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R&Q

Interim Report and Financial Statements
Randall & Quilter Investment Holdings plc

30 June 2011

The Company's registration number is 03671097

Financial Statements

For the six months ended 30 June 2011

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Financial Statements

For the six months ended 30 June 2011

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Highlights and Summary of Results

For the six months ended 30 June 2011

FINANCIAL HIGHLIGHTS

- Total Group income up 17.1% at £18.8m (2010: £16.1m)
- Profit before tax of £3.0m (2010: £5.8m)
- Basic earnings per share of 5.8p (2010: 6.9p)
- An overall tax credit of £0.1m (2010: a charge of (£2.1m)), arising from a prior year tax credit adjustment and substantial group tax relief
- Return of cash through proposed E/F share scheme equivalent to 3.2p per share (2010: 2.9p)
- Undiscounted net asset value per share of 152.2p (31 Dec 2010: 144.8p)

DIVISIONAL PERFORMANCE

- Positive resolution of Seaton & Stonewall litigation with receipt of damages and ongoing cost recovery
- Completion in mid August of 5 million share repurchase programme and rebasing of progressive distribution policy
- New RITC syndicate for Syndicate 102 formed and capitalised (in partnership with a third party investor)
- Capital release of £2.0m from La Licorne, acquired only in April 2010
- Launched Group's first turnkey syndicate (s.1897), which commenced underwriting on January 1
- New UK based MGA, Just Underwriting, focused on specialist event covers, launched and commenced operations
- Two further underwriting teams secured with the launch of a new Yacht and Marine trades MGA planned for late 2011 and a new broad based US MGA in time for the 2012 renewals
- Recently completed acquisition of the leading captive manager in Norway, Triton Insurance Management with 2010 pre-tax profits of NOK 1.9m (c. £210k)
- Agreement reached with the Gallagher Group to manage the legacy of their A J Gallagher Re run-off
- Further progress on capital partnerships for future acquisition activity

Financial Results

Group Results	6 months ended 30 June 2011 £000	6 months ended 30 June 2010 Restated £000	Year ended 31 December 2010 Restated £000
Operating profit	3,193	6,012	7,881
Profit on ordinary activities before income taxes	2,975	5,822	7,523
Profit after tax	3,112	3,673	6,373
Earnings Per Share (Basic)	5.8p	6.9p	12.2p
Total net assets	76,623	80,263	79,385

Chairman's Statement and Business Review

For the six months ended 30 June 2011

Following the recently completed share repurchase programme and rebasing of our progressive distribution policy, we are pleased to announce a proposed 10% increase in per share returns and distributions for the period to 3.2p per share, significantly above the 5% p.a. commitment under our progressive distribution policy.

The Group delivered a pre-tax profit of £3.0m for the half year which was lower than the previous year due to continuing investment and slower than anticipated income development in the Underwriting Management Division ('UMD'), significant restructuring costs incurred in the Insurance Services Division ('ISD') and a shift in the weighting of income (especially profit commission) from the first to the second half of the year.

Following the recently completed share repurchase programme and rebasing of our progressive distribution policy, we are pleased to announce a proposed 10% increase in per share returns and distributions for the period to 3.2p per share, significantly above the 5% p.a. commitment under our progressive distribution policy.

Adjusting for restructuring charges associated with office rationalisation as well as the change to expense in full annual bonuses when they are paid in the first half of the year, rather than an accrual of a six month charge, the ISD performed broadly in line with expectations. Certain of the recent acquisitions, in particular RSL UK, have a second half year bias in income and whilst a number of new business initiatives across the operating companies have borne fruit, the benefit of these will also be weighted to the second half of the year due to some delays in finalising the terms of certain new third party contracts.

Profit commission earned in the period was markedly lower than in the same period last year, when it helped deliver a record six month ISD performance. Syndicate 3330 is in its third year and in accordance with the Lloyd's system is due to be reinsured at the end of 2011 but our expectation is that there will be further profit commission earned in the second half of the year upon closure of the syndicate, though it is again likely to be lower than that earned in the corresponding period in 2010.

The Group has also continued its expansion of quality niche services to the live market and has built on its leading position in the broker legacy market. Having acquired a number of service businesses during 2010, we plan to rationalise the cost base further in order to improve operational efficiency. Work is thus being carried out to identify significant savings which should ensure we deliver on our commitment to increase and improve earnings quality in the ISD in years to come.

Chairman's Statement and Business Review

For the six months ended 30 June 2011

The Insurance Investments Division is performing in line with expectations. Net claims releases of £4.9m, largely from the two UK portfolios and RITC syndicate 102, helped generate a profit before tax of £3.2m. The investment return of 2.5% in the half year exceeded expectations as bond yields headed down yet further and our active management improved performance. We also secured a £2m release from La Licorne through a capital reduction and dividend and we are in the process of seeking regulatory approval for a more substantial extraction of capital from another of our insurance company portfolios, where we have generated a significant surplus over solvency requirements through active claims management and good investment performance. Together with the release of $5m from Goldstreet (another recent portfolio acquisition) announced in our full year 2010 results, the £2m release from La Licorne is proof of our recent focus on acquiring portfolios with faster run-off profiles where we can realise our investments in a shorter timeframe.

As predicted, we have been active in the acquisition of insurance receivables in the year to date with five new claims purchased, two of which have been significantly larger in value than previous acquisitions. This is evidence of the more sizeable opportunities in this area. We are therefore pleased to report therefore that progress continues in finalising the capital partnership arrangements with a US based hedge fund to take advantage of the growing opportunities here.

The outlook for our Insurance Investment Division in the second half remains encouraging. In particular, there are signs of potential recoveries and further reserve redundancy in the new RITC syndicate 102 and in the non-US owned portfolios as a result of our continuing active claims management. However, the uncertainty brought about by the development of asbestosis cases in the US portfolios previously commented on remains and investment income is anticipated to be significantly lower in the second half given recent capital market volatility and exceptionally low running yields.

As well as the activity on the receivables side, we are examining a number of company run-off portfolios in the UK and Europe and are progressing another Lloyd's RITC opportunity. Our main focus remains on both smaller sized portfolios and Lloyd's where we have the benefit of good infrastructure, knowledge and contacts. We are however able to bid for much larger portfolios in partnership with well resourced capital market investors if attractive opportunities present themselves.

The underlying operating performance of the Captives Division continues to be satisfactory and our core Bermudian operations have benefited from new opportunities from Latin America and Canada, counteracting the slowdown of activity in the traditional US client base. The recent acquisition of Triton, the leading Norwegian captive manager further increases our geographical scope and should enable us to harness the leads we secured in our ground-up initiative in the region last year. We have also recruited a well regarded and experienced individual to build our onshore US captive management operations and we look forward to signing our first client there shortly. However, in financial terms, the division is unlikely to make a significant contribution for the year as investment in the new platforms continues. Nevertheless, the division continues to provide a window on the relative regulatory, capital and fiscal advantages of leading overseas insurance jurisdictions. In addition, work is being carried out to leverage our contacts and operations to seek out portfolio acquisition opportunities and to assist in early captive formation for specialist groups.

The UMD is developing satisfactorily with our first turnkey client well established despite the inevitable slow premium growth common to start-up syndicates, exacerbated by operational delays and a weak underwriting environment. Recent months have however seen a better flow of business and the syndicate looks set for a good future. As well as the cost and operational strain which we and the rest of the industry have borne as a result of Solvency II compliance, the decision by Lloyd's to schedule the market's compliance by early 2012 has impacted our ability to launch new turnkey syndicates for the beginning of 2012. In spite of this, our pipeline remains active and we are well positioned to capitalise on the continued attractiveness of the Lloyd's platform to new entrants in the latter half of 2012 and beyond.

