurance liabilities including provisions	(32,836)	(338,915)	(15,590)	-	(387,341)
Other provisions	(2,794)	(317)	-	-	(3,111)
Trade and other (payables)/receivables	15,470	(11,082)	(12,028)	(2,371)	(10,011)

The Group has no significant concentration of currency risk.

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

		31 December 2012		31 December 2011	
Currency	Changes in variables	Impact on profit £'000	Impact on equity* £'000	Impact on profit £'000	Impact on equity* £'000
Euro	+10%	(661)	(888)	2	369
USD	+10%	(19)	(2,680)	89	(2,209)
Euro	-10%	804	1,084	(2)	(451)
USD	-10%	21	3,275	(110)	2,700

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

4. Risk management (continued)

d. Insurance risk

The Group participates on Syndicates summarised below:-

Syndicate	Year of account	Syndicate Capacity £	Group capacity £	Status
1991	2013	76,934,431	12,403,312	Active
1897	2013	70,000,000	5,833,333	Active
1897	2012	60,000,000	5,000,000	Active
1897	2011	60,000,000	5,000,000	Active
102	2011	3,500,000	700,000	Active*
3330	2012	3,000,000	3,000,000	Active*

* Syndicates 102 and 3330 underwrite the Reinsurance to Close of other Lloyd's Syndicates.

None of the Group's insurance company subsidiaries are writing new business and all are in run-off; the date at which each entity went into run off together with the date that each was acquired by the Group is summarised below:-

Subsidiary	Date business entered run off	Date acquired by the Group
La Metropole SA	1995	29 November 2000
Transport Insurance Company	1996	30 November 2004
R&Q Reinsurance Company	1994	3 July 2006
R&Q Reinsurance (Belgium) Limited	1994	3 July 2006
R&Q Reinsurance (UK) Limited	1990	3 July 2006
Chevanstell Limited	2003	10 November 2006
R&Q Insurance Guernsey Limited (formerly Woolworths Insurance Guernsey Limited)	2009	9 June 2009
Goldstreet Insurance Company	1987	14 December 2009
La Licorne Compagnie de Reassurances SA	1991	22 April 2010
Principle Insurance Company Limited	2009	29 December 2011
Capstan Insurance Company Limited	2010	1 November 2012
LINPAC Insurance Company Limited	2006	21 December 2012
Alma Vakuutus OY	1989	27 December 2012

Claims development information is disclosed in order to illustrate the effect of the uncertainty in the estimation of future claims settlements by the Group. The tables compare the ultimate claims estimates with the payments made to date. Details are only presented on an aggregate basis and look at the movements on a gross and net basis, and separately identify the effect of the various acquisitions made by the Group since 1 January 2009.

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

	Group entities at 1 January 2009 £000	Entities acquired by the Group during 2009 £000	Entities acquired by the Group during 2010 £000	Entities acquired by the Group during 2011 £000	Entities acquired by the Group during 2012 £000
Gross provisions at:-					
1 January 2009/acquisition	571,190	8,411	6,655	16,598	33,154
First year movement	(97,588)	(1,397)	(806)	(4,319)	(15,701)
Second year movement	(43,270)	(3,100)	(3,273)	(1,457)	-
Third year movement	(85,486)	(1,386)	(335)	-	-
Fourth year movement	(47,730)	(693)	-	-	-
Gross position at 31 December 2012	297,116	1,835	2,241	10,822	17,453
Estimated gross ultimate claims at:-					
1 January 2009/acquisition	571,190	8,411	6,655	16,598	33,154
Foreign exchange	(41,858)	236	(99)	2,138	(2,169)
Payments	(245,623)	(4,280)	(3,062)	(5,534)	(3,204)
Gross position at 31 December 2012	(297,116)	(1,835)	(2,241)	(10,822)	(17,453)
(Deficit)/surplus to date	(13,407)	2,532	1,253	2,380	10,328

Analysis of claims development – net

	Group entities at 1 January 2009 £000	Entities acquired by the Group during 2009 £000	Entities acquired by the Group during 2010 £000	Entities acquired by the Group during 2011 £000	Entities acquired by the Group during 2012 £000
Net provisions at:-					
1 January 2009/acquisition	273,541	8,256	6,436	12,497	30,407
First year movement	(47,233)	(1,403)	(786)	(2,659)	(15,510)
Second year movement	(12,217)	(3,105)	(3,074)	(590)	-
Third year movement	(33,381)	(1,387)	(335)	-	-
Fourth year movement	(28,292)	(686)	-	-	-
Net position at 31 December 2012	152,418	1,675	2,241	9,248	14,897
Estimated net ultimate claims at:-					
1 January 2009/acquisition	273,541	8,256	6,436	12,497	30,407
Foreign exchange	(16,474)	232	(106)	2,219	(2,124)
Payments	(80,459)	(3,927)	(2,989)	(4,012)	(2,760)
Net position at 31 December 2012	(152,418)	(1,675)	(2,241)	(9,248)	(14,897)
Surplus to date	24,190	2,886	1,100	1,456	10,626

The above figures include the Groups Lloyd's Syndicates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5. Segmental information

The Group's segments represent the level at which financial information is reported to the Board, being the chief operating decision maker as defined in IFRS 8. The reportable segments have been identified as follows:-

- Insurance Investments, which acquires legacy portfolios and insurance debt and provides capital support to the Group's managed Lloyd's Syndicates
- Insurance Services, which provides insurance related services (including captive management) to both internal and external clients in the insurance market
- Underwriting Management, which provides management to Lloyd's syndicates and operates other underwriting entities
- Other corporate activities, which primarily includes the Group holding company and other minor subsidiaries which fall outside of the segments above

Segment result for the year ended 31 December 2012

	Insurance Investments £000	Insurance Services £000	Underwriting Management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	3,883	-	-	-	-	3,883
Net investment income	13,379	1,497	197	1,155	(4,262)	11,966
External income	621	27,448	7,999	41	-	36,109
Internal income	460	16,045	3,371	-	(19,876)	-
Total income	**18,343**	**44,990**	**11,567**	**1,196**	**(24,138)**	**51,958**
Claims paid, net of reinsurance	(24,672)	-	-	-	-	(24,672)
Net change in provision for claims	40,476	-	-	-	-	40,476
Net insurance claims released	**15,804**	**-**	**-**	**-**	**-**	**15,804**
Operating expenses	(21,152)	(34,671)	(12,958)	(4,011)	19,876	(52,916)
Result of operating activities before goodwill on bargain purchase	**12,995**	**10,319**	**(1,391)**	**(2,815)**	**(4,262)**	**14,846**
Goodwill on bargain purchase	1,992	-	-	-	-	1,992
Amortisation of intangible assets	-	(55)	(65)	-	-	(120)
Result of operating activities	**14,987**	**10,264**	**(1,456)**	**(2,815)**	**(4,262)**	**16,718**
Finance costs	(1,143)	(1,778)	(325)	(1,825)	4,262	(809)
Profit/(loss) on ordinary activities before income taxes	**13,844**	**8,486**	**(1,781)**	**(4,640)**	**-**	**15,909**
Income tax credit/(charge)	72	(1,245)	75	473	-	(625)
Profit/(loss) for the year	**13,916**	**7,241**	**(1,706)**	**(4,167)**	**-**	**15,284**
Non controlling interest	(5,064)	-	(117)	-	-	(5,181)
Attributable to owners of parent	**8,852**	**7,241**	**(1,823)**	**(4,167)**	**-**	**10,102**
Segment assets	**524,469**	**105,628**	**15,743**	**(6,117)**	**(163,977)**	**475,746**
Segment liabilities	**410,425**	**82,667**	**18,642**	**62,845**	**(176,463)**	**398,116**

