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# RANDALL & QUILTER INVESTMENT HOLDINGS LTD.

Interim results for the six months ended 30 June 2019



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PRIVATE & CONFIDENTIAL

STRATEGY | INNOVATION | EXPERTISE



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## MISSION STATEMENT

To offer investors profits and capital extractions from legacy insurance acquisitions/reinsurances and grow underwriting revenue and commission income from our licensed carriers in the US and UK/EU writing niche and profitable business, largely as a conduit for highly rated reinsurers.

## OUR PRINCIPAL STRATEGIC OBJECTIVES

To acquire or reinsure run-off legacy portfolios in the US and UK/EU to produce attractive book value growth and cash returns

To develop Accredited, our A-VIII (Excellent) rated US admitted carrier, as a Program management platform of choice, generating substantial and repeatable commission income

To develop Accredited Europe, our Malta domiciled A-(Excellent) rated carrier, as a conduit for niche EU and UK MGA business to highly rated reinsurers, generating substantial and repeatable commission income

## RESULTS FOR THE PERIOD TO 30 JUNE 2019

### Financial highlights:

- Significant increase in Profit before tax to £33.1m (2018: £7.8m).
- Basic earnings per share of 19.2p (2018: 5.8p).
- Return on tangible equity of 12.5% (2018: 5.0%).
- Cash and investments £728.9m (2018: £638.7m).
- 7.8% increase in net tangible assets per share to 133.2p (2018: 123.6p).
- Proposed interim distribution per share increased to 3.8p (2018: 3.6p).

Group Results £'000	1HY 2019	FY 2018	1HY 2018
Operating profit (continuing)	37,668	18,596	10,140
Profit before tax (continuing)	33,087	14,251	7,780
Profit before tax	33,087	11,693	5,527
Profit after tax	32,600	7,822	4,974
Earnings per share (basic)	19.2p	5.8p	3.6p
<b>Balance sheet information</b>			
Total assets	1,562,258	1,197,573	1,138,108
Cash and investments	728,915	638,672	584,163
Total gross reserves	942,250	699,078	769,059
Amounts owed to credit institutions	106,614	140,243	73,223
Shareholders' equity	302,019	175,638	167,490
<b>Key statistics</b>			
Investment return	2.3%	1.2%	0.7%
Return on tangible equity	12.5%	5.0%	6.8%
Net tangible assets per share	133.2p	123.6p	117.6p
Net assets value per share	154.2p	139.4p	133.0p
Distribution per share <i>*interim</i>	3.8p*	9.2p	3.6p*

### Operational developments during 6 months to 30 June 2019

- New leadership structure announced
- Oversubscribed placing and open offer in March 2019, raised c.£103.5m (net of costs), with proceeds used to support the development of program management business, maintain the AM Best credit and financial strength ratings of the Accredited companies, replenish liquidity used or allocated to previously identified legacy acquisitions and help to rebalance our equity : debt funding.
- The AM Best rating of Accredited US moved to A- VIII in March 2019

### Business Development

- Completion of Global Re legacy acquisition (our largest ever) and retro-active reinsurance of SAFER (premium of c\$80m)
- Program management contracts agreed to date which are estimated to generate annualised Gross Written Premiums (“GWP”) of approaching \$800m per annum.
- New business pipelines for legacy and program management remain strong, with our post-Brexit solutions generating significant industry interest in program management.

### Further developments since 30 June 2019

- Agreement of the acquisition of Sandell Re (for US\$25m), for which we await approval by the Bermudian regulator.

### **Key issues surrounding the Group's cash and investments are:**

- Increase in cash and investments to £729m (from £639m as at 31 December 2018)
- Investment return of 2.3% for the six month period ending 30 June 2019, generating £16m (compared to £5.4m for 2019 full year)
- Float of cash and investments has continued to increase since June
- Rationalisation of investment managers and reduction of investment management fees

Live Investments Division	6 months	12 months
Divisional results £'000	2019	2018
Results of operating activities	(1,896)	(3,802)
<b>Key metrics</b>		
Program management result	(2,264)	(2,759)
MGA's result	(492)	(731)
Lloyd's syndicate result (residual)	860	(312)

## Update on program developments

### US

- 14 programs totaling estimated annualised GWP US\$238m agreed and launched
- 4 programs totaling estimated annualised GWP US\$95m agreed and expected to launch soon
- 4 programs in advanced DD totaling estimated annualised GWP of \$52m