On the MGA side, we are delighted with the quality of underwriting teams we have been able to attract but as commented on previously, slower than anticipated income in the establishment phases of the MGAs we have launched and investment in additional teams, has impacted the Group result.

Overall, the UMD is thus likely to underperform for the full year against our original expectations in financial terms but we remain confident that we will reap the rewards of our investment and our foresight in building up strong foundations in advance of an upturn in the insurance market. Moreover, we expect the second half year result to be much stronger due to the anticipated profit commission on the new RITC Syndicate 102, which we have not been able to accrue in the first half of the year, given that it is only triggered on total syndicate profits once a minimum profit threshold is achieved.

Central corporate costs were lower than previous periods primarily as a result of the recovery of legal costs and damages following the favourable resolution of the Seaton & Stonewall litigation. This outcome has removed a huge burden in terms of time and distraction expended in fighting these vexatious allegations.

The proposed return of cash of 3.2p per share to shareholders through an E/F share scheme provides a more flexible and efficient mechanism of returning capital to shareholders in a period in which we once again secured a significant capital extraction from our portfolios. Shareholders will be able to elect to receive cash as either capital or income. We remain committed to maintaining a policy of increasing total distributions to shareholders by at least 5 percent per annum from the base of 7.0p per share in 2009, which has now been grossed up to 7.4p to account for the shares bought back in the recent intraday purchases. Further details of the E/F share scheme are outlined in a circular to be posted to shareholders on or around 14 September 2011.

Overall, the outlook for the Group remains promising and we expect that the full year result will meet expectations given that the financial impact from the continued investment in the UMD and Captive divisions and ISD restructuring will be mitigated by the damages and cost recoveries from the successful outcome of the Seaton & Stonewall legal case. Meanwhile, the focus continues on diversifying and improving the quality of earnings in our service operations, realising our insurance investments and pursuing new, attractively priced claims and portfolio acquisition opportunities.

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

Insurance Investments Division

The Insurance Investment Division performed well in the period, producing an operating profit before goodwill impairment of £3.2m (2010: £3.9m). Reserve releases of £4.9m (2010: £4.8m) were once again strong, with good contributions from RITC syndicate 102, R&Q Re (UK) and Chevanstell. The position in the remaining portfolios was broadly unchanged in the period.

Investment income of £5.4m was higher than in 2010 (£4.6m) despite a 15% drop in invested assets following claims settlements and capital extractions. The investment income equated to a return of over 2.5% on fixed income assets in the period (2010: 1.8%) and was helped by some active portfolio management. The outlook for the remainder of the year is however weaker as turmoil continues in the investment markets and running yields are exceptionally low.

As hoped, there was enhanced activity in the reinsurance debt operations with five acquisitions made since the start of the year with an aggregate consideration of over $6m. The acquisitions were in relation to three insolvent estates well known to the Group and the largest two purchases were from large US corporate creditors.

Since the beginning of the year, we have also provided over £8m of 'Funds at Lloyd's' ('FAL') to two of our managed syndicates; turnkey syndicate 1897 (on which we have an 8.33% share) and RITC syndicate 102 (on which we have a 20% share). The performance in the period was strong with an operating profit of c.£1.4m. This was attributable to favourable reserve movements on RITC syndicate 102 which generated a profit of c.£8.3m in the six months and was only partially offset by a loss of c.£250k on our share of syndicate 1897, which as a new syndicate, had the burden of slow income recognition and relatively high start-up costs.

Chairman's Statement and Business Review

For the six months ended 30 June 2011

At 30 June, 2011, the portfolio of acquired insurance companies under ownership was as follows:-

	Vendor	Country of Incorporation	Acquisition Date	NAV* £m (as at 30/06/11)	NAV* £m (as at 31/12/10)
La Metropole SA ("La Met")	Travelers Group	Belgium	29 Nov 2000	0.3	0.3
Transport Insurance Company ("Transport")	American Financial Group	USA	30 Nov 2004	8.6	9.2
R&Q Reinsurance Company (UK) Limited ("R&Q Re (UK)")	Ace Group	UK	3 July 2006	4.5	3.4
R&Q Reinsurance Company (Belgium) ("R&Q Re (Belgium)")	Ace Group	Belgium	3 July 2006	2.9	3.0
R&Q Reinsurance Company ("R&Q Re (US)")	Ace Group	USA	3 July 2006	15.6	15.7
Chevanstell Limited ("Chevanstell")	Trygg Forsikring	UK	10 Nov 2006	31.7	31.0
R&Q Insurance (Guernsey) Limited ("R&Q Guernsey")	Deloitte LLP, Administrators for Woolworths Group plc	Guernsey	9 June 2009	1.7	1.8
Goldstreet Insurance Company ("Goldstreet")	Sequa Corporation & Columbia Insurance Company	US	16 Nov 2009	4.0	4.1
La Licorne S.A. ("La Licorne")	MAAF Assurances	France	23 April 2010	2.9^	4.5
TOTAL				**72.2^**	**73.0**

* IFRS basis for Group consolidation purposes
^ Follows capital extraction of c. £2m

Investment Policy and Returns

Investment income of £5.4m (equivalent to over 2.5%) in the period (2010: £4.6m) was a very pleasing outcome given that the increase in yields in the latter half of June had the effect of reversing a significant portion of the capital gains arising from the fall in yields in the preceding months. Contrary to the market views at the start of the period, risk was generally rewarded in the first half of the year. The highly defensive and passive investment strategies deployed by many other industry participants therefore produced poor returns close to 1% as short term rates stayed stubbornly low and cash returned close to zero.

The total investments held in our US dollar fund managed by BNY Mellon stood at $254.0m as at 30 June 2011 and the return for the six month period was 2.7%. Average duration fell to just over two years from close to three years at the start of the period due to the sale of longer dated municipals in mid June, referred to in more detail below.

The total investments held in the mixed currency fund managed by HSBC stood at £65.6m as at 30 June 2011, comprising of £27.2m and $61.5m. The returns for the period were 4.0% and 1.6% respectively with an aggregate return of 2.5%. Average duration remained fairly low at c. 2.1 years.

We took steps at the end of the first half to de-risk some of our investment portfolios by selling some of our longer dated municipal bonds in the US, which proved to be a good decision given investor concerns on sovereign and state finances. This step also served to reduce the duration of our portfolios and therefore the interest rate risk.

Whilst July and August have been very strong in the Treasury and Gilt markets as yields have touched historic lows, corporate spreads have widened on weakening economic news flow, partly offsetting the exceptional gains seen on government debt. Overall, results have however continued to be strong in our fixed income portfolios but the shortening of duration of our US funds means that returns to year end will be more modest given that running yields here are now between 1% and 1.5%.

In the mixed currency portfolio, further strains in the banking system across Europe has caused a reversal of the substantial gains achieved in the perpetuals in the first half but we are hopeful that these losses will be

The fixed income portfolio breakdowns by credit rating and asset class were as follows:-

Credit Rating:-

	USD Portfolio	Mixed Currency Portfolio	
As at 30 June 2011		**USD**	**GBP**
Government & Govt Guaranteed Bonds	17.3%	4.1%	0.0%
AAA	19.3%	18.8%	12.9%
AA	30.4%	0.0%	15.0%
A	15.9%	36.1%	19.9%
BBB	0.4%	22.3%	15.4%
BB	0.0%	0.0%	20.2%*
P-1	15.5%	18.7%	6.9%
NR	1.2%	0.0%	9.7%**
	100.0%	**100.0%**	**100.0%**

* Comprises the step-up perpetuals discussed in more detail below.

