



**Randall & Quilter Investment Holdings Ltd.
and its subsidiaries**

Financial Condition Report (FCR)

31 December 2019

Company Profile

Randall & Quilter Investment Holdings Ltd. (“RQIH” or “Company” or the “Group”) is registered as an Insurance Group under the Insurance Act 1978, related Regulations and amendments thereto (the “Insurance Act”). RQIH was incorporated in Bermuda on 22 January 2013. The Company is a limited liability company incorporated and domiciled under the laws of Bermuda with registration number 47341.

I. BUSINESS AND PERFORMANCE

a. Name of Insurance Group

Randall & Quilter Investment Holdings Ltd.

b. Insurance Group Supervisor

Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

Email: Ttrott@bma.bm

c. Approved Auditor

Statutory and IFRS Reporting

PKF Littlejohn LLP Chartered Accountants and Registered Auditor

1 Westferry Circus,
Canary Wharf,
London E14 4HD,
United Kingdom

d. Ownership Details

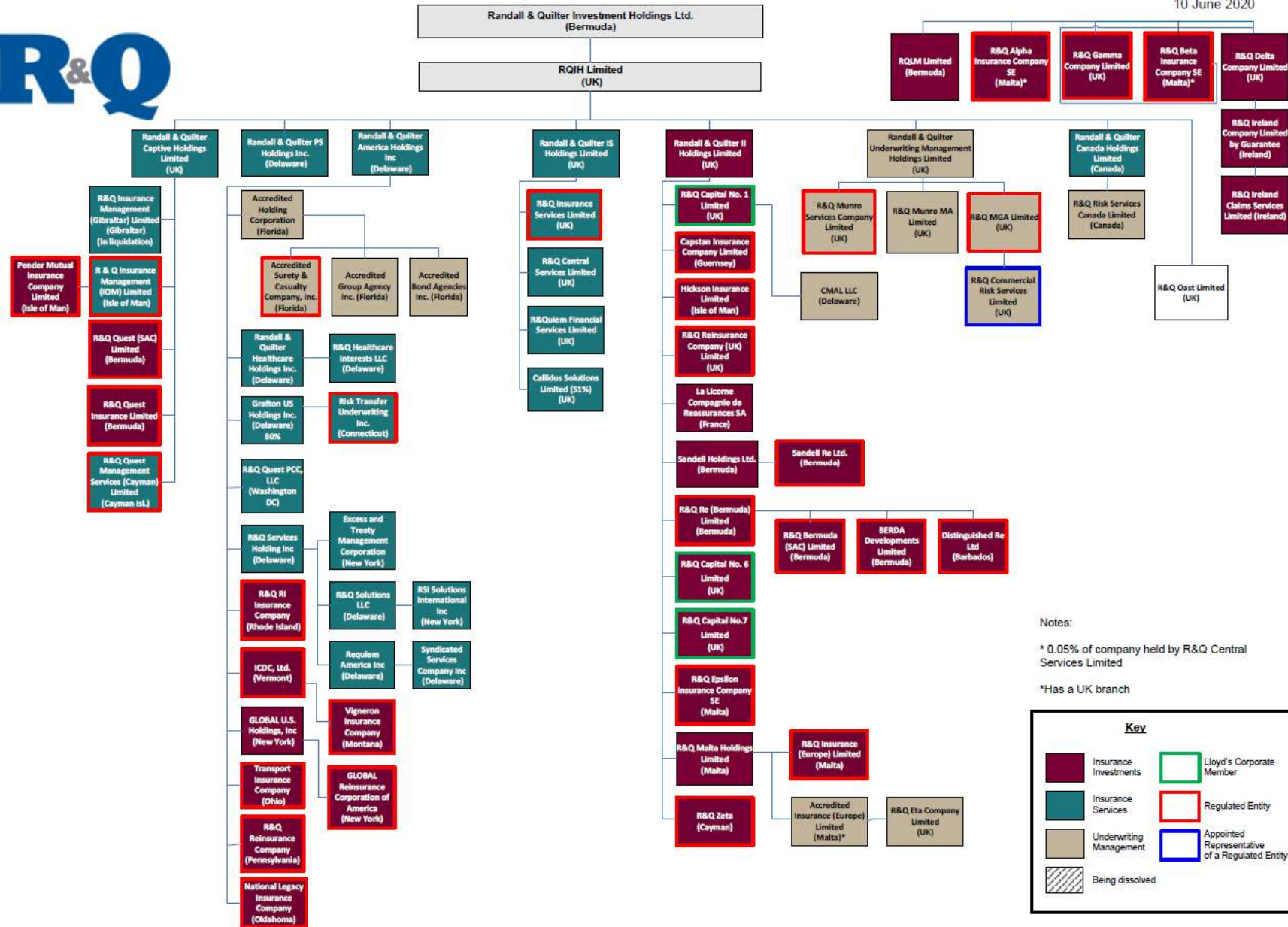
RQIH is a Bermuda-domiciled exempted holding company which is listed on the London Stock Exchange’s AIM exchange. RQIH shares were admitted to the AIM exchange on 5 July 2013 and is listed under the ticker symbol RQIH.

e. Group Structure

The Group structure as at June 10, 2020 follows on the next page.