### Europe

- 16 programs totaling estimated annualised GWP £281m agreed and launched
- 6 programs totaling estimated annualised GWP £52m agreed are awaiting regulatory approval
- 6 programs in advanced DD totaling estimate annualised GWP of £109m

## Pipeline

- Excellent pipeline for both US and Europe with programs at various stages of review and due diligence
- Further pipeline includes programs estimated to generate annualized GWP in excess of c.\$400m per annum
- We are targeting an overall gross commission rate of 5% of GWP

## Outlook

- Growth is driven by our comprehensive insurance licences, strong credit ratings and our ability to provide a credible “Brexit Solution” for insurers seeking continued access to EU insurance markets
- Business is scalable with MGAs who retain responsibility for underwriting execution, processing and claims management. R&Q’s function is to carry out due diligence, set regulatory framework and conduct regular audits to confirm compliance
- We are targeting a number of MGA’s, Brokers and Reinsurers to develop long term business partnerships
- Possible creation in the US of an Excess and Surplus platform to round out our offering



- The Group continues to have **strong growth prospects** in Program Management

## PROGRAM MANAGEMENT

### MARKET DRIVERS

- Solvency II has exposed undercapitalised program management specialists in Europe
- Reduction of independent program management capacity in the EU and US in 2018 (for example, the new ownership of State National)
- Uncertainty over Brexit (over 650 EU companies passport into UK)
- Growing demand from entrepreneurial MGAs to find strong, well rated capacity partners
- Fall out from Lloyd's Syndicates exiting certain classes of business