** Comprises the holding of high yielding, listed equities

Asset Classes:-

	USD Portfolio	Mixed Currency Portfolio	
As at 31 December 2010		**USD**	**GBP**
Government Bonds	17.9%	4.1%	0.0%
Municipals	60.6%	0.0%	0.0%
Corporates	15.2%	69.6%	74.2%
Cash	6.3%	18.0%	6.9%
CDs	0.0%	0.0%	0.0%
Asset backed	0.0%	8.3%	9.2%
Equities	0.0%	0.0%	9.7%
	100.0%	**100.0%**	**100.0%**

mitigated by a combination of the high running yields on these securities as well as capital gains on both the fixed income portfolio (following the recent fall in yields) and returns on high yielding equities (whose values have risen despite wider equity market falls). Whilst we expect that some additional return will be earned in this portfolio to year end it will once again likely be significantly lower than in the first half despite the higher running yield in our Sterling funds of c. 3%.

Credit quality and asset composition, other than an increase in the Municipals weighting (much of which now has a short duration) in the larger USD portfolio have remained fairly stable since year end. In the mixed currency portfolio, the assets have been more fully invested in corporates with a consequent reduction in cash.

Chairman's Statement and Business Review

For the six months ended 30 June 2011

We continue to examine ways of diversifying our investment portfolio to achieve a better risk-reward ratio. Given that the timing of rate rises seem ever more distant, it is clear that the outlook for Treasuries and short duration, high quality traditional fixed income securities, in which the bulk of our assets will always be invested, remains poor. A controlled amount of diversification to boost returns will thus continue as will our more active management approach, which we believe is necessary in times of heightened market volatility.

We plan to increase our exposure to floating rate paper through the ABS market where spreads even on the highest rated securities remain attractive as a result of continued dislocation in the capital markets.

We are also considering increasing the flexibility of the investment guidelines given to our investment managers for a portion of our USD assets to allow them to exploit some of the market volatility and trading ranges which have been established in mid duration Treasuries and extract value from certain parts of the yield curve. All of these measures are being considered within the confines of regulation and the conservative investment philosophy of the Group under which preservation of capital and liquidity remain key.

Reserving

The period saw a further aggregate net provisions release of £4.9m driven principally by a strong performance from RITC syndicate 102 and the two UK portfolios, Chevanstell and R&Q Re (UK).

The key issues in the main subsidiaries were as follows:-

R&Q Re (US)

There was no reserve deterioration in the period although as anticipated, run-off costs were higher, reflecting special project work commissioned.

The annual review of asbestos and environmental reserves will not be undertaken until later in the year and it remains to be seen whether the identified spike in asbestos claims reported will have an impact on carried reserves.

Chevanstell

Chevanstell continues to run off well with further claims redundancy of nearly £1.8m identified in the period. A number of the company's largest open claims have been settled during the period, generating net releases, and discussions with other major cedants continue.

We remain hopeful that Chevanstell will continue to generate net reserve releases in the rest of the year and that the net reserves will continue to decline, leaving relatively few open claims and a large surplus over the Individual Capital Assessment (ICA). In light of this, the opportunity to release capital from the company looks good and we will work on exploring this over the coming months.

R&Q Re (UK)

The period saw an overall net release of claims reserves of £1.5m in the company, which was a pleasing result, especially given that it has had a significant positive effect on the company's surplus over regulatory capital requirements.

Work was completed in the period focusing on identifying potential redundant aged static reserves and balances with detailed reviews on a number of claims. These reviews continue with further releases anticipated in the second half. Other areas of focus include commutation of remaining claims in respect of the Exxon Valdez oil spill and Kuwait related losses from the first Gulf War.

Transport

Collection of reinsurance receivables continues with the Aerojet case still being by far the largest outstanding balance. This recovery has been fully written down in the consolidated financial statements. We have been notified by the California Court of Appeals that oral arguments are now to be heard in October this year.

Meanwhile, major claims activity in the period was all covered under the NICO (Berkshire) retroactive reinsurance agreement.

Remaining Insurance Companies

Our other insurance companies continue to run-off satisfactorily.

Activity in Goldstreet has been minimal in the period but work is commissioned for the second half to identify potential redundancy in the few remaining reserves.

Focus on claims settlement also continues in R&Q Guernsey with a significant reduction in open claims and reserves having been achieved in the period with settlements generally in line with reserves. The overall incurred position has remained broadly unchanged this year demonstrating the general adequacy of reserves and the likelihood of a further release of IBNR by year end.

R&Q Re (Belgium) generated a small net profit through the proactive management and commutation of both assumed and ceded claims.

La Licorne is performing in line with expectations with a profit of c. £0.2m in the period following some successful commutations, which are expected to continue in the remainder of the year. The capital release of £2.0m through a reduction in capital of £0.97m and a dividend of £1.03m was also completed in June, further demonstrating our ability to realise our investments.

Finally, we are exploring ways in which we could transfer the remaining portfolio of La Metropole to another Group company as part of a potential consolidation exercise to release the 'trapped' surplus and/or extract value from the licences held.

Reinsurance Debt

As predicted, we have been active in the acquisition of insurance receivables in the year to date with five new claims purchased, two of which have been significantly larger in value than previous acquisitions, evidence of the increasing size of opportunities now available in this niche area. We continue to expect to generate excellent returns in this activity with some positive developments on one estate having recently been received. Whilst as anticipated, there were few distributions on the portfolio in the first half; we expect to receive a number during the second half, generating cash profits for the Group.

We are also making good progress in creating a partnership agreement with a New York based hedge fund to co-invest in future insurance claim opportunities. To launch the 'sidecar' vehicle, we will also look to sell a significant share of the two recently acquired claims, to rebalance our portfolio. The sidecar structure should enable the Group to enhance its return on capital by earning a 'carry' or profit commission on profitable acquisitions and will significantly increase its ability to bid for the larger creditor positions becoming available on a number of larger insolvent estates.

The model will focus on claims where all (or a large percentage) of distributions are expected over a 2-3 year period following acquisition, in line with the Group's increased focus on investment opportunities which it can realise over a relatively short timeframe.

Insurance Services Division

The underlying performance of the ISD was satisfactory in the period. Revenue increased slightly to £15.3m (2010: £15.0m) but operating profit of £2.0m was below last year's figure of £3.9m. The reduced profit is a result of significant restructuring charges of £0.7m in the period relating to redundancies arising from office consolidation and the London office move, a much lower contribution from profit commission on Syndicate 3330 and certain timing differences on other income and expense recognition. These timing differences include a change to expense in full annual bonuses when they are paid (i.e. in the first half of the year), rather than only half the cost, a second half bias in income in some of the newly acquired service businesses and delays in finalising the terms of a number of new business contracts.

Once again, the share of external income remained high at close to 70% of the total despite the decrease in profit commission on Syndicate 3330. This demonstrates that the reliance on profits from the owned insurance company portfolio has reduced on a sustainable basis as our service provision has diversified following recent acquisitions and organic growth.

Fee Income from a number of legacy clients was higher than forecast in the period whilst a new client was added for our contingency reinsurance collection service. Against this, the performance of some of our 'live' service offerings was a little below expectations, though we anticipate, through a pipeline of new opportunities, improvement in the second half of the year.