10 June 2020



f. Insurance Business Written by Business Segment and by Geographical Region

During 2019, the Company continued to focus on its two distinct business segments - Legacy and Program Management.

Financial Summary for the Reporting Period
£'000s

	Program	Legacy	Other & Consol Adjts	Total
Earned premium, net of reinsurance	6,099	168,427	-	174,526
Gross investment income ¹	4,603	22,699	(5,309)	21,993
Net insurance claims	6,275	134,923	1,958	143,156
Bargain purchase gain	-	71,332	-	71,332
Operating income (loss) ¹	(1,897)	66,466	(14,907)	49,662
Profit (loss) before tax ¹	(2,206)	57,560	(15,229)	40,125
Segment assets ¹	412,130	1,586,860	(218,117)	1,780,873
Segment liabilities ¹	318,011	1,092,670	79,503	1,490,184

¹ Excludes consolidation adjustments

Geographical summary

	UK	North America	Europe
Gross assets ¹	460,617	1,153,071	478,722
Gross liabilities ¹	293,176	1,097,367	411,178
Revenue from external customers ¹	84,860	101,989	16,450

¹ Excludes consolidation adjustments

Overview of the financial results

2019 was a record year for the Group. Pre-tax profit was £40.1 million, with after-tax profit of £38.9 million and net asset value per share (including return to shareholders) increased by 13% to 148.1p per share.

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

The Group's Legacy segment continued to thrive in 2019 as 16 transactions were completed, including two of the largest transactions in R&Q's history. These 16 transactions contributed £332.2 million of new cash and investments and £276.2 million of additional net reserves.

Legacy operations continued to achieve claims and reserve savings from portfolios acquired in prior years, while the Group's investments returned 3.6%. In 2019, the Legacy segment generated an operating return on capital of 19.6% and over the past three years the operating return on capital has averaged 17.6%.

The Group's Program Management segment is a fee-based annual recurring commission revenue business that is highly scalable. In 2019, our gross premium written grew by 147%, from \$149.4 million in 2018 to

\$369.3 million in 2019. This led to record Economic Commission Revenue which grew by 148% from \$5.2 million in 2018 to \$12.9 million in 2019.

In the first quarter of 2020, our Program Management business continued to expand with growth in our existing programs and the addition of new programs, increasing gross written premium to \$478.4 million (on an annualised basis), an increase of 30% from year end 2019.

Execution of the business strategy

Since 2017 the Group has been focused on simplifying the business and focusing on our Legacy and Program Management segments. The Group made several divestments during 2017 and 2018, the proceeds of which were reinvested into the business.

The Group continues to make significant investment in both segments, both in terms of the human capital, IT systems and capabilities and in providing capital to support the growth of the business. In March 2019, the Group announced that we had successfully raised \$103.5m (net of expenses) from an equity raise and in May 2020 we raised a further \$100m of capital, with all proceeds being reinvested in the business.

The strategic benefit of focusing on two complementary high growth specialty insurance sectors - Program Management and Legacy is becoming clear. After three years of our Legacy business infrastructure supporting our rapidly growing fee-based Program Management business, in 2019 the Group achieved an important milestone as our Program Management business generated an Economic EBITDA of \$1.8 million.

Further details on the Group's achievements in the respective business segments are provided below.

Program management

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

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

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

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

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

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

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

Legacy M&A

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

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

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

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

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

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

Legacy operations

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

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

Management succession and staffing

The R&Q leadership team have made significant strides in addressing management succession during 2019 and into 2020. In January 2020 we announced that William Spiegel was joining as Executive Director and Deputy Group Chairman and that he would assume the role of Chairman upon Ken Randall's retirement.

In May 2020, the Group announced that Tom Solomon was joining as Executive Director and Chief Financial Officer, taking over from Alan Quilter who is currently serving as both the CEO and CFO. During 2019, Mike Walker joined the Group as the Chief Restructuring Officer and has now assumed the role of Head of Legacy Operations.

At the Board level, we were delighted to have Joanne Fox join the board in May 2019 in anticipation of Michael Smith's retirement in December 2019. The Group also recently announced the addition of Eamonn Flanagan as an independent Non-Executive Director, who will join the board in June.

Brexit

As previously mentioned, in 2020 we will set up a fully-fledged UK branch of Accredited Insurance (Europe) Limited ("Accredited Europe"). Accredited Europe, which is domiciled in Malta, has written a considerable volume of UK Program Management business that it would not be able to write after Brexit due to the cessation of the cross-border capabilities afforded under EU membership. In order to continue writing UK business, Accredited has set up freedom of establishment in the UK, effectively a branch operation under EU directives, and an application has been submitted to the PRA for this to become a fully authorised third country branch. This branch will get the full benefit of Accredited Malta's A- rating from AM Best. Not only will this enable Accredited to continue to write its current UK program business, but it provides opportunities for it to pick up new business from European program managers that have decided not to create a UK branch. With regard to legacy operations, the UK branch provides the platform for Accredited to continue to manage its UK legacy liabilities and utilise its financial strength rating to provide exit solutions for UK businesses that would no longer be able to access European run-off vehicles.