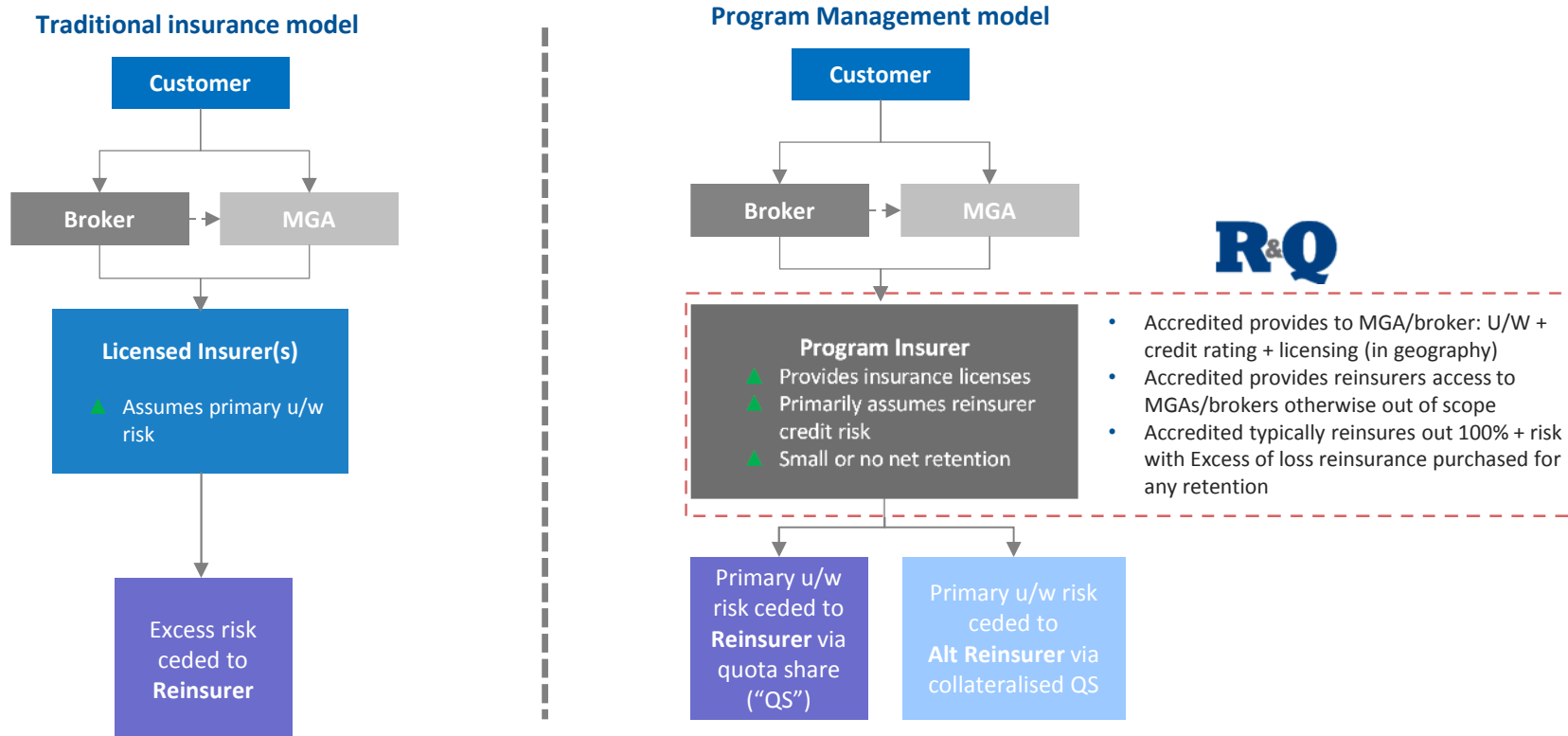
### R&Q'S ENABLERS

- Group's comprehensive licences and planned expansion into US Excess and Surplus markets
- Ability to provide a credible "Brexit Solution" for insurers seeking continued access to the EU markets
- Strong credit rating (Accredited US now A- VIII).
- R&Q believes it is a natural partner for "disrupters" because we have no traditional business to defend

TRUSTED PARTNER AS  
DEMONSTRATED BY RELATIONSHIPS  
WITH GLOBAL (RE)INSURERS



- Accredited provides traditional and alternative Reinsurers with access to direct specialty insurance business while offering MGAs/Brokers greater control and alternative market capacity



Legacy Investments Division Divisional KPIs £'000	6 months 2019	12 Months 2018
<b>Result of operating activities</b>	<b>42,088</b>	<b>30,898</b>
<b>Key metrics</b>		
Gains on existing portfolios (including commutation strategy)	6,001	43,254
Contribution from legacy deals	50,241	9,514
Investment return on free assets	2.3%	1.2%

- The Group continues to have **strong growth prospects** in Legacy

## LEGACY

### MARKET DRIVERS

- Continuing onerous capital and reporting obligations for insurers as a result of Solvency II in Europe
- Demand for run-off solutions continues to grow as owners and managers of non-life insurers seek capital efficiency
- Legacy run-off accepted as part of underwriting life cycle
- M&A activity in the P&C insurance sector incentivises companies to dispose of run-off businesses, especially in US/Bermuda
- Further fall-out from Lloyd’s review of underperforming business

### R&Q’S ENABLERS

- R&Q can offer widespread solutions through, among others:
  - A- VIII (Excellent) AM Best rated, fully admitted carrier licensed in 50 States and D.C.
  - A- (Excellent) AM Best rated, carrier domiciled in Malta, licensed for all classes 1-18 with freedom of services across all major EU states
- A range of onshore and offshore reinsurance facilities
- Dedicated Lloyd’s run-off Syndicate
- Innovative run-off products and solutions
- Experienced and dedicated team focused on providing bespoke exit solutions within expedient execution timeframes

**TRUSTED PARTNER AS  
DEMONSTRATED BY RELATIONSHIPS  
WITH GLOBAL  
CARRIERS/UNDERWRITERS,  
REINSURERS AND OTHER  
CORPORATES**



- Excellent pipeline in both legacy and program management
- Sandell Re acquisition agreed, awaiting regulatory approval
- Investment return in 2019 to date has been extremely positive and our float of cash and investment continues to grow
- The full year result for 2019 to expected to be in line with market expectation
- Excellent medium and long term outlook due to positive market environment for legacy and good visibility of strong growth in earned commissions from program management

- Continuing to deliver on our agreed strategy
- A much stronger underlying result in 2019
- Capital raise completed
- Global Re acquisition completed
- Increasing size of legacy transactions and exciting growth prospects for Program management in the US and UK/Europe
- Well positioned for Brexit, regardless of outcome
- Brexit, Solvency II and Lloyd's restructuring are presenting further opportunities for the Group
- Concentration of US\$ earnings and assets provides good insulation against continuing sterling weakness

# APPENDIX A : PROGRAM MANAGEMENT - EARNINGS RECOGNITION



STRATEGY | INNOVATION | EXPERTISE

Recognition of commission earnings typically occurs over the two years following commencement of each program

## Illustration

- Household program, £14.4m contracted on 31 December 2018 – for one year only.
- Written equally over 12 months – with effect from 1 February 2019 @ £1.2m per month.
- 5% commission = £720k.