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

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

Segment result for the year ended 31 December 2011

	Insurance Investments £000	Insurance Services £000	Underwriting Management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	339	-	-	-	-	339
Net investment income	6,306	1,080	34	621	(1,683)	6,358
External income	803	24,894	4,399	-	-	30,096
Internal income	-	13,994	958	-	(14,952)	-
Total income	**7,448**	**39,968**	**5,391**	**621**	**(16,635)**	**36,793**
Claims paid, net of reinsurance	(29,499)	-	-	-	-	(29,499)
Net change in provision for claims	42,865	-	-	-	-	42,865
Net insurance claims released	**13,366**	**-**	**-**	**-**	**-**	**13,366**
Operating expenses	(14,038)	(34,045)	(6,504)	(2,673)	14,952	(42,308)
Result of operating activities before goodwill on bargain purchase	**6,776**	**5,923**	**(1,113)**	**(2,052)**	**(1,683)**	**7,851**
Goodwill on bargain purchase	1,541	-	-	-	-	1,541
Impairment of intangible assets	(13,286)	(172)	-	-	-	(13,458)
Result of operating activities	**(4,969)**	**5,751**	**(1,113)**	**(2,052)**	**(1,683)**	**(4,066)**
Finance costs	(262)	(411)	(56)	(1,545)	1,683	(591)
Management charges	-	(1,547)	-	1,547	-	-
(Loss)/Profit on ordinary activities before income taxes	**(5,231)**	**3,793**	**(1,169)**	**(2,050)**	**-**	**(4,657)**
Income tax credit/(charge)	3,666	(158)	(23)	684	-	4,169
(Loss)/Profit for the year	**(1,565)**	**3,635**	**(1,192)**	**(1,366)**	**-**	**(488)**
Segment assets	**503,902**	**108,423**	**7,675**	**(4,617)**	**(108,103)**	**507,280**
Segment liabilities	**408,061**	**88,926**	**8,707**	**48,096**	**(118,942)**	**434,848**

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

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

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For the year ended 31 December 2012

5. Segmental information (continued)

Geographical analysis

As at 31 December 2012

	UK £000	North America £000	Europe £000	Total £000
Gross assets	294,581	334,120	23,505	652,206
Intercompany eliminations	(140,845)	(26,150)	(9,465)	(176,460)
Segment assets	153,736	307,970	14,040	475,746
Gross liabilities	255,809	304,467	14,755	575,031
Intercompany eliminations	(141,745)	(34,638)	(532)	(176,915)
Segment liabilities	114,064	269,829	14,223	398,116
Segment income	32,777	17,817	1,364	51,958

As at 31 December 2011

	UK £000	North America £000	Europe £000	Total £000
Gross assets	254,944	350,413	20,865	626,222
Intercompany eliminations	(74,913)	(32,545)	(11,484)	(118,942)
Segment assets	180,031	317,868	9,381	507,280
Gross liabilities	215,591	323,341	14,839	553,771
Intercompany eliminations	(84,615)	(33,850)	(458)	(118,923)
Segment liabilities	130,976	289,491	14,381	434,848
Segment income	23,392	12,767	634	36,793

Other information

As at 31 December 2012

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

As at 31 December 2011

	Insurance companies in run-off £000	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Capital expenditure	-	1,405	-	-	1,405
Depreciation	-	513	-	-	513

6. Net investment income

	2012 £000	2012 £000
Investment income	5,992	7,442
Realised gains on financial assets	816	690
Unrealised gains/(losses) on financial assets	5,775	(1,369)
Investment management expenses	(617)	(405)
	11,966	6,358

7. Other income

	2012 £000	2011 £000
Administration of third party insurance clients	35,465	28,878
Expected return on pension scheme assets	1,334	1,576
Interest cost on pension scheme liabilities	(1,267)	(1,366)
Purchased reinsurance receivables (including debt collection fees)	577	1,008
	36,109	30,096

Included within other external income in Insurance Services Division is £4,796,000 which represents amounts previously classified as liabilities which no longer meets the definition of liabilities under IFRS.

8. Operating expenses

	2012 £000	2011 £000
Costs of insurance company subsidiaries	7,171	5,186
Other operating expenses	45,745	37,122
	52,916	42,308

The costs of insurance company subsidiaries exclude group charges.

9. Finance costs

	2012 £000	2011 £000
Bank loan, overdraft interest and arrangement fees	809	591

10. Profit on ordinary activities before income taxes

	2012 £000	2011 £000
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):-		
Employee benefits (Note 26)	32,179	25,475
Depreciation of fixed assets	746	513
Acquisition costs (including aborted)	142	93
Amortisation of pre contract costs	95	110
Impairment of goodwill	120	13,458
Operating lease rental expenditure	1,537	900
Operating lease rental income	(41)	(40)

Auditor Remuneration

	2012	2011
Fees payable to the Company's auditor for the audit of the annual accounts	110	105
Fees payable to the Company's auditor and its associates for other services provided to the Company and its subsidiaries:-		
The audit of the Company' subsidiaries under legislative requirements:-		
The Company's auditor	466	318
Other auditors	123	190
	589	508
Other services under legislative requirements	138	103
Services relating to corporate finance transactions		
Pre-acquisition due diligence and advice	-	48
All other services		
Advice on financial and accountancy matters	30	5

11. Income tax

	2012 £000	2011 £000
a. Analysis of charge in the year		
Current tax – continuing operations		
Current year	-	85
Adjustments in respect of previous years	(1,229)	(524)
Foreign tax	115	(1,422)
	(1,114)	(1,861)
Deferred tax	1,739	(2,308)
Income tax charge/(credit)	625	(4,169)

b. Factors affecting tax charge for the year

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

	2012 £000	2011 £000
Profit/(loss) on ordinary activities before taxation	15,909	(4,657)
Profit/(loss) on ordinary activities at the standard rate of corporation tax in the UK of 24.5% (2011: 26.49%)	3,897	(1,234)
Permanent differences	(895)	(1,439)
Depreciation in excess of capital allowances	4	(32)
Utilisation of tax losses	(2,390)	(2,326)
Timing differences – pension schemes	(16)	(56)
Other timing differences	1,570	1,876
Unrelieved losses	299	52
Foreign tax rate differences	(615)	(486)
Adjustments to the tax charge in respect of prior years	(1,229)	(524)
Income tax charge/(credit) for the year	625	(4,169)

c. Factors that may affect future tax charges

In addition to the recognised deferred tax asset, the Group has other trading losses of approximately £83.3m (2011: £81.8m) in various group companies available to be carried forward against future trading profits of those companies. The recovery of these losses is uncertain and no deferred tax asset has been provided in respect of these losses. Should it become possible to offset these losses against taxable profits in future years the Group tax charge in those years will be reduced accordingly.

12. Earnings/(loss) and net assets per share

a. Basic earning 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.

	2012 £000	2011 £000
Profit/(loss) for the year attributable to ordinary shareholders	10,103	(488)
	No. 000's	**No. 000's**
Shares in issue throughout the year	50,133	54,923
Weighted average number of shares through buy-back	-	(2,465)
Weighted average number of shares issued in the year	-	476
Weighted average number of Treasury shares held	(624)	(1,409)
Weighted average number of ordinary shares	49,509	51,525
Basic earnings/(loss) per ordinary share	20.4p	(0.9p)

b. Diluted earnings/(loss) 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.