As a result of the continued regulatory and statutory burden on the Group, a number of staff in Callidus, the compliance and company secretarial unit were allocated to internal matters during the period, reducing the ability to meet new business targets. Additional recruitment in recent months should however ease these pressures and help grow external fee income.

Broker services continues to perform well with the Carvill run-off ahead of schedule. In July, we also entered into a service agreement with the Gallagher Group in respect of the management of their legacy portfolio AJ Gallagher Re run-off with staff transferring across to R&Q. We are also finalising another small broker legacy acquisition. In RSL UK, performance was in line with expectations.

As expected, we earned a profit commission on Syndicate 3330 as further releases were made in the syndicate reserves. Syndicate 3330 is in its third year and in accordance with the Lloyd's system is due to be reinsured at the end of 2011. Our expectation is that there will be further profit commission earned in the second half upon closure of the Syndicate 3330 and that it is likely to be more substantial than in the first half, though again, likely lower than that earned in the corresponding period in 2010.

In the US, RSL US performed in line with expectations with a large contract win involving a workers' compensation claims review. This offset delays in some of the new anticipated audit and inspections revenue in the period. We continue to seek improvements in the sustainability of revenue through seeking multi-year assignments and to date have had reasonable success.

As stated previously, our focus in the current year rests firmly on the consolidation and re-engineering of the newly acquired businesses. Whilst new business initiatives look promising in the second half and beyond, the current year's divisional result looks to be slightly below initial expectations, predominantly because of restructuring costs but also as a result of new business delays and some operational inefficiency. It is clear therefore that a further review of structure is necessary to ensure that the division is capable of producing the sustainable margin and bottom line growth we are intent on delivering.

Chairman's Statement and Business Review

For the six months ended 30 June 2011

Captives Division

The core operations of the division comprising R&Q Quest continue to perform well with revenue of £1.5m and profits of £0.3m in the six months ending 30 June 2011; broadly in line with the same period in 2010. We continue to focus on Latin America and Canada for potential new business as the traditional flow of opportunities from the US wanes in the face of competition from onshore jurisdictions. We are also examining ways in which we can leverage operations and contacts to assist captive formations and provide solutions to captives with few residual liabilities and very limited new business as well as those already in run-off.

In the Nordic region, the acquisition of Triton, the leading Norwegian captive manager was completed in early July for NOK12.4m (£1.44m). The company had NOK2.2m (£0.26m) cash on completion and is expected to generate a full year profit of over NOK2.4m (£0.28m). In an attempt to harness the leads developed in our own Nordic initiative last year, we have decided to retain the services of a senior consultant, which will have a short term impact on the operating result, but should help build up our operations and future year profits.

Our Gibraltar operations at Caledonian suffered from delays in the formation of a contracted client and other new business opportunities in the first half of the year. However, the pipeline is good and we remain convinced of the attractions of this domicile with its access to full EEA licences, low corporate tax and regulatory access.

Onshore US operations, recently named R&Q Quest Management Services USA have now been launched. A Delaware company has been formed and we have brought in an experienced individual to help secure clients in this domicile and help deliver on the numerous leads coming from our other North American operations.

In the short term, these new initiatives will inevitably cause a drag on the divisional operating result but we have strived to keep our investment in each relatively modest and will continue to monitor performance against plan. As with the ISD, we will also look to ensure that operational efficiency is being maximised and overhead appropriately managed to deliver sustainable bottom line growth.

Underwriting Division

The UMD generated an operating loss of £1.5m on revenue of £1.3m. Though the result was disappointing in financial terms, the division has performed well operationally with the launch of our first turnkey syndicate at the beginning of the year and three MGAs; two in the UK and one in Canada. Two further underwriting teams were also signed up to the Group to commence operations in late 2011 and early 2012 respectively.

The financial result was lower than anticipated due to a combination of factors including slower income development in the MGAs, particularly Canada, and additional investment in new teams, where our model of acquiring people rather than fully operational businesses creates a significant early financial drag from incurring full costs during the business development stage. In addition, the division was impacted by ongoing costs associated with the decision by Lloyd's to schedule the market's compliance with Solvency II by the start of 2012. This has also impacted our ability to launch a new turnkey syndicate for the beginning of 2012, leading to a shortfall in anticipated consultancy income in the current year. Our pipeline however remains active and we are well positioned to capitalise on the continued attractiveness of Lloyd's in the latter part of 2012 and beyond.

We anticipate that the division will generate an operating profit in the second half as a result of a significant expected profit commission on the new RITC Syndicate 102 which we were unable to accrue in the first half of the year despite good recorded syndicate profits, as it is only triggered on total syndicate profits once a minimum profit threshold is reached. Nevertheless, we expect a full year operating loss in 2011 for the division and although this is disappointing, we have established strong foundations and remain confident that our investment will generate good returns in years to come, particularly when the market rating environment turns.

The existing MGAs should begin to build up premiums and generate fees to cover or exceed costs next year, otherwise we will take appropriate cost reduction measures. We are also excited by the MGAs to be formed by the two new specialist underwriting teams which we have recently signed up. "Altus" quickly expects to build up a significant and broad based US account whilst the new Yachts and Marine trade team has an existing book of business which we hope to renew in the new MGA. The turnkey operations should also expand as the challenges associated with the Lloyd's market compliance with Solvency II begin to abate and the rating outlook improves. Meanwhile, we expect our RITC operations to grow and add a significant profit commission stream.

Return of Cash via an E/F Share Scheme

The Return of Value, the details of which are outlined in a circular posted to shareholders today, will give shareholders the option of receiving their payment as capital or income and provides a more flexible and efficient mechanism of returning capital. The payment of 3.2p per share is anticipated to be made through the scheme on or around 25 October 2011 to those shareholders on the register at 5.00 p.m. on 6 October 2011.

The proposed return of cash to shareholders through an E/F share scheme comes in a period when once again the Group successfully managed to release capital from one of our insurance investments.

In light of the proposed Return of Value the Group does not propose to pay an interim dividend for the 2011 year. The Group may choose to make future returns of value in addition or instead of ordinary dividend payments, whilst maintaining its stated policy to grow total distributions to shareholders by at least 5% per annum from the revised base level (following the recent share repurchase programme) of 7.4p per share in 2009.

Litigation

During the period, the long running dispute concerning the management by R&Q USA (a Group wholly owned subsidiary) of two US insurance companies, Seaton & Stonewall was resolved.

All claims against R&Q USA and me personally, were entirely withdrawn. R&Q has received damages claimed of over $2m and continues to recover a significant portion of its legal costs, a process which we anticipate to complete during the second half of the year. Against these recoveries there are some ongoing legal costs associated with this recovery process and a refund of insurance claims made in 2010 associated with the litigation.

Market and Outlook

We expect that the full year result will meet expectations. Damages and cost recoveries from the successful resolution of the Seaton & Stonewall legal dispute should counteract the cost of the ISD restructuring and the continued investment and slower than anticipated income development in the UMD.

The second half of the year should benefit from the significant expected profit commission on new RITC Syndicate 102, further profit commission on Syndicate 3330, deferral of new business income from the first half, further reserves releases in the non-US portfolios and a lower cost base following recent restructuring and the lack of bonus payments. Against this, investment income is likely to be considerably lower as recent market volatility has impacted the value of the perpetuals and running yields have reduced yet further. As previously commented on, the recent uptick in US asbestosis cases also provides some uncertainty for R&Q Re (US) when the review is carried out later in the year.