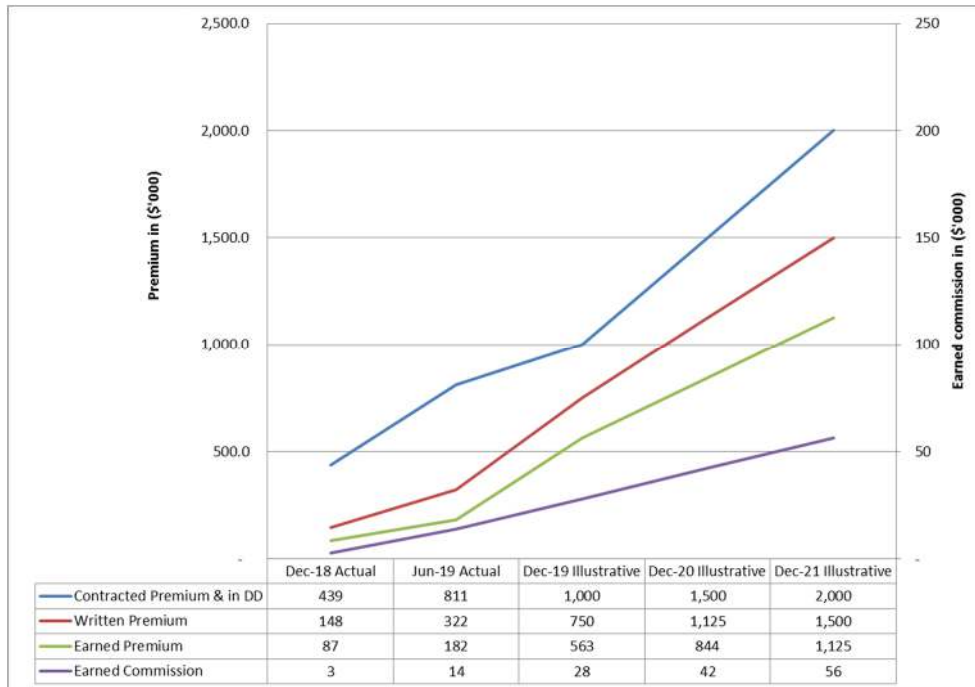
£000's	2019											
	J	F	M	A	M	J	J	A	S	O	N	D
Written premium		1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Earned premium												
Jan												
Feb		100	100	100	100	100	100	100	100	100	100	100
Mar			100	100	100	100	100	100	100	100	100	100
Apr				100	100	100	100	100	100	100	100	100
May					100	100	100	100	100	100	100	100
Jun						100	100	100	100	100	100	100
Jul							100	100	100	100	100	100
Aug								100	100	100	100	100
Sep									100	100	100	100
Oct										100	100	100
Nov											100	100
Dec												100
Jan-20												
Total earned premium		100	200	300	400	500	600	700	800	900	1,000	1,100
		<b>6,600</b>										
Earned commission @ 5%		5	10	15	20	25	30	35	40	45	50	55
		<b>330</b>										

2020												
J	F	M	A	M	J	J	A	S	O	N	D	
1,200												
100												
100	100											
100	100	100										
100	100	100	100									
100	100	100	100	100								
100	100	100	100	100	100							
100	100	100	100	100	100	100						
100	100	100	100	100	100	100	100					
100	100	100	100	100	100	100	100	100				
100	100	100	100	100	100	100	100	100	100			
100	100	100	100	100	100	100	100	100	100	100		
100	100	100	100	100	100	100	100	100	100	100	100	
100	100	100	100	100	100	100	100	100	100	100	100	100
Total earned premium	1,200	1,100	1,000	900	800	700	600	500	400	300	200	100
	<b>7,800</b>											
Earned commission @ 5%	60	55	50	45	40	35	30	25	20	15	10	5
	<b>390</b>											

- Current results reflect low levels of earned commission.
- Future earnings will benefit from deferred earnings from existing programs, new program business acquisitions and organic growth of existing programs.