Distribution Policy

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

In March 2020, the Group announced that, following board approval, it would commence a share buyback programme for up to £2million of the Group's ordinary shares.

Outlook and Covid-19:

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

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

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

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

Program management

- Significant embedded growth from our existing 30 partnerships with MGAs. As of 31 December 2019, these MGA partners have told us they expect premium from their programs to reach \$842 million annually of which, as of 31 March 2020, \$478 million has been written. We anticipate much of the remainder to flow in the next couple of years
- Large pipeline of existing US and European business totalling \$1 billion of Gross Premium. We continue to witness increasing demand in all our markets given our leadership position and lack of competition in both the US, UK and European markets
- Increase in our addressable market by entering the US E&S Lines program management market in late 2020/early 2021. The US E&S market had approximately \$40 billion of written premium in 2019. We will primarily leverage our existing Program Management infrastructure to grow this business
- Growth in our UK Program Management business, post Brexit, by creating a UK branch of our European Program Management company
- Increase our presence in Italy with the establishment, in June 2020, of an Italian branch
- Collaboration with strong MGAs, who, as a direct result of Covid-19, may find their existing capital providers facing capital pressure and unable to support their growth
- Increase in commission revenue as insurance premiums increase in the 'hard' insurance market.

Legacy

- Growth in the demand for Legacy is being driven by the increased pressure on insurers to seek capital efficiency from the growing regulatory capital pressure on reserves
- Growth in demand, particularly post Covid-19, for exit solutions from cash-strapped owners of 'captive' insurance companies seeking to free up available liquidity from their captive subsidiaries. R&Q is already the market leader in this field
- Increase in the number of legacy opportunities post Covid-19, as the reduced capital position of the industry forces insurance companies to seek access to the Legacy markets to fill capital holes
- Opportunity to improve operating returns on capital, post Covid-19, due to the excess demand for Legacy solutions
- Increase the size of the opportunities upon which we can complete, by using sidecars and other third-party partnerships. As a manager of third-party capital, we would expect to be paid fees for sourcing and managing these transactions.

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

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

g. Performance of Investments & Material Income & Expenses for the Reporting Period

Performance of Investments for the Reporting Period

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

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

We maintain a conservative portfolio with a minimal allocation to equities and other risk assets. As of year-end 2019, 95% of our portfolio was rated BBB or better (including 62% in AAA rated securities), the average

duration was 1.7 years, 78% of the portfolio was US Dollar denominated, the book yield was 2.21% and the Yield to worst was 1.64%. An important investment metric is our investment/equity ratio. This ratio increased slightly over the year to 2.5x at year end 2019 from 2.4x at year end 2018.

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

The investment allocation (including surplus cash) at 31 December 2019 and 2018 is shown below:

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

During the year, the Group Capital and Investment Committee (GCIC) conducted a review of the Group's retained investment managers and proposed a new Group investment strategy which was adopted by the Board.

The main objective of the investment policy is to maximize return whilst maintaining and protecting the principal value of funds under management. The Group invests in high investment grade securities, cash and equities. The Company covers its technical provisions with investment grade fixed income securities and is continually monitors its investment portfolio there is a balance between performance and adherence to investment guidelines and asset mix. The gross investment income for the reporting period was £22.0m (2018 - £5.4m).

Material Income & Expenses for the Reporting Period

The following table below sets out material income and expense items for the current and preceding year. For further detail on material items, refer to the Group Report and Accounts at www.rqih.com.

Selected financial information	2019	2018
	£000	£000
Gross premiums written	450,187	183,838
Written premiums ceded to reinsurers	(285,033)	(118,928)
Earned premium, net of reinsurance	174,526	63,449
Gross investment income	21,993	5,430
Other income	6,780	11,960
Total income	203,299	80,839
Net claims provisions decrease/(increase)	(143,156)	10,698
Operating expenses	(78,651)	(77,294)
Result of operating activities before goodwill on bargain purchase	(18,508)	14,243
Goodwill on bargain purchase	71,332	5,997
Amortisation and impairment of intangible assets	(3,162)	(1,644)
Result of operating activities	49,662	18,596
Finance costs	(9,537)	(4,345)
Profit from continuing operations before income taxes	40,125	14,251
Profit for the year from continuing operations	38,845	10,305

h. Any Other Material Information

None

II. GOVERNANCE STRUCTURE

RQIH maintains a high standard of corporate governance, including following the Quoted Companies Alliance (“QCA”) code for small and mid-sized companies as an AIM-listed entity. Our structures are designed to establish, implement and maintain the effective controls which are essential to the Group’s long-term success.

The Group recognises the need to demonstrate that there is a System of Governance in place which:

- Is subject to sound and prudent management
- Meets regulatory expectations
- Is proportionate to the nature of the business
- Is flexible enough to be able to adapt to changes in the regulatory and statutory environment.

The Group follows good practice by having independent non-executive directors, each of whom has full access to the relevant operational and technical personnel as well as Executive Management.