Operationally, the business is in good shape and we are pleased with the progress we have made in launching new MGAs and attracting quality niche underwriting teams. We remain hopeful that premiums will build sufficiently to bring a positive contribution from this activity next year and that we will be able to scale up our turnkey operations as Lloyd's passes its Solvency II compliance deadline at January 1, 2012, especially as and when the market turns. Meanwhile, we are well placed to capitalise on the continuing opportunities in reinsuring run-off syndicates in Lloyd's (RITCs).

The investment in the new captive platforms should help us meet our ambitions to be an attractive alternative to the broker owned operations and bring profitable growth in the future.

Whilst the numerous acquisitions of services companies during 2010 have successfully diversified our operations and sustainably reduced our dependency on internal contracts, we plan further reviews of our structure to optimise our operational efficiency and deliver margin and bottom line growth.

Investment returns during the second half and beyond are likely to be significantly weaker following recent market turmoil and the exceptionally low yield environment now prevailing following recent economic growth downgrades. We will however, as always, seek to outperform through active management and further asset diversification.

Finally, I am pleased to report that the opportunities for new portfolio acquisitions and insurance claims continue to look favourable. We have already increased activity in the latter and hope to announce shortly completion of a capital partnership agreement as well as the refinancing of our Group bank facility. On the portfolio and run-off syndicate side, we are well advanced on some attractive opportunities on which we hope to provide further detail in due course.

The rebasing of our distribution policy following the recent share repurchase programme further increases ordinary returns and distributions to shareholders and our focus continues in parallel on realising our insurance investments.

K E Randall

Chairman and Chief Executive Officer
01 September 2011

Condensed Consolidated Income Statement

For the six months ended 30 June 2011

	Note	6 months 30 June 2011 (Unaudited) £000	6 months 30 June 2010 (Unaudited) £000	Year ended 31 Dec 2010 (Audited) £000
Gross premiums written		1,031	772	948
Reinsurers' share of gross premiums		(549)	(101)	(230)
Premiums written, net of reinsurance		482	671	718
Change in gross provision for unearned premiums		(638)	-	-
Change in provision for unearned premiums, reinsurers' share		93	-	-
Net change in provision for unearned premiums		(545)	-	-
Earned premium net of reinsurance		**(63)**	**671**	**718**
Net investment income	4	5,618	4,595	8,530
Other income		13,241	10,784	23,570
		18,859	**15,379**	**32,100**
Total income	3	**18,796**	**16,050**	**32,818**
Gross claims paid		(26,243)	(16,224)	(43,863)
Reinsurers' share of gross claims paid		17,828	11,517	30,048
Claims paid, net of reinsurance		(8,415)	(4,707)	(13,815)
Movement in gross technical provision		31,037	20,530	61,898
Movement in reinsurers' share of technical provisions		(17,765)	(11,009)	(38,626)
Net change in provision for claims		13,272	9,521	23,272
Net insurance claims released		**4,857**	**4,814**	**9,457**
Operating expenses		**(20,288)**	**(15,748)**	**(36,095)**
Result of operating activities before goodwill on bargain purchase and impairment of intangible assets	3	**3,365**	**5,116**	**6,180**
Goodwill on bargain purchase		-	896	1,701
Impairment of intangible assets		(172)	-	-
Result of operating activities		**3,193**	**6,012**	**7,881**
Finance costs		(218)	(190)	(358)
Profit on ordinary activities before income taxes		**2,975**	**5,822**	**7,523**
Income tax credit/(charge)	5	137	(2,149)	(1,150)
Profit for the period	3	**3,112**	**3,673**	**6,373**
Attributable to equity holders of the parent				
Attributable to ordinary shareholders		3,112	3,778	6,559
Non-controlling interests		-	(105)	(186)
		3,112	**3,673**	**6,373**
Earnings per ordinary share for the profit attributable to the ordinary shareholders of the Company:-				
Basic	7	5.8p	6.9p	12.2p
Diluted		5.7p	6.7p	12.0p

The attached notes are an integral part of these condensed consolidated financial statements.

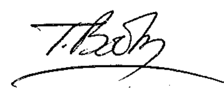
Condensed Consolidated Statement of Financial Position

As at 30 June 2011
Company number 03671097

	Note	30 June 2011 (Unaudited) £000	30 June 2010 (Unaudited) £000	31 December 2010 (Audited) £000
Assets				
Intangible assets		26,130	23,613	26,705
Property, plant and equipment		1,231	379	817
Investment properties		1,083	995	1,042
Financial assets		228,803	258,697	227,275
Reinsurers' share of insurance liabilities	6	195,679	249,902	216,607
Current tax assets		1,668	787	1,394
Deferred tax asset		2,734	811	2,707
Insurance and other receivables		46,751	35,462	43,528
Cash and cash equivalents		40,623	42,642	60,109
Total assets		**544,702**	**613,288**	**580,184**
Liabilities				
Insurance contract provisions	6	411,440	490,635	440,095
Financial liabilities		22,239	16,567	22,363
Deferred tax liabilities		212	916	840
Insurance and other payables	8	32,122	22,148	34,976
Current tax liabilities		2,066	1,164	2,525
Pension scheme obligations		-	1,595	-
Total liabilities		**468,079**	**533,025**	**500,799**
Equity				
Share capital	10	1,138	1,118	1,135
Other reserves	11	12,705	17,215	16,559
Retained earnings		62,780	62,006	61,855
Attributable to equity holders of the parent		**76,623**	**80,339**	**79,549**
Non-controlling interests		-	(76)	(164)
Total equity		**76,623**	**80,263**	**79,385**
Total liabilities and equity		**544,702**	**613,288**	**580,184**

Approved by the Board on 01 September 2011.

K E Randall

T A Booth 

The attached notes form an integral part of these condensed consolidated financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2011

	6 months 30 June 2011 (Unaudited) £000	6 months 30 June 2010 (Unaudited) £000	Year ended 31 Dec 2010 (Audited) £000
Net cash (used in)/from operating activities	**(16,148)**	**(2,632)**	**5,776**
Purchase of property, plant and equipment	(632)	(31)	(452)
Group share of Syndicate cash	2,688	-	-
Acquisition of subsidiary undertakings (net of cash acquired)	-	(4,887)	2,735
Cash injected by minority interest in subsidiary	-	25	25
Net cash from/(used in) investing activities	**2,056**	**(4,893)**	**2,308**
Repayment of borrowings	(1,965)	(777)	(2,800)
New borrowing arrangements	2,329	5,609	12,468
Equity dividends paid	(613)	(2,324)	(2,652)
Interest and other finance costs paid	(218)	(190)	(358)
Receipts from issue of shares	60	-	318
Redemption of B and C shares	(1,837)	-	(1,286)
Purchase of treasury shares	(2,597)	-	(983)
Sale of treasury shares	560	-	-
Net cash (used in)/from financing activities	**(4,281)**	**2,318**	**4,707**
Net (decrease)/increase in cash and cash equivalents	**(18,373)**	**(5,207)**	**12,791**
Cash and cash equivalents at beginning of period	60,109	46,809	46,809
Foreign exchange movement on cash and cash equivalents	(1,113)	1,040	509
Cash and cash equivalents at end of period	**40,623**	**42,642**	**60,109**
Share of Syndicates cash restricted funds	3,401	-	-
Unrestricted funds	37,222	42,642	60,109
Cash and cash equivalents at end of period	**40,623**	**42,642**	**60,109**