	2012 £000	2011 £000
Profit/(loss) for the year attributable to ordinary shareholders	10,103	(488)
	No. 000's	**No. 000's**
Weighted average number of ordinary shares in issue in the year	49,509	51,525
Options	1,236	1,015
	50,745	52,540
Diluted earnings/(loss) per ordinary share	19.9p	(0.9p)

c. *Net asset value per share*

	2012 £000	2011 £000
Net assets attributable to equity shareholders as at 31 December	72,488	67,532
	No. 000's	**No. 000's**
Ordinary shares in issue as at 31 December	*49,645	*49,420
*Reduction due to shares held in treasury		
Net asset value per ordinary share	146.0p	136.7p

13. Distributions

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

	2012 £000	2011 £000
Refund of waived dividend	-	(44)
Dividend to H/D shareholders	726	714
Dividend to K/F shareholders	544	502
	1,270	1,172
Distribution on cancellation of G/C shares	1,697	1,737
Distribution on cancellation of J/E shares	1,143	1,079
Distributions to shareholders	4,110	3,988

14. Intangible assets

	Patents £000	Arising on acquisition £000	Goodwill £000	Software £000	Total £000
As at 1 January 2011	1	-	26,694	10	26,705
Exchange adjustments	-	(14)	(34)	-	(48)
Additions	-	178	1,133	-	1,311
Impairment	-	-	(13,458)	-	(13,458)
As at 31 December 2011	1	164	14,335	10	14,510
Exchange adjustments	-	4	(128)	-	(124)
Additions	-	323	1,086	-	1,409
Amortisation	-	(120)	-	-	(120)
As at 31 December 2012	1	371	15,293	10	15,675

When testing for impairment of goodwill the recoverable amount of each relevant cash generating unit is determined based on cash flow projections. These cash flow projections are based on the financial budgets approved by management covering a five year period. Management also consider the current net asset value and earnings of each cash generating unit

14. Intangible assets (continued)

Goodwill acquired through business combinations has been allocated to cash generating units, (which are also operating and reportable segments) for impairment testing as shown in the table below, including the carrying amount for each unit.

The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment.

Cash Generating Units	**2012 £000**	**2011 £000**
Insurance Investments ("IID")	474	474
Insurance Services ("ISD")	13,948	13,861
Underwriting Management ("UMD")	871	-
Total	15,293	14,335

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

Cash-generating units

The recoverable amount of these cash-generating units is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management. As a result of the analysis, no impairment was required for these cash-generating units.

Key assumptions used in value in use calculations

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

- Discount rates, which represent the current market assessment of the risks specific to each cash generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The pre-tax discount rate applied to the cash flow projections is 10.0% (2011: 10.0%). The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC) with an uplift for expected increases in interest rates. The WACC takes into account both debt and equity. The cost of equity is derived from the expected investment return, which is fundamental to the IID cash flows.
- Reduction in operating expenses, which are linked to management expectation of the run off of the insurance business managed by ISD.
- Growth rate used to extrapolate cash flows beyond the budget period, based on published industry standards. Cash flows beyond the four-year period are extrapolated using a 10.0% growth rate (2011: 10.0%).

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash-generating units, management believes that no foreseeable change in any of the above key assumptions would require an impairment of the carrying value of goodwill.

15. Property, plant and equipment

	Computer equipment £000	Motor vehicles £000	Office equipment £000	Leasehold improvements £000	Total £000
Cost					
As at 1 January 2011	1,029	11	1,076	239	2,355
Exchange adjustments	2	-	-	2	4
Acquisition of subsidiaries	8	-	-	-	8
Additions	384	-	1,021	-	1,405
Disposals	(175)	-	(299)	-	(474)
As at 31 December 2011	1,248	11	1,798	241	3,298
Exchange adjustments	(15)	-	(9)	(31)	(55)
Acquisition of subsidiaries	9	-	25	-	34
Additions	558	-	161	2	721
Disposals	(66)	-	(89)	(70)	(225)
As at 31 December 2012	1,734	11	1,886	142	3,773
Depreciation					
As at 1 January 2011	726	1	715	96	1,538
Exchange adjustments	1	-	1	2	4
Charge for the year	192	3	285	33	513
Disposals	(175)	-	(299)	-	(474)
As at 31 December 2011	744	4	702	131	1,581
Exchange adjustments	(13)	-	(7)	(28)	(48)
Charge for the year	303	3	354	86	746
Disposals	(66)	-	(89)	(70)	(225)
As at 31 December 2012	968	7	960	119	2,054
Net book value					
As at 31 December 2012	766	4	926	23	1,719
As at 31 December 2011	504	7	1,096	110	1,717

As at 31 December 2012, the Group had no significant capital commitments (2011: none). The depreciation charge for the year is included in operating expenses.

16. Financial assets and Investment Properties

a. Investment properties

	2012 £000	2011 £000
As at 31 December	1,004	1,022

The reduction in the valuation of these properties is due to foreign exchange movements of £18,000 (2011: £20,000); the change in market value was nil (2011: nil).

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

	2012 £000	2011 £000
Equities	12,384	7,241
Debt securities – fixed interest rate	161,890	190,771
	174,274	198,012

In the normal course of business insurance company subsidiaries have deposited investments in 2012 of £0.1m (2011: £0.1m) in respect of certain contracts in escrow which can only be released or withdrawn with the approval of the appropriate regulatory authority.

Included in the Debt securities – fixed interest rate, is £11.0m (2011 - £5.5m) pledged as Funds at Lloyd's to support the Groups' underwriting activities in 2013. Lloyd's has the right to apply these monies in the event the corporate member fails to meet its obligations. These monies are not available to meet the Group's own working capital requirements and can only be released with Lloyd's express permission.