The Group System of Governance is based on a number of principles in order to achieve this. In particular, sound and prudent management requiring:

- A clear organisational structure
- Effective Communication & Information
- Fit & Proper: Directors, Officers and Senior Managers.
- Clear allocation of roles & responsibilities
- Putting in place organisational and operational structures that are capable of supporting the strategic objectives of the Group and the entity. Such structures shall be reviewed on a regular basis and adapted to changes in the strategic objectives, operations or the business environment in addition to changes in the Group's structure.

a. Board and Senior Executive

i. Board and Senior Executive Structure, role, responsibilities and segregation of responsibilities.

RQIH's Governance framework is designed to ensure an effective system of governance which provides for the sound and prudent oversight and effective operation of the Board.

The Board is responsible for ensuring that the principles of good governance are observed and has an internal control and risk management framework and employs the Three Lines of Defence model to manage risk.

The System of Governance is also designed to be able to evidence compliance with the BMA regulatory requirements and meets the expectations and requirements of its stakeholders. Board and Committee meetings are held quarterly.

The Board currently consists of 6 directors, of which 3 are executive directors and 3 are independent non-executive directors. A new independent non-executive director, Eamonn Flanagan will soon join the Board and the Board will revert to 7 directors. Their roles and responsibilities are outlined in the Company's Byelaws and comply with the regulatory requirements of Bermuda.

The role of the Board is to set the Group's strategic objectives, and to oversee and review management performance, ensuring the required resources are available for meeting those objectives. The Board met regularly through the year to debate and conduct these matters. The Board Committees are:

Group Capital & Investment Committee

The Group Capital & Investment Committee ("GCIC") consists of the Executive Directors and the Chief Actuary and is chaired by the Chief Financial Officer. Other members of the Finance, Actuarial and Risk/Capital functions attend as appropriate. During 2019, GCIC considered 49 Legacy and Program Management transactions, investment opportunities and conducted a review of the Group's retained investment managers and proposed a new Group investment strategy which was adopted by the Board. It also received periodic presentations from the Company's investment managers on the performance of the Company's funds, their views on the market outlook and future positioning. The GCIC's primary purpose is to oversee the Group's capital management, to monitor Group Solvency requirements and the Group's investment strategy and implementation. The GCIC also ensures that the necessary financial, legal, regulatory, commercial and personnel due diligence has been undertaken on acquisitions, portfolio transfers and similar investments or structures. GCIC is scheduled on a quarterly basis and meets on an ad hoc basis as and when required.

Group Risk Committee

The Group Risk Committee comprises of two Non-Executive Directors, the Group Chief Executive Officer, Alan Quilter and the Group Chief Risk Officer, Susan Young. The Group Risk Committee is chaired by an independent Non-Executive Director, Philip Barnes. It is customary for the Chief Governance Officer, Chief Actuary and the Head of Internal Auditor to also attend.

The Group Risk Management Function is described in Section ii (c)

Group Disclosure Committee

The Disclosure Committee was established in October 2016. The Disclosure Committee comprises the Executive Chairman, the Chief Executive Officer and the Group Company Secretary. The Committee's purpose is to review the operation, adequacy and effectiveness of the Group's disclosure procedures and as necessary for the purpose of assisting the Board in fulfilling its responsibilities under the Market Abuse Regulation, AIM Rules and Disclosure Guidelines and Transparency Rules. The Group Disclosure Committee met formally on four occasions during 2019.

Remuneration & Nomination Committee

The Remuneration & Nomination Committee ("RemCo") consists of the Non-Executive Directors and is chaired by Alastair Campbell since Michael Smith's retirement in 2019. The Chairman, Deputy Chairman and Chief Executive Officer are invited to attend for some parts of the committee meetings where their input is required although they do not take part in any discussion on their own benefits and remuneration. The Remuneration & Nomination Committee met five times during 2019 and attendance was 100%.

The Remuneration & Nomination Committee's primary focus is on setting the Group's Executive and senior management remuneration policy, in collaboration with the Board as a whole. The Remuneration & Nomination Committee also considers share incentive plans, option grants and other performance-related initiatives as well as approving management's general approach to employee annual bonuses and pay rises, specific awards for senior management and making recommendations as to succession planning.

Reinsurance Asset Committee

The Reinsurance Asset Committee is chaired by Joanne Fox since Michael Smith's retirement and comprises the Chief Financial Officer, Head of Legacy and the Head of Claims & Reinsurance. The Reinsurance Asset Committee met four times in 2019.

The Reinsurance Asset Committee monitors and reports on the Group's owned insurance company reinsurance assets and recommends actions to protect such assets. The Reinsurance Asset Committee also reviews bad and doubtful debt provisions proposed by the Group's owned insurance companies, levels of concentration of risk placed with reinsurance companies/groups and reinsurance litigation/arbitration and commutation activity and makes recommendations on acceptable levels of security for the purchase of insurance and reinsurance cover.

Audit Committee

The Audit Committee consists of the three Non-Executive Directors and is chaired by Alastair Campbell. The Executive Directors are attendees and members of the Finance, Actuarial and Internal Audit functions are invited where appropriate. The Group's auditors, PKF Littlejohn LLP, attend at least two meetings per year. The Audit Committee met five times in 2019 and attendance was 100%.