The attached notes are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	6 months 30 June 2011 (Unaudited) £000	6 months 30 June 2010 (Unaudited) £000	Year ended 31 Dec 2010 (Audited) £000
Recognised in the financial period:-			
Exchange (losses)/gains on consolidation	(1,557)	2,826	414
Pension scheme actuarial losses	(109)	(1,679)	(160)
Deferred tax on pension scheme actuarial losses	29	470	45
Net (expense)/gain recognised directly in equity	(1,637)	1,617	299
Profit for the period	3,112	3,673	6,373
Total comprehensive income for the period	**1,475**	**5,290**	**6,672**
Attributable to:-			
Equity holders of the parent	1,475	5,395	6,858
Non-controlling interests	-	(105)	(186)
Total recognised in the period	**1,475**	**5,290**	**6,672**

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	6 months 30 June 2011 (Unaudited) £000	6 months 30 June 2010 (Unaudited) Restated £000	Year ended 31 Dec 2010 (Audited) Restated £000
Balance at 1 January	79,385	74,814	74,814
Prior year adjustment	-	1,376	1,376
Balance at 1 January (as restated)	**79,385**	**76,190**	**76,190**
Total comprehensive income for the period	1,475	5,290	6,672
Treasury shares	(2,100)	1,235	252
Profit/(loss) on treasury shares	63	(214)	(214)
Issue of shares/ shares to be issued	86	57	401
Dividends	(613)	(2,324)	(2,652)
Redemption of shares	(1,837)	-	(1,286)
Non-controlling interest	164	29	22
Balance period end	**76,623**	**80,263**	**79,385**

The attached notes are an integral part of these condensed consolidated financial statements.

Notes to the Interim Financial Statements

For the six months ended 30 June 2011

1. Basis of preparation

The condensed interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

The condensed interim financial statements for the 2011 and 2010 half years are unaudited, but have been subject to review by the Company's auditors.

The comparative figures for the year ended 31 December 2010 are based upon the consolidated Group financial statements. These accounts have been reported on by the Company's auditors and have been delivered to the Registrar of Companies on 15 June 2011.

Restatement

IAS 21 requires goodwill arising on the acquisition of overseas subsidiaries to be treated as the assets of those subsidiaries, this requires such goodwill to be retranslated at the rate of exchange prevailing at the reporting date. The Group has restated its comparatives in order to fully comply with the requirements of this standard. The implications of this restatement are presented in the Condensed Consolidated Statement of Equity on page 18.

2. Significant accounting policies

The condensed interim financial statements have been prepared under the historical cost convention, except that financial assets are stated at their fair value.

The accounting policies adopted in the preparation of the interim condensed interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, save for the new policies following the consolidation of the Group's share of certain of the managed Lloyd's Syndicates and for the adoption of new standards and interpretations as of 1 January 2011, noted below:-

- IAS 24 Related Party Transactions (Amendment)
- IAS 32 Financial Instruments: Presentation (Amendment)
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (Amendment)
- Improvements to IFRSs (issued May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations:
- IFRS 7 Financial Instruments — Disclosures:
- IAS 1 Presentation of Financial Statements:
- IAS 34 Interim Financial Statements:
- IFRS 3 Business Combinations
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New policies following the consolidation of the Group's share of certain of the managed Lloyd's Syndicates are included as follows:-

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.

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 account of a Lloyd's Syndicate is normally closed by reinsurance into the following year of account. 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. 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 year. 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 corporate member participating therein. 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.

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.

3. Segmental information

The Group operates with following primary segments:-

- Insurance Investments, which acquires legacy portfolios and reinsurance debt, and participates on certain of the Group's managed Lloyd's Syndicates
- Insurance S ervices, which provides insurance related services to both internal and external clients in the insurance market
- Captives, which acquires and manages captive operations
- Underwriting Management, which provides management and capital support to Lloyd's syndicates and other underwriting entities
- Other corporate activities, which primarily includes the group holding company and other minor subsidiaries which fall outside the segments above

Segment result for the six months ended 30 June 2011

	Insurance investments £000	Insurance services £000	Captives £000	Underwriting management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	(63)	-	-	-	-	-	(63)
Net investment income	5,443	167	-	2	6	-	5,618
Other external income	95	10,310	1,560	1,276	-	-	13,241
Other internal income	-	4,794	-	62	-	(4,856)	-
Total income	**5,475**	**15,271**	**1,560**	**1,340**	**6**	**(4,856)**	**18,796**
Claims paid, net of reinsurance	(8,415)	-	-	-	-	-	(8,415)
Net change in provision for claims	13,272	-	-	-	-	-	13,272
Net insurance claims released	**4,857**	**-**	**-**	**-**	**-**	**-**	**4,857**
Operating expenses	(7,103)	(13,320)	(1,467)	(2,872)	(382)	4,856	(20,288)
Result of operating activities before goodwill on bargain purchase and impairment of intangible assets	**3,229**	**1,951**	**93**	**(1,532)**	**(376)**	**-**	**3,365**
Impairment of intangible assets	-	-	(172)	-	-	-	(172)
Result of operating activities	**3,229**	**1,951**	**(79)**	**(1,532)**	**(376)**	**-**	**3,193**
Finance costs	(12)	(1)	-	-	(205)	-	(218)
Management charges	-	(1,225)	(93)	-	1,318	-	-
Profit/(loss) on ordinary activitie before income taxes	**3,217**	**725**	**(172)**	**(1,532)**	**737**	**-**	**2,975**
Income tax (charge)/credit	(413)	277	-	32	241	-	137
Profit/(loss) for the period	**2,804**	**1,002**	**(172)**	**(1,500)**	**978**	**-**	**3,112**
Segment assets	**522,304**	**40,291**	**6,593**	**2,974**	**22,648**	**(50,108)**	**544,702**
Segment liabilities	**435,124**	**26,237**	**1,187**	**4,323**	**51,316**	**(50,108)**	**468,079**

Internal income includes fees payable by the insurance companies to the insurance service division in the period, which are contractually committed on an arms length basis.

External income contains no clients which generate more than 10% of the total external income.

Notes to the Interim Financial Statements

For the six months ended 30 June 2011

3. Segmental information (continued)

Segment result for the six months ended 30 June 2010

	Insurance Investments £000	Insurance services £000	Captives £000	Underwriting Management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	671	-	-	-	-	-	671
Net investment income	4,562	23	-	-	10	-	4,595
Other external income	323	8,940	1,459	62	-	-	10,784
Other internal income	-	6,062	-	-	-	(6,062)	-
Total income	**5,556**	**15,025**	**1,459**	**62**	**10**	**(6,062)**	**16,050**
Claims paid, net of reinsurance	(4,707)	-	-	-	-	-	(4,707)
Net change in provision for claims	9,521	-	-	-	-	-	9,521
Net insurance claims released	**4,814**	**-**	**-**	**-**	**-**	**-**	**4,814**
Operating expenses	(6,510)	(11,080)	(1,328)	(393)	(2,499)	6,062	(15,748)
Result of operating activities before goodwill on bargain purchase and impairment of intangible assets	**3,860**	**3,945**	**131**	**(331)**	**(2,489)**	**-**	**5,116**
Goodwill on bargain purchase	896	-	-	-	-	-	896
Result of operating activities	**4,756**	**3,945**	**131**	**(331)**	**(2,489)**	**-**	**6,012**
Finance costs	-	-	-	-	(190)	-	(190)
Management charges	-	(330)	-	-	330	-	-
Profit/(loss) on ordinary activities before income taxes	**4,756**	**3,615**	**131**	**(331)**	**(2,349)**	**-**	**5,822**
Income tax (charge)/credit	(1,733)	(883)	-	-	467	-	(2,149)
Profit/(loss) for the period	**3,023**	**2,732**	**131**	**(331)**	**(1,882)**	**-**	**3,673**
Segment assets	**598,233**	**30,110**	**5,877**	**-**	**17,728**	**(38,660)**	**613,288**
Segment liabilities	**508,476**	**20,419**	**521**	**331**	**41,862**	**(38,584)**	**533,025**

Internal income includes fees payable by the insurance companies to the insurance service division in the period, which are contractually committed on an arms length basis.