c. *Shares in subsidiary undertakings and other investments*

The Company has interests in the following subsidiaries at 31 December 2012:-

Principal activity and name of subsidiaries	*Country of incorporation /registration*	*% of ordinary shares held by: The Company*	*Subsidiary undertakings*	*Overall effective % of share capital held*
Insurance Investments Division				
Randall & Quilter II Holdings Limited	England	100	-	100
Chevanstell Ltd	England	-	100	100
Goldstreet Insurance Company	USA	-	100	100
La Metropole Compagnie Belge d'Assurance SA	Belgium	-	100	100
R&Q Insurance (Guernsey) Ltd	Guernsey	-	100	100
R&Q Reinsurance Company	USA	-	100	100
R&Q Reinsurance Company (Belgium)	Belgium	-	100	100
R&Q Reinsurance Company (UK) Ltd	England	-	100	100
Transport Insurance Company	USA	-	100	100
R&Q Liquidity Management Ltd	England	-	100	100
R&Q Capital No 1 Ltd	England	-	90.01	90.01
R&Q Capital No 2 Ltd	England	-	100	100
La Licorne Compagnie de Reassurances SA	France	-	100	100
R&Q Re (Bermuda) Ltd	Bermuda	-	100	100
Chevanstell Management Ltd	England	-	100	100
Principle Insurance Company Limited	England	100	-	100
Capstan Insurance Company Limited	Guernsey	-	100	100
LINPAC Insurance Company Limited	Guernsey	-	100	100
Alma Vakuutus OY	Finland	-	100	100
Insurance Services Division				
Randall & Quilter IS Holdings Limited	England	100	-	100
R&Q Insurance Services Ltd	England	-	100	100
R&Q KMS Management Ltd	England	-	100	100
R&Q Audit & Inspection Ltd	England	-	100	100
R&Q Archive Services Limited	England	-	100	100
R&Q Broking Services Ltd	England	-	100	100
JMD Specialist Insurance Services Group Ltd	England	-	100	100
JMD Specialist Insurance Services Ltd	England	-	100	100
R&Q CG Limited	England	-	100	100
Callidus Secretaries Ltd	England	-	100	100
Callidus Solutions Ltd	England	-	100	100
R&Q Consultants Ltd	England	-	100	100
ReQuiem Ltd	England	-	100	100
Reinsurance Solutions Ltd	England	-	100	100
Randall & Quilter America Holdings Inc	USA	100	-	100
R&Q Services Holding Inc	USA	-	100	100
ReQuiem America Inc	USA	-	100	100
Syndicated Services Company Inc	USA	-	100	100
John Heath & Company Inc	USA	-	100	100
Excess and Treaty Management Corp	USA	-	100	100
R&Q Solutions LLC	USA	-	100	100
RSI Solutions International Inc	USA	-	100	100
R&Q Quest Management Services USA LLC	USA	-	100	100
Randall & Quilter Canada Holdings Ltd	Canada	100	-	100
A. M. Associates Insurance Services Ltd	Canada	-	100	100

16. Financial assets (continued)

c. *Shares in subsidiary undertakings and other investments (continued)*

Principal activity and name of subsidiaries	*Country of incorporation /registration*	*% of ordinary shares held by: The Company*	*Subsidiary undertakings*	*Overall effective % of share capital held*
Insurance Services Division (continued)				
Randall & Quilter Captive Holdings Limited	England	100	-	100
Randall & Quilter Bermuda Holdings Ltd	Bermuda	-	100	100
R&Q Quest Management Services Ltd	Bermuda	-	100	100
R&Q Quest (SAC) Ltd	Bermuda	-	100	100
R&Q Intermediaries (Bermuda) Ltd	Bermuda	-	100	100
Randall & Quilter Nordic Holdings APS	Denmark	-	100	100
Triton Insurance Management AS	Denmark	-	100	100
R&Q Triton AS	Norway	-	100	100
R&Q Triton Claims AS	Norway	-	100	100
R&Q Caledonian Insurance Management Services Ltd	Gibraltar		100	100
Caledonian Insurance Brokers Ltd	Gibraltar	-	75	75
R&Q Quest Insurance Management (IOM) Ltd	Isle of Man	-	100	100
R&Q Jersey PCC	Jersey	-	100	100
R&Q Quest PCC LLC	USA	-	100	100
Underwriting Management				
Randall & Quilter Underwriting Management Holdings Limited	England	100	-	100
R&Q Managing Agency Ltd	England	-	100	100
R&Q MGA Ltd	England	-	100	100
R&Q Risk Services Canada Limited	Canada	-	100	100
R&Q Commercial Risk Services Limited	England	-	100	100
R&Q Just Underwriting Group Limited	England	-	100	100
Altus Management Partners LLP	England	-	100	100
R&Q Marine Services Limited	England	-	75	75
KMS Insurance Services Ltd	England	-	100	100
KMS Employment Ltd	England	-	100	100
Synergy Insurance Services (UK) Ltd	England	-	100	100
Others				
R&Q (EC3) Ltd	England	100	-	100
R&Q Secretaries Ltd	England	100	-	100
Ken Randall Associates Ltd	England	100	-	100
R&Q No. 1 Ltd	England	100	-	100
Malling Investments Ltd	England	-	100	100
R&Q Oast Ltd	England	100	-	100
R&Q Ludgate No. 1 Ltd	England	100	-	100

17. Insurance and other receivables

	2012 £000	2011 £000
Debtors arising from direct insurance operations	3,571	1,494
Debtors arising from reinsurance operations	43,040	45,262
Insurance receivables	46,611	46,756
Trade debtors	2,521	2,693
Other debtors/receivables	3,912	9,519
Purchased reinsurance receivables	6,598	8,144
Prepayments and accrued income	8,844	9,086
	21,875	29,442
	68,486	76,198
Due within 12 months	68,486	76,198
Due after 12 months	-	-
	68,486	76,198

Included in other debtors/receivables is an amount of £800,000 (2011: £600,000) is held in escrow in respect of the defined benefit scheme.

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

18. Cash and cash equivalents

	2012 £000	2011 £000
Cash at bank and in hand	52,263	37,183

Included in cash and cash equivalents is £464,713 (2011: £471,550) being funds held in escrow accounts in respect of guarantees provided to the Institute of London Underwriters ("ILU"). The decrease is due to exchange movements.

In the normal course of business insurance company subsidiaries will have deposited funds in respect of certain contracts which can only be released with the approval of the appropriate regulatory authority. The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

Insurance broking fiduciary funds of £17,026,690 (2011: £10,369,000), which are used to pay premiums to underwriters and settle claims to policy holders, are not included in the above cash balances.

19. Current income tax

	2012 £000	2011 £000
Current tax assets	4,365	2,769

20. Insurance and other payables

	2012 £000	2011 £000
Structured liabilities	350,117	370,340
Structured settlements	(350,117)	(370,340)
	-	-
Creditors arising from reinsurance operations	23,866	18,469
Creditors arising from direct insurance operations	695	4,351
Insurance payables	24,561	22,820
Trade creditors	1,034	2,489
Other taxation and social security	776	738
Other creditors	8,639	13,775
Accruals and deferred income	4,257	3,570
Due within 12 months	39,267	43,392

The carrying values disclosed above reasonably approximate their fair values at the statement of financial position date.

Structured Settlements

No new structured settlement arrangements have been entered into during the year. The movement in these structured liabilities during the period is primarily due to exchange movements. The Group has paid for annuities from third party life insurance companies for the benefit of certain claimants. In the event that any of these life insurance companies were unable to meet their obligations to these annuitants, any remaining liability would fall upon the respective insurance company subsidiaries. The subsidiary company retains the credit risk in the unlikely event that the life insurance company defaults on its obligations to pay the annuity amounts. The Directors believe that, having regard to the quality of the security of the life insurance companies, the possibility of a material liability arising in this way is very unlikely. The life companies will settle the liability directly with the claimants and no cash will flow through the group. These annuities have been shown as reducing the insurance companies liabilities to reflect the substance of the transactions and to ensure that the disclosure of the balances does not detract from the users' ability to understand the Group's future cash flows.

Quest – Segregated Cells

R&Q Quest (SAC) Limited is a segregated cell company in which assets and liabilities are held separately in segregated cells. The assets and liabilities of the segregated cells and the profits and losses of each cell are not available for use by Quest, nor the Group, and as such these balances are not included in the consolidated statement of financial position. The amounts held on behalf of the segregated cells as at 31 December 2012 amount to £58,594,000 (2011: £59,097,000).

21. Financial liabilities

	2012 £000	2011 £000
Amounts owed to credit institutions	18,939	23,224

Amounts due to credit institutions are payable as follows:-

	2012 £000	2011 £000
Less than one year	2,328	2,000
Between one to five years	16,611	21,224
	18,939	23,224

As outlined in Note 32 the amounts owed to credit institutions are secured by debentures over the assets of the Company and various of its subsidiaries.