The principal responsibility of the Committee is to monitor the integrity of the financial statements of the Group. In addition, the Committee reviews the performance of the external auditors and makes recommendations to the Board on their appointment. It is also responsible for the planning and professional work of the Internal Audit team and has oversight of the systems of internal control established throughout the Group.

Regulatory committee

The Regulatory Committee was formed in 2019 and comprises the Executive Directors and Chief Governance Officer. The committee met once during 2019.

The Regulatory Committee was established to act on behalf of the Board in relation to regulatory and statutory matters that require acknowledgement, variation, approval or submission by the Company to a competent regulatory body or governmental agency. It also oversees the regulatory authorities and the Company and the subsidiaries within its Group Supervision.

ii. Remuneration policy and practices and performance-based criteria

The Group's approach to remuneration is based on personal, local entity and Group performance rather than being driven by underwriting income.

The Group's approach to remuneration for all subsidiaries falls under the oversight of the Group Remuneration & Nomination Committee (see above). The Group is committed to ensuring that its practices promote the achievement of the overall aims and objectives of the Group and company, their financial stability and its risk management framework together with the long-term security and wellbeing of its employees.

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

iii. Supplementary pension or early retirement schemes

No items to be reported.

iv. Material transactions

The only material transactions with members of the parent board or senior executives relate to dividend distributions as disclosed in the notes to our consolidated financial statements which are available at www.rqih.com.

b. Fitness and Proprietary Requirements

i. Fit and Proper Process in assessing the Board and Senior Executive

RQIH ensures that it is directed and managed by fit and proper persons to hold their respective positions and that those Directors and Officers are:

- professionally competent and capable to carry out their responsibilities and have demonstrated this through their experience & training
- honest, have integrity and are reputable.

The assessment of the management and technical competence of an individual is based on their previous experience, knowledge and professional standing, which demonstrates due skill, care, diligence, and compliance with the relevant standards of the area/sector they have worked in. In relation to Director

Appointments, the assessment also considers how the proposed appointment would augment the collective fitness and propriety of the Board as a whole.

The assessment of reputation includes checks as to whether there are any reasons to believe from past conduct that an individual may not discharge their duties in line with applicable rules, regulations and guidelines. Assessment is initially made prior to appointment to their role but will be reassessed on a regular basis as part of an annual performance review process.

ii. Board and Senior Executives Professional Qualifications, Skills and Expertise

Below are details of the Board and Senior Executives qualifications, skills and expertise during 2019:

Directors

- Kenneth Randall
- Alan K. Quilter
- Roger Sellek
- Mark Langridge
- Philip Barnes
- Michael Smith
- Joanne Fox
- Alastair Campbell

Senior Executives

- Carrie Hewitt (Chief Actuary)
- Susan Young (Chief Risk Officer)
- Michael Glover (Chief Governance Officer)

With the Executive, Mark Langridge resigned in December 2019 and Roger Sellek resigned in January 2020. William Spiegel was appointed in January 2020. Michael Smith retired in December 2019 with Joanne Fox appointed in May 2019. Eamonn Flanagan was recently announced as a new independent Non-Executive Director and will join the Board in June 2020. Within the Senior Executives, Michael Glover will resign effective 30 June 2020, with the Group currently recruiting for a Chief Governance Officer.

Director Bios are included in Appendix 1.

c. Risk Management and Solvency Self-Assessment

i. Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures

o Overview

The Group and its core businesses take risk, in order to achieve a reward in an informed and controlled manner. The Board and Senior Management appreciate that ongoing success depends upon its collective understanding and management of the Group's known risks and exposures.

o Overall Responsibility for Risk Management

The Board continues to have overall responsibility for ensuring that the Group has an appropriate and proportional approach to risk management and internal control across the Group, and that this approach is properly aligned with the Group's overall corporate strategy. The Board has a dedicated Risk Committee which exercises oversight, on behalf of the Board, of the management of risk across the Group and ensures that all regulatory and reporting obligations for the management of risk are met.

The risks facing the Group continue to evolve and increase/decrease in potential impact and probability of crystallisation over time. The Group is entrepreneurial and innovative and hence the risk management and internal control framework needs to be dynamic and agile as well as robust. Accordingly, the management of risk and uncertainty remains an iterative process. Risk management

is pervasive to all the Group's activities and that this is reflected in the risk management governance framework outlined below.

- **Risk Management Framework and the Risk Management Function**

The Group has a mature Risk Management Framework and Risk Function headed by the Group Chief Risk Officer.

The Group risk function is responsible for designing, overseeing, implementing and improving the risk management framework. It works closely with Group and business unit senior management, meeting regularly with them to monitor existing identified risks and uncertainties, identify new and emerging risks and to ensure that there are appropriate processes and procedures in place to mitigate these risks.