Included within the other external income of £10.7m is £4.5m in aggregate received from two clients, each of which generate more than 10% of the total external income.

Segment result for the year ended 31 December 2010

	Insurance Investments £000	Insurance services £000	Captives £000	Underwriting Management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	718	-	-	-	-	-	718
Net investment income	8,506	11	-	-	13	-	8,530
Other external income	312	19,569	2,974	729	(14)	-	23,570
Other internal income	-	13,048	-	-	-	(13,048)	-
Total income	**9,536**	**32,628**	**2,974**	**729**	**(1)**	**(13,048)**	**32,818**
Claims paid, net of reinsurance	(13,815)	-	-	-	-	-	(13,815)
Net change in provision for claims	23,272	-	-	-	-	-	23,272
Net insurance claims released	**9,457**	**-**	**-**	**-**	**-**	**-**	**9,457**
Operating expenses	(13,331)	(26,848)	(2,743)	(1,693)	(4,528)	13,048	(36,095)
Result of operating activities before goodwill on bargain purchase and impairment of intangible assets	**5,662**	**5,780**	**231**	**(964)**	**(4,529)**	**-**	**6,180**
Goodwill on bargain purchase	1,701	-	-	-	-	-	1,701
Impairment of intangible assets	-	-	-	-	-	-	-
Result of operating activities	**7,363**	**5,780**	**231**	**(964)**	**(4,529)**	**-**	**7,881**
Finance costs	(5)	-	-	-	(353)	-	(358)
Management charges	-	(806)	-	-	806	-	-
Profit/(loss) on ordinary activities before income taxes	**7,358**	**4,974**	**231**	**(964)**	**(4,076)**	**-**	**7,523**
Income tax (charge)/credit	(926)	(995)	-	73	698	-	(1,150)
Profit/(loss) for the period	**6,432**	**3,979**	**231**	**(891)**	**(3,378)**	**-**	**6,373**
Segment assets	**548,834**	**46,219**	**6,591**	**591**	**62,421**	**(84,472)**	**580,184**
Segment liabilities	**461,511**	**29,174**	**745**	**925**	**54,109**	**(45,665)**	**500,799**

Internal income includes fees payable by the insurance companies to the insurance service division in the period, which are contractually committed on an arms length basis.

Included within the other external income of £23.6m is £10.2m in aggregate received from two clients, each of which generate more than 10% of the total external income.

Notes to the Interim Financial Statements

For the six months ended 30 June 2011

3. Segmental information (continued)

Geographical analysis

As at 30 June 2011

	UK £000	North America £000	Europe £000	Total £000
Gross assets	193,177	376,870	24,763	594,810
Intercompany eliminations	(31,291)	(6,484)	(12,333)	(50,108)
Segment assets	161,886	370,386	12,430	544,702
Gross liabilities	161,317	337,595	19,054	517,966
Intercompany eliminations	(35,881)	(13,521)	(485)	(49,887)
Segment liabilities	125,436	324,074	18,569	468,079
Segmental income	10,949	7,789	58	18,796

As at 30 June 2010

	UK £000	North America £000	Europe £000	Total £000
Gross assets	198,475	425,307	28,166	651,948
Intercompany eliminations	(32,196)	(1,461)	(5,003)	(38,660)
Segment assets	166,279	423,846	23,163	613,288
Gross liabilities	157,201	387,716	26,692	571,609
Intercompany eliminations	(25,163)	(12,144)	(1,277)	(38,584)
Segment liabilities	132,038	375,572	25,415	533,025
Segmental income	11,634	4,193	223	16,050

As at 31 December 2010

	UK £000	North America £000	Europe £000	Total £00
Gross assets	229,184	407,659	27,813	664,656
Intercompany eliminations	(64,768)	(6,014)	(13,690)	(84,472)
Segment assets	164,416	401,645	14,123	580,184
Gross liabilities	158,216	367,715	20,452	546,383
Intercompany eliminations	(32,109)	(13,001)	(474)	(45,584)
Segment liabilities	126,107	354,714	19,978	500,799
Segmental income	23,371	8,280	1,167	32,818

Other information

As at 30 June 2011

	Insurance investments £000	Insurance services £000	Captives £000	Underwriting £000	Other corporate £000	Eliminations £000	Total £000
Capital expenditure	-	618	14	-	-	-	632
Depreciation	2	202	5	1	-	-	210

As at 30 June 2010

	Insurance investments £000	Insurance services £000	Captives £000	Underwriting £000	Other corporate £000	Eliminations £000	Total £000
Capital expenditure	-	31	-	-	-	-	31
Depreciation	2	93	2	-	-	-	97

As at 31 December 2010

	Insurance investments £000	Insurance services £000	Captives £000	Underwriting £000	Other corporate £000	Eliminations £000	Total £000
Capital expenditure	-	452	-	-	-	-	452
Depreciation	5	227	-	-	-	-	232

4. Investment return

	6 months 30 June 2011 £000	6 months 30 June 2011 £000	Year ended 31 Dec 2010 £000
Interest income	3,724	4,403	8,119
Realised gains on investments	776	731	2,531
Unrealised gains/(losses) on investments	1,331	(188)	(1,586)
Investment management expenses	(213)	(351)	(534)
	5,618	4,595	8,530

5. Income tax

	6 months 30 June 2011 £000	6 months 30 June 2011 £000	Year ended 31 Dec 2010 £000
Current tax	(479)	(1,338)	2,713
Deferred tax	616	(811)	(1,563)
	137	(2,149)	1,150

Notes to the Interim Financial Statements

For the six months ended 30 June 2011

6. Technical provisions

Gross	**6 months 30 June 2011 £000**	**6 months 30 June 2011 £000**	**Year ended 31 Dec 2010 £000**
Claims outstanding at 1 January	440,095	480,616	480,616
Claims paid	(26,243)	(16,224)	(43,863)
Increase arising from acquisition of subsidiary	-	7,195	6,040
Release of reserves	(4,794)	(4,306)	(18,035)
Net exchange differences	2,382	23,354	15,337
As at period end	411,440	490,635	440,095

Reinsurance	**6 months 30 June 2011 £000**	**6 months 30 June 2011 £000**	**Year ended 31 Dec 2010 £000**
Reinsurers share of claims outstanding at 1 January	216,607	247,456	247,456
Reinsurers share of gross claims paid	(17,828)	(11,517)	(30,048)
Increase arising from acquisition of subsidiary	-	219	219
Strengthening/(release) of reserves	63	508	(8,578)
Net exchange differences	(3,163)	13,236	7,558
As at period end	195,679	249,902	216,607

Net	**6 months 30 June 2011 £000**	**6 months 30 June 2011 £000**	**Year ended 31 Dec 2010 £000**
Net claims outstanding at 1 January	223,488	233,160	233,160
Net claims paid	(8,415)	(4,707)	(13,815)
Increase arising from acquisition of subsidiary	-	6,976	5,821
Release of reserves	(4,857)	(4,814)	(9,457)
Net exchange differences	5,545	10,118	7,779
As at period end	215,761	240,733	223,488

Significant uncertainty arises in the quantification of technical provisions for all insurance entities under the Group's control due to the long tail nature of the business underwritten by those entities.