22. Insurance contract provisions and reinsurance balances

Gross	2012 £000	2011 £000
Claims outstanding at 1 January	362,229	440,095
Claims paid	(79,871)	(80,777)
Increase in provisions arising from the acquisition of subsidiary undertakings and syndicate participations	33,416	16,599
Strengthening/(release) of provisions	26,052	(13,223)
Net exchange differences	(12,359)	(465)
As at 31 December	329,467	362,229

Reinsurance	2012 £000	2011 £000
Reinsurers share of claims outstanding at 1 January	166,745	216,607
Reinsurers share of gross claims paid	(55,199)	(51,278)
Increase in provisions arising from the acquisition of subsidiary undertakings and syndicate participations	2,747	4,102
Strengthening of provisions	41,855	143
Net exchange differences	(7,160)	(2,829)
As at 31 December	148,988	166,745

Net	2012 £000	2011 £000
Net claims outstanding at 1 January	195,484	223,488
Net claims paid	(24,672)	(29,499)
Increase in provisions arising from the acquisition of subsidiary undertakings	30,669	12,497
Release of provisions	(15,803)	(13,366)
Net exchange differences	(5,199)	2,364
As at 31 December	180,479	195,484

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

22. Insurance contract provisions and reinsurance balances (continued)

Assumptions, changes in assumptions and sensitivity

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

Provision is made at the balance sheet date for the estimated ultimate cost of settling all claims incurred in respect of events and developments up to that date, whether reported or not. The source of data used as inputs for the assumptions is primarily internal.

As detailed in Note 3 significant uncertainty exists as to the likely outcome of any particular claim and the ultimate costs of completing the run off of the Group's insurance operations.

The provisions carried by the Group for its insurance liabilities are calculated using a variety of actuarial techniques. The provisions are calculated and reviewed by the Group's internal actuarial team; in addition the Group periodically commissions independent external actuarial reviews. The use of external advisors provides management with additional comfort that the Groups internally produced statistics and trends are consistent with observable market information and other published data.

As detailed in Note 2 (f) when preparing these consolidated Financial Statements full provision is made for all costs of running off the business of the insurance subsidiaries to the extent that the provision exceeds the estimated future investment return expected to be earned by those subsidiaries. The quantum of the costs of running off the business and the future investment income has been determined through the preparation of cash flow forecasts over the anticipated period of the run offs using internally prepared budgets and forecasts of expenditure, investment income and actuarially assessed settlement patterns for the gross provisions. The gross costs of running off the business are estimated to be fully covered by investment income. Full provision is also made to run-off the underwriting years for those syndicates on which the Group participates.

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 within the Group are covered by a variety of treaty, excess of loss and stop loss reinsurance programmes.

The provisions disclosed in the consolidated Financial Statements are sensitive to a variety of factors including:

- Settlement and commutation activity of third party lead reinsurers
- Development in the status of settlement and commutation negotiations being entered into by the Group
- The financial strength of the Group's reinsurers and the risk that these entities could, in time, become insolvent or could otherwise default on payments
- Future cost inflation of legal and other advisors who assist the Group with the settlement of claims
- Changes in statute and legal precedent which could particularly impact provisions for asbestos, pollution and other latent exposures
- Arbitration awards and other legal precedents which could particularly impact upon the presentation of both inwards and outwards claims on the Group's exposure to major catastrophe losses

A 1 per cent reduction in the net technical provisions would increase net assets by £1.8m (2011: £2.0m).

23. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 23% for the UK (2011: 25%) and 34% for the US (2011: 35%).

Deferred tax assets and liabilities

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities during the year are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

	Deferred tax assets £000	Deferred tax liabilities £000	Total £000
As at 1 January 2011	2,707	(840)	1,867
Movement for the year	2,651	370	3,021
As at 31 December 2011	5,358	(470)	4,888
Movement for the year	25	(1,348)	(1,323)
As at 31 December 2012	5,383	(1,818)	3,565

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

The Directors believe that it is probable that the deferred tax timing differences will reverse against the future budgeted taxable profits in the US element of the Insurance Services Division within the next 10 years.

The deferred tax assets are not wholly recoverable within 12 months. The movement on the deferred tax account is shown below:-

	Accelerated capital allowances £000	Trading losses £000	Pension scheme deficit £000	Other timing differences £000	Total £000
As at 1 January 2011	120	-	-	1,747	1,867
Movement in year	(28)	273	661	2,115	3,021
As at 31 December 2011	92	273	661	3,862	4,888
Movement in year	10	(207)	347	(1,473)	(1,323)
As at 31 December 2012	102	66	1,008	2,389	3,565

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

	On acquisition of subsidiary £000	Exchange adjustment £000	Deferred tax in income statement £000	Deferred tax in statement of comprehensive income £000	Total £000
Movement in 2011	-	-	2,308	713	3,021
Movement in 2012	-	-	(1,739)	416	(1,323)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

24. Share capital

	Number of shares	Ordinary shares £000	Share premium £000	Treasury shares £000	Total £000
At 1 January 2011	54,923,002	1,135	16,029	(1,334)	15,830
Issue of shares	210,000	5	99	-	104
Issue of C-F shares	107,822,580	4,032	(4,032)	-	-
Redemption/Cancellation of shares	(108,862,666)	(4,054)	-	-	(4,054)
Sale treasury shares	-	-	-	630	630
At 31 December 2011	54,092,916	1,118	12,096	(704)	12,510
Issue of G-K shares	100,266,004	4,162	(4,162)	-	-
Redemption/Cancellation of G-K shares	(100,266,004)	(4,162)	-	-	(4,162)
Sale treasury shares	-	-	-	270	270
Redemption/Cancellation of shares	(3,959,914)	(82)	(3,182)	-	(3,264)
At 31 December 2012	50,133,002	1,036	4,752	(434)	5,354

	2012 £	2011 £
Allotted, called up and fully paid		
50,133,002 Ordinary Shares of 2 6/91p each		
(2011: 54,092,916 Ordinary Shares of 2 6/91P each)	1,035,717	1,117,524
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,035,719	1,117,526

	2012 £	2011 £
Included in:		
Equity		
50,133,002 Ordinary Shares of 2 6/91p each		
(2011: 54,092,916 Ordinary Shares of 2 6/91p each)	1,035,717	1,117,524
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,035,719	1,117,526

Cumulative Redeemable Preference Shares

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

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

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

Shares issued

During the year the Group issued G, H, J and K shares (with an aggregate value of £4,162,000) (2011: C, D, E and F shares (with an aggregate value of £4,032,000)) which were all cancelled.

24. Share capital (continued)

Share Options

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

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

	Weighted average exercise price 2012 pence	Number of options 2012	Weighted average exercise price 2011 pence	Number of options 2011
Outstanding at 1 January	48.1	1,020,000	34.2	1,735,000
Exercised/Lapsed	40.5	(300,000)	16.9	(765,000)
Granted	14.4	520,000	53.5	50,000
At 31 December	35.8	1,240,000	48.1	1,020,000

The total number of options in issue during the year have given rise to a charge to the income statement of £545,226 (2011: £74,598) based on the fair values at the time the options were granted.