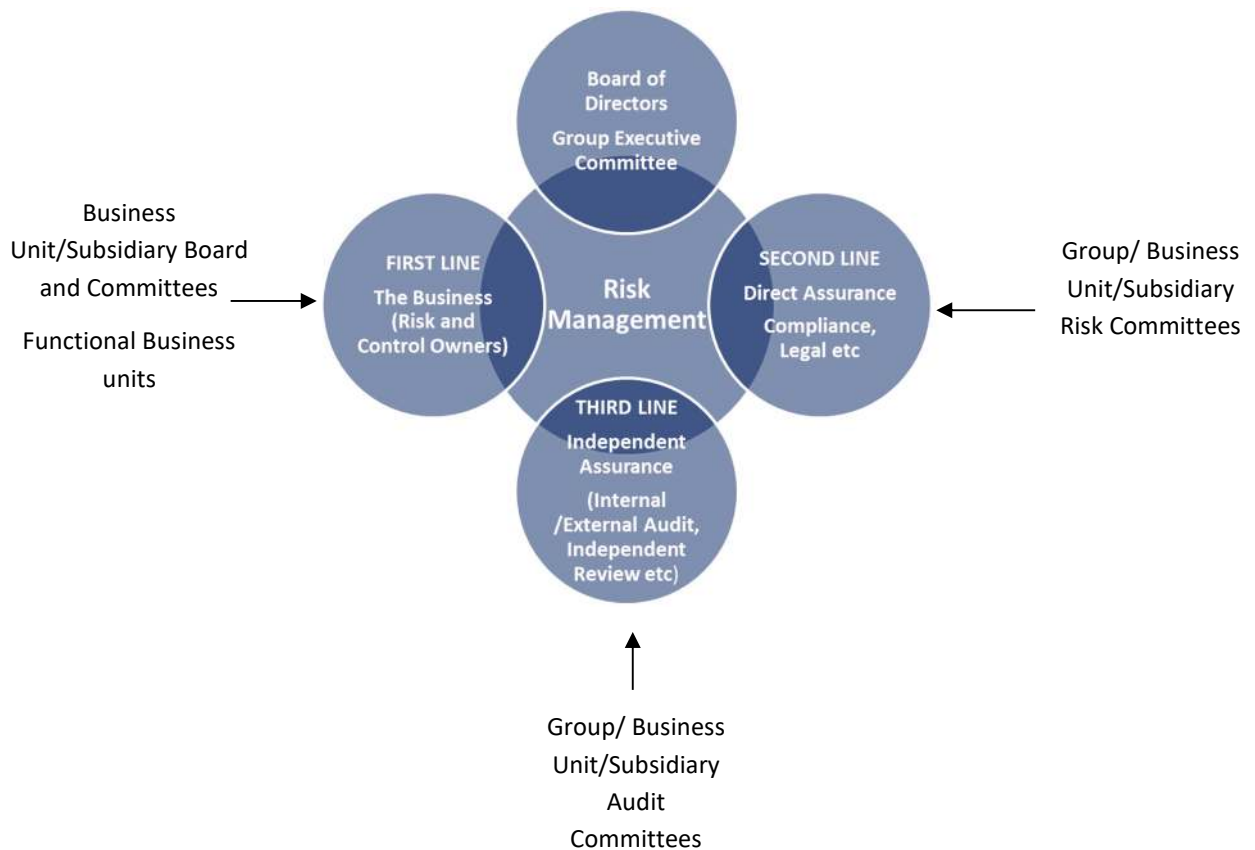
The risk function is also responsible for monitoring that the business meets regulatory expectations around enterprise risk management and reporting on risk to the Board and the Risk Committee.

The following overarching process is adopted:



- **Risk Governance**

Risk Management within the Group adopts an Enterprise Wide approach and accordingly, has regard to the “Three Lines of Defence” model at both Group and individual business unit level as shown below.



○ Risk Appetite

The Group risk appetite framework sets the boundaries within which risk taking should remain in order to meet the expectations of the capital providers and other stakeholders. For R&Q, it is articulated via a series of quantitative and qualitative statements covering all defined categories of Risk.

Risk Appetite reflects the amount of risk taking which is acceptable to the Group. Accordingly, risk appetite refers to RQIH's attitude to risk taking and whether it is willing or able to tolerate a high or low level of exposure to specific risks or risk categories.

Risk Tolerance represents the Group's ability and willingness to bear risk. When considering this, factors such as the availability of capital, ability to raise capital, strength of underlying operational processes and procedures and strength of the organisation's operational culture are all relevant.

The Risk Appetite Framework, which is set at both the Group and key business unit level, is reviewed annually and/or when there are material changes to the overall risk profile of the Group or business unit.

○ Own Risk and Solvency Assessments and Equivalents

The Own Risk and Solvency Assessment (ORSA) or equivalent is defined as: "The entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks a firm faces or may face and to determine the own funds necessary to ensure that overall solvency needs are met at all times."

The Group's ORSA processes are well embedded within the individual business units and at the Group level. They have evolved and continue to evolve from the Group's already established Risk Management and Capital Assessment processes. These processes comprise the self-evaluation of the

risk mitigation and capital resources needed to achieve the Group's strategic objectives on a current and forward-looking basis, given their risk profiles.