The reserves carried by the Group are calculated using a variety of actuarial techniques. The reserves 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. However, should additional information become available to the Directors of those companies, adjustments may be required to the reserves carried.

7. Earnings per share

	6 months 30 June 2011 £000	6 months 30 June 2011 £000	Year ended 31 Dec 2010 £000
Profit for the period attributable to Ordinary shareholders	3,112	3,778	6,559
	No. 000's	No. 000's	No. 000's
Weighted average number of Ordinary shares	53,629	55,056	53,730
Effect of dilutive share options	1,095	1,570	1,093
Weighted average number of Ordinary shares for the purposes of diluted earnings per share	54,724	56,626	54,823
Basic earnings per share	5.8p	6.9p	12.2p
Diluted earning per share	5.7p	6.7p	12.0p

8. Insurance and other payables

	6 months 30 June 2011 £000	6 months 30 June 2011 £000	Year ended 31 Dec 2010 £000
Structured liabilities	356,654	388,939	369,310
Structured settlements	(356,654)	(388,939)	(369,310)
	-	-	-
Other creditors	32,122	22,148	34,976
	32,122	22,148	34,976

Structured settlements

No new structured settlement arrangements have been entered into during the period. The movement in these structured liabilities during the period is due to exchange movements. The Group has purchased 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 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. Accordingly, these assets and liabilities have been combined in order 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

In respect of the Quest group, the assets, 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 30 June 2011 amount to £51,284,000 (31 December 2010: £47,930,000).

Client monies

The Group holds regulated funds on behalf of clients and as these are not available for use by the Group, they are not included in the consolidated statement of financial position. The amounts held as at 30 June 2011 amounted to £5,006,000 (31 December 2010: nil).

Notes to the Interim Financial Statements

For the six months ended 30 June 2011

9. Borrowings

The group has in place a £30m revolving multicurrency facility with The Royal Bank of Scotland. Of this facility, £19,459,000 was drawn as at 30 June 2011 (31 December 2010: £19,627,000).

10. Issued share capital

Issued share capital as at 30 June 2011 amounted to £1,137,774 (31 December 2010: £1,134,673).

11. Other reserves

	6 months 30 June 2011 £000	6 months 30 June 2010 £000	Year ended 31 Dec 2010 £000
Shares to be issued	264	311	250
Share premium	11,811	17,255	16,029
Capital redemption reserve	4,064	-	1,614
Treasury share reserve	(3,434)	(351)	(1,334)
	12,705	17,215	16,559

Shares to be issued	6 months 30 June 2011 £000	6 months 30 June 2010 £000	Year ended 31 Dec 2010 £000
Balance at 1 January	250	254	254
Issue of option/(shares)	14	57	(4)
Balance period end	264	311	250

Share premium	6 months 30 June 2011 £000	6 months 30 June 2010 £000	Year ended 31 Dec 2010 £000
Balance at 1 January	16,029	17,255	17,255
Issue of shares	(4,218)	-	(1,226)
Balance period end	11,811	17,255	16,029

Capital redemption reserve	6 months 30 June 2011 £000	6 months 30 June 2010 £000	Year ended 31 Dec 2010 £000
Balance at 1 January	1,614	-	-
Redemption and cancellation of shares	2,450	-	1,614
Balance period end	4,064	-	1,614

Treasury share reserve	6 months 30 June 2011 £000	6 months 30 June 2010 £000	Year ended 31 Dec 2010 £000
Balance at 1 January	(1,334)	(1,586)	(1,586)
(Purchase)/Reissue treasury shares	(2,100)	1,235	252
Balance period end	(3,434)	(351)	(1,334)

12. Contingencies and commitments

As a condition of the acquisition of R&Q Re (UK), the Company entered into an assignment, assumption and indemnity agreement to counter-indemnify the ACE Group in respect of two guarantees given by ACE in favour of the Institute of London Underwriters for certain policies written by R&Q Re (UK). This counter-indemnity is unlimited in amount.

As a condition of the acquisition of Chevanstell, the Company entered into a deed of indemnity with Tryg Forsikring A/S to counter-indemnify it for four guarantees given in respect of certain policies written by Chevanstell. The aggregate limit of this counter-indemnity is £9,000,000.

The Directors believe that it is unlikely that either of these counter-indemnities will be called upon.

13. Goodwill

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 forecasts approved by management covering a five year period. Management also consider the current net asset value and earnings of each cash generating unit.

No changes to the underlying assumptions have been made in the interim review.

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

14. Litigation

During the period, a long running dispute concerning the management by R&Q USA (a wholly owned subsidiary) of two US insurance companies, Seaton & Stonewall was resolved and damages in excess of $2m were received.

All claims against R&Q USA and the Group's Chairman and Chief Executive, Ken Randall personally, were withdrawn.

15. Related party transactions

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

	2011 **£**	**2010** **£**
K E Randall and family	1,062,649	1,036,014
A K Quilter	209,605	204,351
K P McNamara	6,190	1,176
M G Smith	1,113	-
J M P Welman	756	-

- Mr and Mrs K E Randall received £12,500 (2010: £12,500) for rent for property used by the Group.
- During the period the Group recharged expenses totalling £2,707,000 (2010: £1,886,000) to Lloyd's syndicates 102, 1897 and 3330, which are managed by the Group.

16. Events since the end of the reporting period

On the 7 July 2011 the Group purchased the entire issued share capital of Triton Management AS a company incorporated in Norway for NOK 12.4m (£1.44m). The fair values of the assets acquired have been provisionally estimated as NOK 2.5m (£0.29m) which would derive a value of goodwill of NOK 9.9m (£3.60m).

Since the period end the share buyback of 5,000,000 shares has been completed for a total consideration of £6,123,000 with an average price paid per share of 122p (High 125p, Low 110p).

Independent Review Report to Randall & Quilter Holdings plc

For the six months ended 30 June 2011

Introduction

We have been engaged by the Company to review the condensed set of Financial Statements in the interim financial report for the six months ended 30 June 2011 which comprise the condensed consolidated income statement, condensed consolidated statement of financial position, condensed consolidated cash flow statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and related notes.

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union, and the AIM Rules for Companies.

The annual Financial Statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of Financial Statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of Financial Statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the AIM Rules for Companies. We do not, in producing this report, accept or assume responsibility for any other purpose to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We also read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of Financial Statements. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of Financial Statements in the interim financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules for Companies.

Emphasis of matter - significant uncertainty in relation to technical provisions

As stated in note 6 significant uncertainty arises in the quantification of technical provisions because of the long tail nature of the business underwritten by the Group's insurance company subsidiaries in run-off. If further information becomes available to the Directors of those companies which gives rise to material additional liabilities, the going concern basis might no longer be appropriate for those companies only and adjustments would need to be made to reduce the value of their assets to their realisable amount and to provide for any further liabilities which might arise. Should the going concern basis no longer be appropriate to any insurance company subsidiary this would not necessarily affect the going concern basis for the remainder of the Group. Our conclusion is not qualified in this respect.

Littlejohn LLP
Chartered Accountants
Registered Auditor

01 September 2011

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