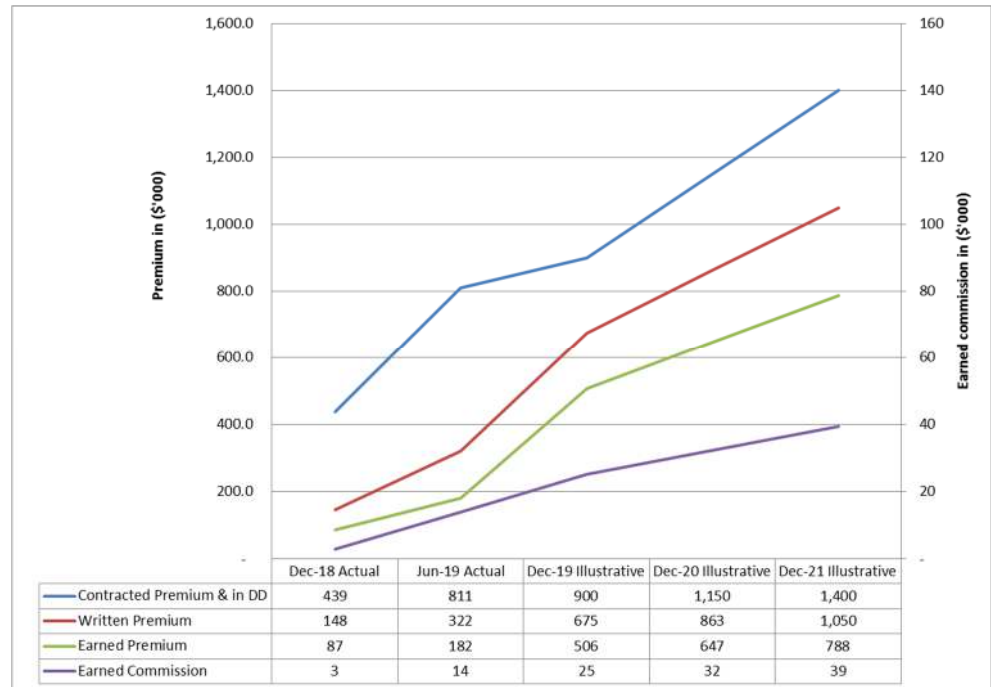
## SCENARIO 1

Contracted annual Gross Premium of \$500m signed up by December 2018 and assuming growth of \$500m (from existing and new) contracted annual



## SCENARIO 2

Contracted annual Gross Premium of \$500m signed up by December 2018 and assuming growth of \$250m (from existing and new) contracted annual





# APPENDIX C : INCOME STATEMENT FOR THE PERIOD ENDED 30 JUNE 2019



STRATEGY | INNOVATION | EXPERTISE

Randall & Quilter Investment Holdings Ltd. Consolidated Income Statement	6 months 2019 £'000	12 months 2018 £'000
Gross premiums written	226,062	183,838
Reinsurers' share of gross premiums	(138,262)	(118,928)
Premiums written, net of reinsurance	<u>87,800</u>	<u>64,910</u>
Change in gross provision for unearned premiums	(55,755)	(42,044)
Change in provision for unearned premiums, reinsurers' share	58,722	40,583
Net change in provision for unearned premiums	<u>2,967</u>	<u>(1,461)</u>
<b>Earned premium, net of reinsurance</b>	<b><u>90,767</u></b>	<b><u>63,449</u></b>
Net investment income	16,030	5,430
Other income	4,412	11,960
	<u>20,442</u>	<u>17,390</u>
<b>Total income</b>	<b><u>111,209</u></b>	<b><u>80,839</u></b>
Gross claims paid	(88,207)	(161,360)
Reinsurers' share of gross claims paid	58,165	106,238
Claims paid, net of reinsurance	<u>(30,042)</u>	<u>(55,122)</u>
Movement in gross technical provisions	(80,568)	69,579
Movement in reinsurers' share of technical provisions	32,160	(3,759)
Net change in provision for claims	<u>(48,408)</u>	<u>65,820</u>
<b>Net insurance claims incurred</b>	<b><u>(78,450)</u></b>	<b><u>10,698</u></b>
Operating expenses	(37,144)	(77,294)
<b>Result of operating activities before negative goodwill and impairment of intangible assets</b>	<b><u>(4,385)</u></b>	<b><u>14,243</u></b>
Goodwill on Bargain purchase	42,858	5,997
Impairment and amortisation of intangible assets	(805)	(1,644)
<b>Result of operating activities</b>	<b><u>37,668</u></b>	<b><u>18,596</u></b>
Finance costs	(4,581)	(4,345)
<b>Profit on ordinary activities before income taxes</b>	<b><u>33,087</u></b>	<b><u>14,251</u></b>
Income tax income/(expense)	(487)	(3,946)
<b>Profit for the period</b>	<b><u>32,600</u></b>	<b><u>10,305</u></b>
Attributable to equity holders of the parent	32,704	7,341
Minority interests	(104)	481
	<u>32,600</u>	<u>7,822</u>