The Group is Bermuda domiciled and accordingly produces a Group Solvency Self-Assessment (GSSA).

o **Internal Control System**

The Group's Internal Control System comprises the following key elements:

- **Documented Governance Arrangements** continue to evolve along with the overall business strategy.
- **Strategic Planning Process**, setting priorities for the forthcoming planning horizon, reviewed by the Board periodically to ensure the Group focusses on its core strengths
- **Detailed Planning/Budgeting Process**, subject to detailed and ongoing oversight and scrutiny delivering forecasts/targets for Board review and approval.
- **Management Information Systems**, including, corporate reporting on financial/operating performance.
- **A defined Risk Appetite framework** governing management, control and oversight of key risks and issues.
- **Overall Group Capital Adequacy Planning conducted** biannually.
- **Compliance** arrangements throughout the Group
- **Internal Audit Function** providing third line assurance to the Board via the Audit Committee following a risk-based, approved annual Audit Plan, on the effectiveness of the Group's internal controls in respect of key risks identified.
- **Risk Management Function**, as described above.

The Board considers that the controls in place during 2019 were and continue to be relevant, proportional and appropriate for the needs of the Group, and in addition are sufficiently flexible to evolve with the changing needs of the business.

A number of the Group's subsidiaries are regulated and accordingly are subject to the relevant degree of local regulatory oversight. Members of the Board and Senior Management regularly meet with the Group's various regulatory supervisors, conducting the relationship in an open and constructive manner.

d. Internal controls

i. Description of internal control system

Refer above for details on the Group's internal control system.

ii. Compliance function

RQIH's Chief Governance Officer has responsibility to monitor regulatory changes in the relevant jurisdictions and compliance with applicable existing laws, including regulatory reporting and public disclosure requirements. The Group compliance function monitors compliance with organizational policies and procedures and adherence to the Company's Code of Ethics. Any compliance breaches are reported to the Board.

e. Internal Audit

The Group Internal Audit function is headed up by the Group Head of Internal Audit. The Internal Audit function operates independently with the Group Head of Internal Audit reporting to the Chairman of the Group Audit Committee.

To ensure Internal Audit remains independent, its employees are not authorized to perform any operational duties or approve any transactions in the organization. The team is, when required, supplemented by using additional independent in-house resources and external co-sourced resources. The Internal Audit Team monitors compliance with the Code of Ethics of the Chartered Association of Internal Auditors International Professional Practice Framework.

f. Actuarial Function

The Group Actuarial function is headed up by Chief Actuary, who is an actuary with significant experience in the non-life classes of insurance. The actuarial team consists of a large team of qualified actuaries, part qualified actuaries and analysts based in London, Bermuda and the United States. The Group Actuarial function support the Group's subsidiary operations in each jurisdiction in which it operates.

The key actuarial services provided include:

- Assessment of Technical Provisions accounting purposes, regulatory and internal purposes as required
- Design, implementation, development and validation of the capital models and tolls
- Calculation of regulatory capital requirements
- Capital Modelling to meet regulatory requirements and quantitative analysis for Risk Management purposes
- Pricing support to the Underwriters
- Monitoring and reporting the performance of Syndicates and group owned companies
- Support for the assumption or acquisition of loss portfolio transfers, Lloyd's Syndicates, insurance companies or captives
- Calculation of capital impacts of acquisition and new products

g. Outsourcing

i. Outsourcing Policy and Key Functions that have been Outsourced and ii. Material Outsourcing

The Group has an outsourcing policy and is very experienced in managing outsourced services. The Group generally does not outsource any of the material Group functions of actuarial, risk management, compliance and internal audit, although external professional firms are engaged in support of these functions from time to time. Any outsourced support is provided by teams of experienced and qualified specialists and under the direction and supervision of the Group's personnel.

Most of the companies within the Group does not have direct employees and thus outsource a number of functions to service companies within the Group, most notably within the US and UK.

h. Other Material Information

There is no other material information to report.

III. RISK PROFILE

a. Material Risks the Insurer is Exposed to During the Reporting Period

The Company's principal risks and uncertainties that are inherent in the underlying insurance business and include the following.

Underwriting Risk

Underwriting risk comprises both the risk that the premium charged is insufficient for the risk assumed by the business and the risk that retained reserves develop adversely. These risks are present in both segments of the Group. Within our Program Management business, both the risk that premium is insufficient and that reserves develop adversely are mitigated to a large extent by the purchase of significant reinsurance protection with highly rated reinsurance counterparties, which limits the exposure on underwriting risk but increases credit risk. The Group has low risk appetite for significant retentions on our program management business.

Within our Legacy segment, the Group has a low risk appetite for live underwriting and seeks to mitigate any live underwriting exposure through the purchase of reinsurance, contract exclusions or increased pricing to compensate for the risk. The Group has a defined risk appetite for particular lines of business and all transactions are subject to thorough due diligence and independent review and approval of the transaction by the Group Capital and Investment Committee.

The residual risk of reserves developing adversely is mitigated by:

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

Market Risk

This is the risk that the Group experiences volatility in its earnings as a result of changes in the external market. The most significant market risk exposure is with respect to the Group's invested assets and it applies to both business segments.

The Group has no appetite for significant investment losses.

The Group's investment portfolio is primarily in high rated fixed income securities with a reasonably short duration.