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

	2012 options	2011 options
Weighted average fair value	56.9 pence	56.9 pence
Weighted average share price	103 pence	105 pence
Exercise price	35.8 pence	48.1 pence
Expiry date	10 years after granting	10 years after granting
Vesting period	3 years	3 years
Volatility	21.0%	30%
Dividend yield	8.5%	5.3%
Expected option life	3 years	3 years
Annual risk free interest rate	0.91%	2.98%

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 7.6 (2011: 6.2) years.

25. Employee Benefit Trust

The EBT has purchased no Ordinary shares and released 225,000 Ordinary shares deemed to be held in Treasury during the year to give a holding at the year end of 488,338 (2011: 713,338). The value at the year end was £517,638 (2011: £677,671). These are available to be used to meet the future exercise of employee options or such other purpose as the Trustee in its discretion allows pursuant to the Trust Deed.

26. Employees and Directors

Employee benefit expense for the Group during the year

	2012 £000	2011 £000
Wages and salaries	27,010	21,365
Social security costs	2,783	2,294
Pension costs	1,841	1,765
Share based payment charge	545	51
	32,179	25,475

Pension costs are recognised in operating expenses in the income statement and include £1,841,000 (2011: £1,719,000) in respect of payments to defined contribution schemes and £nil (2011: £46,000) in respect of closed defined benefit schemes.

Average number of employees	2012 Number	2011 Number
Group execs & support services	64	67
Insurance services	213	226
Group investment activities	9	9
Underwriting	76	58
	362	360

Remuneration of the Directors and key management

	2012 £000	2011 £000
Aggregate Director emoluments	1,389	1,159
Aggregate key management emoluments	899	778
Share based payments - Directors	404	-
Share based payments – key management	6	6
Director pension contributions	88	124
Key management pension contributions	71	99
	2,857	2,166
Highest paid Director		
Aggregate emoluments	544	416

Name	Salary	Pension	Bonus	Benefits	Total
K E Randall	312,000	-	-	2,434	314,434
A K Quilter	217,000	50,000	100,000	1,062	368,062
T A Booth	256,000	37,500	250,000	793	544,293
M G Smith	150,000	-	-	-	150,000
J M P Welman	50,000	-	-	-	50,000
K P McNamara	50,000	-	-	-	50,000

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

27. Pension commitments

The defined benefit scheme's assets are held in separate trustee administered funds. The pension cost was assessed by an independent qualified actuary. In his valuation the actuary used the projected unit method as the scheme is closed to new employees. A full valuation of the scheme was carried out as at 1 January 2012 by a qualified independent actuary.

On 2 December 2003 the scheme was closed to future accrual although the scheme continues to remain in full force and effect for members at that date.

The amounts recognised in the Group's balance sheet in respect of the defined benefit scheme on an IAS19 valuation basis are as follows:-

	2012 **£000**	**2011** **£000**
Total market value of scheme assets	25,549	24,508
Present value of defined benefit obligations	(29,930)	(27,149)
Deficit in the scheme	(4,381)	(2,641)
Surplus not recognised	-	-
Deficit included in the balance sheet	(4,381)	(2,641)

The scheme has no unfunded past service costs. No decision has been made regarding contributions after the end of the reporting period.

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

The main financial assumptions used to calculate the scheme assets and liabilities are:-

	2012	**2011**
Inflation rate	3.1%	3.2%
Projected return on assets	5.0%	5.5%
Pension increase	3.1%	3.2%
Deferred pension increases	2.3%	2.7%
Discount rate	4.1%	4.7%
Mortality table used:-		
Pre-retirement mortality	55% of AFC00/AMC00	PA92(C=2020)-4
Post retirement mortality	PCFA00/PCMA00 +2%*	PA92(C=2020)-2

* In accordance with mortality tables PCMA00 for males and PCFA00 for females, using the CMI projection model with a long term rate of improvement of 2%.

The amounts recognised in the income statement in respect of the defined benefit scheme are as follows:-

	2012 £000	2011 £000
Current service cost (operating expense)	-	(46)
Interest cost (other income)	(1,267)	(1,366)
Expected return on plan assets (other income)	1,334	1,576
	67	164

The expected return on plan assets is calculated using the assets, market conditions and long term expected rate of interest at the start of the accounting period. This amount is then adjusted to take account of interest on contributions paid in or benefits paid out over the accounting period.

The amounts (charged)/credited directly to other comprehensive income are:-

	2012 £000	2011 £000
Actual return less expected return on assets	597	(1,990)
Experience losses arising on obligations	474	(6)
Changes in assumptions	(2,878)	(897)
Amount not recognised due to restriction on recovery (as required by IAS19)	-	42
Total actuarial losses charged to other comprehensive income	(1,807)	(2,851)

Movements in the present value of the defined benefit obligation are as follows:-

	2012 £000	2011 £000
(Deficit)/surplus in the scheme as at 1 January	(2,641)	42
Current service costs	-	(46)
Contributions by employer	-	46
Actuarial loss	(1,807)	(2,893)
Other financial income	67	210
Deficit in the scheme as at 31 December	(4,381)	(2,641)

27. Pension commitments (continued)

Movements in the fair value of the pension plan assets:-

	2012 £000	2011 £000
Fair value of plan assets as at 1 January	24,508	26,152
Expected return	1,334	1,576
Actuarial gains/(losses)	597	(1,990)
Contributions by employer	-	46
Benefits paid	(890)	(1,276)
Fair value of plan assets as at 31 December	25,549	24,508

The major categories of assets as a percentage of the total plan assets are as follows:-

	2012	2011
Equity securities	41.4%	39.8%
Debt securities	41.6%	36.4%
Property	8.2%	9.6%
Cash	8.8%	14.2%
	100.0%	100.0%

Fair value of the pension plan obligations:-

	2012 £000	2011 £000
Fair value of plan obligations as at 1 January	27,149	26,110
Current service cost	-	46
Interest cost	1,267	1,366
Actuarial losses	2,404	903
Benefits paid	(890)	(1,276)
Fair value of plan obligations as at 31 December	29,930	27,149

28. Related party transactions

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

	2012 £	2011 £
K E Randall and family	1,829,710	1,774,634
A K Quilter	360,756	348,691
K P McNamara	11,546	10,642
M G Smith	2,075	1,913
J M P Welman and family	11,546	1,301

- Mr and Mrs K E Randall received £18,750 (2011: £25,000) for rent for property used by the Group.
- During the year the Group recharged expenses totalling £7,960,135 (2011: £5,319,122) to Lloyd's Syndicates 102, 3330 and 1897, which are managed by the Group.

29. Operating lease commitments

The Group leases a number of premises under operating leases. The Group has entered into a number of sublease arrangements with third parties. Sublease arrangements in force as at 31 December 2012 are due to expire within one to five years of the balance sheet date. It is anticipated that sublease income of £91,000 (2011: £136,000) will be earned over the lease term.

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

	2012 £000	2011 £000
Land and buildings		
No later than one year	38	19
Later the one year no later than five years	4,268	700
Later than five years	491	6,461

30. Contingent liabilities

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

31. Business Combinations

Synergy Insurance Services (UK) Limited

On 21 January 2012 the Group purchased the entire issued share capital of Synergy Insurance Services (UK) Limited, a company incorporated in England and Wales. The goodwill represents the Group's investment in the Directors' and employees' knowledge of the insurance market and their ability to generate future profits.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net liabilities acquired was £549k. Goodwill of £549k arose.

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

	Fair value £'000
Tangible assets	24
Other debtors	793
Cash	445
Other creditors	(1,811)
Net liabilities acquired	(549)
Satisfied by	
Cash paid	-
Goodwill	549

Post acquisition loss before tax amounted to (£1,210k). This would also have been the contribution the company would have made for the year.