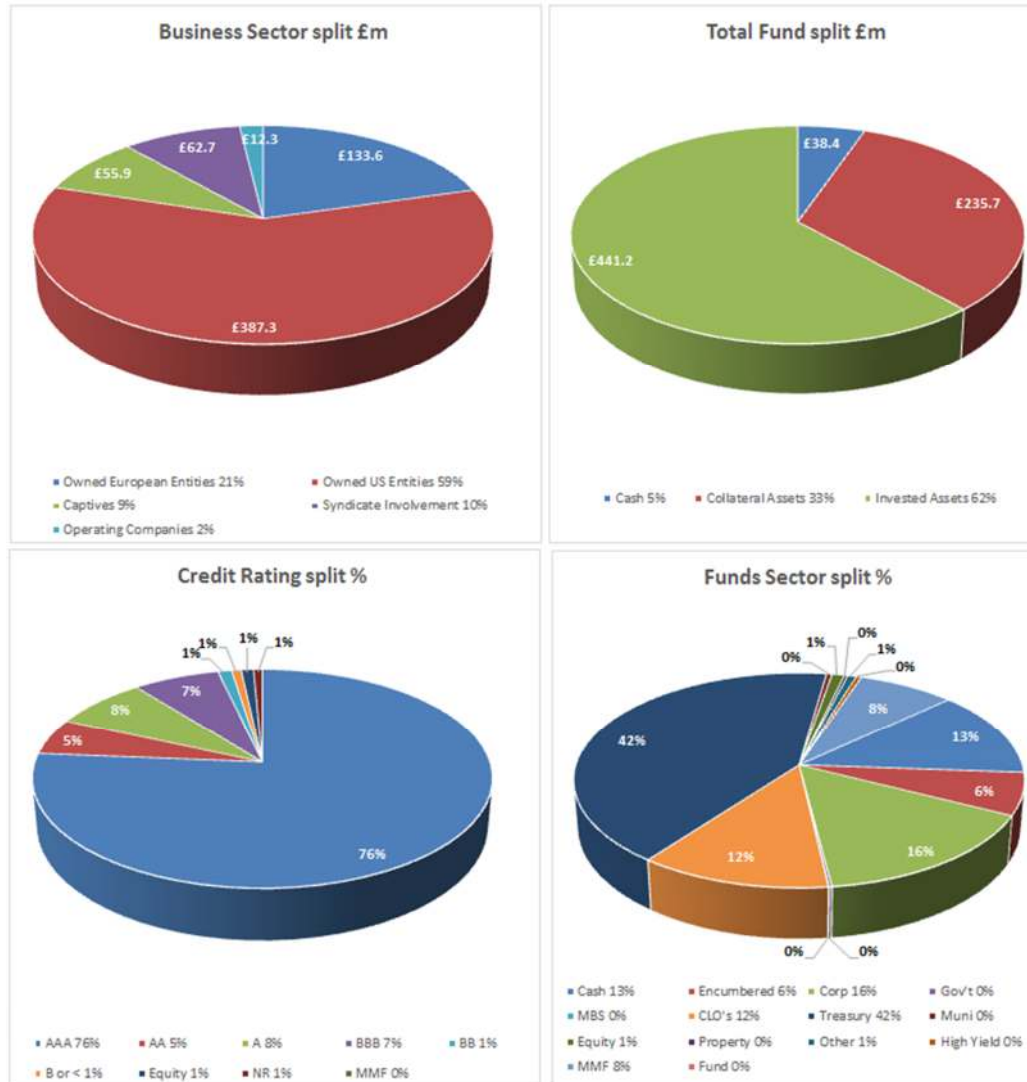
## APPENDIX D : BALANCE SHEET AS AT 30 JUNE 2019