Post acquisition income amounted to £402k, this is also the income for the full year.

Costs of £66k were incurred in relation this acquisition and have been expensed in the year.

R&Q Marine Services Limited

On 1 January 2012 the Group purchased the assets and liabilities of the Yacht and Marine Trades Portfolio from Underwriting Risk Services Ltd (URSL), a subsidiary of Talbot Underwriting Holdings Limited. The goodwill represents the Group's investment in the Underwriter's and employees' knowledge of the insurance market and their ability to generate future profits.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net liabilities acquired was £322k. Goodwill of £322k arose.

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

	Fair value £'000
Intangible assets	322
Other creditors	(644)
Net liabilities acquired	(322)
Satisfied by	
Cash paid	-
Goodwill	322

The intangible assets of £322k relates to the fair value attributed to the client list and binding authorities acquired.

Post acquisition profit before tax amounted to £473k. This would also have been the contribution the company would have made for the year.

Post acquisition income amounted to £2,531k, this is also the income for the full year.

Costs of £54k were incurred in relation this acquisition and have been expensed in the year.

31. Business Combinations (continued)

Northern Foods Insurance Company Limited

On 27 March 2012 the Group purchased the entire issued share capital of Northern Foods Insurance Limited a company incorporated in Guernsey.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £1,004k. Goodwill on bargain purchase of (£298k) arose. This goodwill on bargain purchase arises because insurance companies in run-off normally cause significant problems for former owners such as tying up capital and lack of specialist staff. As a specialist service provider and manager, the Group is more efficient at managing such entities.

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

	Fair value £000
Other debtors	103
Cash	1,166
Technical provisions	(261)
Other creditors	(4)
Net assets acquired	1,004
Satisfied by	
Cash paid	706
Goodwill on bargain purchase	(298)

The carrying value of the insurance liabilities is materially similar to their fair value and therefore no intangible asset is needed to be recognised in accordance with the accounting policy for goodwill.

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

No external costs have been incurred in relation to the acquisition.

RAB Insurance Company Limited

On 3 October 2012 the Group purchased the entire issued share capital of RAB Insurance Company Limited a company incorporated in Guernsey.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £817k. Goodwill on bargain purchase of (£467k) arose. This goodwill on bargain purchase arises because insurance companies in run-off normally cause significant problems for former owners such as tying up capital and lack of specialist staff. As a specialist service provider and manager, the Group is more efficient at managing such entities.

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

	Fair value £000
Other debtors	5
Cash	2,360
Technical provisions	(1,511)
Other creditors	(37)
Net assets acquired	817
Satisfied by	
Cash paid	350
Goodwill on bargain purchase	(467)

The carrying value of the insurance liabilities is materially similar to their fair value and therefore no intangible asset is needed to be recognised in accordance with the accounting policy for goodwill.

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

Costs of £2k have been incurred in relation to the acquisition.

31. Business Combinations (continued)

Capstan Insurance Company Limited

On 1 November 2012 the Group purchased the entire issued share capital of Capstan Insurance Company Limited a company incorporated in Guernsey.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £5,604k. Goodwill on bargain purchase of £562k arose. This goodwill on bargain purchase arises because insurance companies in run-off normally cause significant problems for former owners such as tying up capital and lack of specialist staff. As a specialist service provider and manager, the Group is more efficient at managing such entities.

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

	Fair value £000
Other debtors	4,264
Cash	1,858
Technical provisions	(514)
Other creditors	(4)
Net assets acquired	5,604
Satisfied by	
Cash paid	822
Cancellation of loan	4,220
Goodwill on bargain purchase	(562)

The carrying value of the insurance liabilities is materially similar to their fair value and therefore no intangible asset is needed to be recognised in accordance with the accounting policy for goodwill.

Post acquisition profit before tax amounted to £100k. If the Group had purchased the company at the start of the year its contribution to the Group would have been a profit of £206k.

Costs of £4k have been incurred in relation to the acquisition.

LINPAC Insurance Company Limited

On 21 December 2012 the Group purchased the entire issued share capital of LINPAC Insurance Company Limited a company incorporated in Guernsey.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £842k. Goodwill on bargain purchase of (£392k) arose. This goodwill on bargain purchase arises because insurance companies in run-off normally cause significant problems for former owners such as tying up capital and lack of specialist staff. As a specialist service provider and manager, the Group is more efficient at managing such entities.

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

	Fair value £000
Other debtors	3
Cash	1,063
Technical provisions	(149)
Other creditors	(75)
Net assets acquired	842
Satisfied by	
Cash paid	450
Goodwill on bargain purchase	(392)

The carrying value of the insurance liabilities is materially similar to their fair value and therefore no intangible asset is needed to be recognised in accordance with the accounting policy for goodwill.

Post acquisition profit before tax amounted to £nil, if the Group had purchased the company at the start of the year its contribution to the Group would have been a loss of £20k.

Costs of £7k have been incurred in relation to the acquisition.

31. Business Combinations (continued)

Alma Insurance Company Limited

On 27 December 2012 the Group purchased the entire issued share capital of Alma Insurance Company Limited a company incorporated in Finland.

The acquisition has been accounted for using the acquisition method of accounting. The fair values of the assets and liabilities are provisional pending the final valuations of these assets and liabilities as required by IFRS 3. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £4,741k. Goodwill on bargain purchase of (£273k) arose. This goodwill on bargain purchase arises because insurance companies in run-off normally cause significant problems for former owners such as tying up capital and lack of specialist staff. As a specialist service provider and manager, the Group is more efficient at managing such entities.

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

	Fair value £000
Tangible assets	-
Other debtors	251
Cash	7,770
Technical provisions	(1,703)
Other creditors	(1,577)
Net assets acquired	4,741
Satisfied by	
Cash paid	4,468
Goodwill on bargain purchase	(273)

Post acquisition loss before tax amounted to £nil, if the Group had purchased the company at the start of the year its contribution to the Group would have been a profit of £518k.

Costs of £30k have been incurred in relation to the acquisition.

Goodwill totals

The totals in the year of goodwill and goodwill on bargain purchase are as follows:-

Total goodwill on all acquisitions during the year	871
Total goodwill on bargain purchase on all acquisitions during the year	1,992

32. Inter-company guarantee and debenture

The Company has entered into a guarantee agreement and debenture arrangement with its bankers, along with various of its subsidiaries in respect of the Group term loan facilities. The total liability to the bank at 31 December 2012 is £18,939,000 (2011: £23,224,000).

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

33. Ultimate Controlling Party

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

Parent Company Balance Sheet

As at 31 December 2012
Company Number 03671097

	Note	2012 £000	2011 £000
Fixed assets			
Intangible assets	3	1	1
Investments	4	44,964	31,648
		44,965	31,649
Current assets			
Debtors	5	14,319	20,122
Cash at bank and in hand		564	1,476
		14,883	21,598
Creditors: amounts falling due within one year	6	(52,144)	(35,090)
Net current liabilities		(37,261)	(13,492)
Total assets less current liabilities		7,704	13,257
Creditors: amounts falling due after more than one year	6	-	-
		7,704	18,157
Capital and reserves			
Called up share capital	7	1,036	1,118
Shares to be issued	8	744	254
Share premium account	8	4,752	12,096
Capital redemption reserve	8	-	1,636
Treasury share reserve	8	(434)	(704)
Profit and loss account	8	1,606	3,757
Total shareholders' funds		7,704	18,157

The Financial Statements were approved by the Board of Directors on 24 April 2013 and were signed on its behalf by:-

K E Randall **T A Booth**

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2012

1. Accounting policies

a. Basis of preparation

The Financial Statements have been prepared in accordance with applicable United Kingdom accounting standards under the historical cost accounting rules. No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006 ("the Act").

b. Cash flow statements

Under financial reporting standard number 1, cash flow statements, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that as a parent undertaking the Company publishes consolidated Financial Statements which include a cashflow statement.

c. Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets on a straight-line basis over their estimated useful economic lives as follows:

Leasehold improvements	Term of lease

d. Taxation

Taxation charged in the profit and loss account is based on the profits of the year as determined in accordance with the relevant tax legislation together with adjustments for prior years.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities have not been discounted.

e. Investments

Investments in subsidiary undertakings and associates are stated at cost less provisions for impairment.

f. Investment income

Investment income comprises interest and dividends.

Dividend income is recognised when the right to receive income is established.

Interest income is recognised on an accruals basis.

g. Share based payments

The Company issues equity share based payments to certain of the Group's 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 in the relevant subsidiary on a straight line basis over the vesting period and as an increase in the cost of investment in the company. The fair value is measured using the binomial option pricing method, taking into account the terms and conditions on which the awards were granted.

h. Share premium account

Incremental costs attributable to the issue of equity instruments are deducted from equity as a charges to the share premium account against proceeds of the issue, net of tax.

i. Foreign exchange

Transactions in foreign currencies are initially recorded at the date of the transaction, monetary assets are retranslated at the balance sheet date, any resulting exchange gain or loss is recognised in the profit and loss account.

j. Finance costs

Finance costs comprise interest payable and arrangement fees. Finance costs are recognised in the profit and loss account on an accruals basis. Arrangement fees in relation to bank facilities are deducted from the relevant loan and amortised over the period of the facility.

k. Distributions

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

2. Staff costs and Directors' emoluments

No staff were employed by the Company (2011: none).

Directors' emoluments are included within Note 26 of the Group Financial Statements.

3. Intangible assets

	Patents £000	Total £000
Cost and net book value		
As at 1 January and 31 December 2012	1	1

4. Investments

	Investment in Subsidiary Undertakings £000	Loans to Subsidiary Undertakings £000	Other Investments £000	Total £000
Cost				
As at 1 January 2012	20,675	11,223	-	31,898
Foreign currency exchange	-	(443)	-	(443)
Additions in the year	98	5,931	3,361	9,390
Intra Group acquisition	4,369	-	-	4,369
As at 31 December 2012	25,142	16,711	3,361	45,214
Provision for impairment				
As at 1 January 2012	(250)	-	-	(250)
As at 31 December 2012	(250)	-	-	(250)
Net book value				
As at 31 December 2012	24,892	16,711	3,361	44,964
As at 31 December 2011	20,425	11,223	-	31,648

Included in the Loans to Subsidiary Undertakings are:-

(a) A subordinated loan of £275,000 provided to R&Q Managing Agency Limited. This loan is non interest bearing and is not repayable before 31 December 2013.

(b) A loan of $15,218,000 (£9,430,000) (2011: $15,218,000 (£9,864,000)) to Randall & Quilter America Holdings Inc to fund the acquisitions by that Company. The loan is interest bearing and is repayable out of realisations received from these companies. In the event of the non recovery of this loan Randall & Quilter America Holdings Inc has agreed to surrender all or part of its holdings in these companies to the Company.

Included in other investments is £3.4m (2011 - nil) pledged as Funds at Lloyd's to support the Groups' underwriting activities in 2013. Lloyd's has the right to apply these monies in the event the corporate member fails to meet its obligations. These monies are not available to meet the Company's own working capital requirements and can only be released with Lloyd's express permission.

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2012

5. Debtors

	2012 £000	2011 £000
Amounts due from subsidiaries	13,803	14,171
Other debtors	461	5,852
Prepayments and accrued income	55	99
	14,319	20,122

6. Creditors

	2012 £000	2011 £000
Other creditors	95	514
Amounts due to subsidiaries	51,845	34,312
Accruals and deferred income	204	264
	52,144	35,090

	2012 £000	2011 £000
These borrowings are repayable as follows:		
In one year or less, or on demand	52,144	35,090
Between two and five years	-	-
	52,144	35,090

Included in the amounts due to subsidiaries above are loans of £49.9m from group companies. Interest is chargeable at a rate of 2.75% above LIBOR and is payable annually in arrears.

7. Share capital

	2012 £	2011 £
Allotted, called up and fully paid		
50,133,002 Ordinary Shares of 2 6/91p each		
(2011: 54,092,916 Ordinary Shares of 2 6/91p each)	1,035,717	1,117,524
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,035,719	1,117,526
Included in: **Equity**		
50,133,002 Ordinary Shares of 2 6/91p each		
(2011: 54,092,916 Ordinary Shares of 2 6/91p each)	1,035,717	1,117,524
1 Preference A Share of £1	1	1
1 Preference B Share of £1	1	1
	1,035,719	1,117,526

Further details of the share capital are included in note 24 of the Group Financial Statements.

8. Reserves

	Share capital £000	Share premium £000	Shares to be issued £000	Capital redemption reserve £000	Treasury shares £000	Retained profit £000	Total £000
2012							
At 1 January	1,118	12,096	254	1,636	(704)	3,757	18,157
Purchase of own shares	(82)	(3,182)	-	(1,636)	-	-	(4,900)
Issue of G-K shares	4,162	(4,162)	-	-	-	-	-
Cancellation of G&J shares	(2,892)	-	-	-	52	-	(2,840)
Cancellation of H&K shares	(1,270)	-	-	-	-	1,270	-
Share based payments	-	-	514	-	-	-	514
Treasury shares	-	-	(24)	-	218	2	196
Total recognised gains and losses	-	-	-	-	-	(2,153)	(2,153)
Dividends	-	-	-	-	-	(1,270)	(1,270)
At 31 December	1,036	4,752	744	-	(434)	1,606	7,704

	Share capital £000	Share premium £000	Shares to be issued £000	Capital redemption reserve £000	Treasury shares £000	Retained profit £000	Total £000
2011							
At 1 January	1,135	16,029	250	1,614	(1,334)	1,266	18,960
Issue of shares	5	99	(20)	-	-	-	84
Issue of C-F shares	4,032	(4,032)	-	-	-	-	-
Cancellation of C&E shares	(2,816)	-	-	-	-	-	(2,816)
Cancellation of D&F shares	(1,216)	-	-	-	-	1,216	-
Cancellation of ordinary shares	(22)	-	-	22	-	(1,266)	(1,266)
Share based payments	-	-	51	-	-	-	51
Treasury shares	-	-	(27)	-	630	56	659
Total recognised gains and losses	-	-	-	-	-	3,657	3,657
Dividends	-	-	-	-	-	(1,172)	(1,172)
At 31 December	1,118	12,096	254	1,636	(704)	3,757	18,157

9. Related party transactions

Details of the related party transactions are included in Note 28 of the Group Financial Statements.

10. Contingent liabilities

The Company is a party to the inter-company guarantee and debenture disclosed in Note 32 to the Group financial Statements.

STRATEGY | INNOVATION | EXPERTISE

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