STRATEGY | INNOVATION | EXPERTISE

Randall & Quilter Investment Holdings Ltd. Consolidated Balance Sheet	30 June 2019 £'000	2018 £'000
<b>Assets</b>		
Intangible Assets	41,161	19,974
Investments in associates	-	-
Property, plant & equipment	905	577
Right of use assets	2,690	-
Investment properties	1,520	1,881
Financial assets		
- Investments	448,986	395,418
- Deposits with ceding undertakings	6,432	6,331
Reinsurers' share of insurance liabilities	409,859	300,357
Corporation tax	1,635	191
Deferred tax asset	5,351	3,205
Insurance and other receivables	370,222	232,716
Cash and cash equivalents	273,497	236,923
<b>Total assets</b>	<b>1,562,258</b>	<b>1,197,573</b>
<b>Liabilities</b>		
Insurance contract provisions	942,250	699,078
Financial liabilities		
- Amounts owed to credit institutions	106,614	140,243
- Deposits received from reinsurers	1,245	1,139
Deferred tax liabilities	7,645	3,449
Trade and other payables, including insurance payables	195,111	168,488
Current tax liabilities	452	2,323
Pension scheme obligations	6,684	6,866
<b>Total liabilities</b>	<b>1,260,001</b>	<b>1,021,586</b>
<b>Equity</b>		
Share capital	3,918	2,520
Share premium	142,349	51,135
Retained earnings	155,752	121,983
<b>Attributable to equity holders of the parent</b>	<b>302,019</b>	<b>175,638</b>
Minority interest in subsidiary undertakings	238	349
<b>Total equity</b>	<b>302,257</b>	<b>175,987</b>
<b>Total liabilities and equity</b>	<b>1,562,258</b>	<b>1,197,573</b>

## CASH / INVESTMENT PORTFOLIO AS AT 30 JUNE 2019



### **Ken Randall, FCCA**

*Group Chairman*

- Mr. Randall is a certified accountant and has worked in the Insurance industry for almost 40 years.
- During the early 1980s, Mr. Randall was Head of Regulation at Lloyd's, which was then a self-regulated institution. From 1985 until 1991 Mr. Randall served as Chief Executive of the Merrett Group.
- In 1991, Mr. Randall set up the Eastgate Group, in partnership with Mr. Quilter, which developed into the UK's largest third party provider of insurance services (1,300 employees & turnover of over £80m).
- Following the sale of Eastgate, Mr. Randall & Mr. Quilter refocused R&Q onto the acquisition and servicing of non-life run-off portfolios. R&Q expanded its services to include Captive & Underwriting management.
- In 2007 Mr. Randall presided over the Group's initial admission to AIM, and readmission in 2013.

### **Alan Quilter, FCA ACII MCT**

*Group Chief Financial  
Officer & Joint CEO*

- Mr. Quilter is a chartered accountant and has worked in the London insurance market since 1969.
- Between 1980 and 1987, he headed the Market Financial Services Group at Lloyd's before having several senior roles within investment management companies focused on insurance markets in the UK.
- In 1992, Mr. Quilter joined Mr. Randall to form Randall & Quilter. He was Chief Financial Officer for the Group with overall responsibility of the Group's finance functions until June 2011 and has now resumed that role.

### **Mark Langridge, FCCA**

*Executive Director &  
Head of Legacy*

- Mr. Langridge has worked within the London insurance industry since 1980 when he began his career with the Prudential Corporation, qualifying as an accountant in 1987.
- In 1993 he joined KWELM Management Services where, as Reinsurance Director, he was responsible for managing the legacy of the insolvent HS Weavers' underwriting pool which had liabilities of more than \$9bn and which presented unique challenges for the P&C industry in London and internationally.
- Following the closure of the KWELM estate in 2005, Mark set up and part owned the KMS Group before its acquisition by R&Q in 2008.
- Prior to his appointment as Executive Director in January 2018, Mr. Langridge was Chief Executive Officer of the R&Q Insurance Investments Division and prior to that R&Q Insurance Services Division.

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