Market risk is mitigated as follows:

- Group and subsidiary level investment committees and guidelines (where appropriate) and oversight by the relevant entity board
- Utilisation of intra-group loans between entities as part of the investment strategy subject to appropriate controls
- Holding of surplus funds in sterling except for US entities where surplus funds are held in US Dollars
- Dedicated Group cash flow, treasury management and invested assets function to monitor investment concentration and returns

- Investments are primarily made in marketable, investment grade-rated, short- and intermediate-term securities.
- Minimal investment will be made in fixed-rate long-term maturities

The Group's appetite and tolerances are framed using one or more of the dimensions of risk/return, concentration/diversification by asset type/quality and value at risk.

Credit Risk

Credit risk is the risk that a counterparty to the Group or subsidiary undertaking is unable to perform their obligations under the contract. Credit risk is present in both segments of our business and the most significant credit risk exposures are in respect of our reinsurer's share of insurance liabilities and in our fixed income securities within our investment portfolio.

With respect to our program business, there is a risk that the Group fails to adequately assess the quality of its program reinsurers prior to onboarding or the reinsurance arrangements fails to "follow the fortunes" of the underlying direct insurance contracts. It also comprises the risk that the Group fails to monitor the growing gross underwriting exposures and reserves and aggregate exposure to reinsurers, following the planned onboarding of new Legacy and Program Management business.

As a Group, we have no appetite for significant deviations in earnings as a result of reinsurance counterparty failure and we require that our operating entities develop processes that are proportional to their businesses to limit concentration to individual counterparties. Furthermore, there is no appetite for capital erosion from exposure to reinsurance counterparty risk arising from any downgrade of negative outlook to the Group's credit rating.

This risk is mitigated as follows:

- Integrated framework to assess potential exposure from new opportunities prior to onboarding
- Assessment of exposures and concentrations on inuring treaties during due diligence
- Active commutation strategy or retroactive reinsurance on legacy portfolios
- Monitoring of credit ratings, concentration levels and sufficiency of collateral on live underwriting reinsurance
- Identification of potentially significant concentrations of individual counterparties.

In respect of run off portfolios, much of counterparty exposure is in respect of inuring treaties over which R&Q has no direct control. In these instances, R&Q assesses potential concentrations/exposures in advance as part of the due diligence process. In certain instances, we buy retroactive cover which may be placed with a single counterparty if deemed appropriate and/or where diversifications across counterparties is not possible and/or practical.

These are expressed in terms of a range of maximum percentage participations or maximum aggregate limits exposed through reference to an external credit rating. This simplistic method of considering exposure whilst adequate for the purposes of ensuring diversification on a program by program basis does not lend itself to aggregation either across programs or with actual / modelled reported and IBNR exposures as it takes no account of the likelihood of the reinsurance being triggered.

From a Group perspective therefore, R&Q's risk appetite is expressed at a high level and requires that individual entities develop their approach in way that makes sense locally.

Liquidity Risk

Liquidity risk is the risk that the Group has insufficiently liquid assets (or assets that can be quickly converted into liquid assets) in order to settle liabilities as they fall due. This risk would crystallise from an inappropriate investment strategy or a failure to anticipate cash flow needs of the Group.

There is no appetite or tolerance for shortfalls in liquidity preventing the timely settlement of liabilities or forcing the suboptimal sale of assets. We also have no appetite for breaching our financial covenants with our bankers.

The risk is mitigated as follows:

- Dedicated Group cash flow, treasury management and invested assets capability, providing focused effort and a tight control regime
- Assessment and setting of Group and entity liquidity margins not less than annually, based on projected payment patterns, reassessed upon the occurrence of a significant event
- Funding of new deals and transactions having regard to available sources of funding and collateral requirements
- Detailed cash flow reporting and monitoring of adherence to banking covenants
- Review of banking covenants for ongoing applicability
- Forward-looking monitoring of the Group's cash flow projecting the likely liquidity position over a twelve-month planning horizon, embedded into the cash flow monitoring mechanism
- Active and ongoing seeking of alternative financing options for deal funding
- Ongoing and proactive liaison and relationship management with the Group's bankers.

In terms of risk reporting, this is primarily on a "by exception" basis with breaches being reported and aggregated.

Operational Risk

Operational risk is the risk associated with inadequate or failed operational processes (whether internal or outsourced), or from external events. Operational risk, in the context of the Group's business, encompasses risks associated with key individuals in the business, a lack of control over expenditure and contracting, as well as interruptions to the business from external events.

The Group has a low tolerance for operational risk and seeks to mitigate this risk through applying Group policies and procedures as follows:

- Development of succession plans and management training at Group and operating entity level
- Performance management process for all staff
- Ongoing strategic expense and cost allocation review
- Robust and reliable financial and management reporting and forecasting framework, with appropriate controls around data, outputs and review and oversight
- Appropriately skilled and trained staff
- Fit for purpose reporting mechanisms
- Robust business continuity and disaster recovery plans which are regularly tested.

In terms of risk reporting, this is primarily on a 'by exception' basis with breaches of appetite or near miss / actual losses being aggregated across entities.

Capital Management Risk

Capital management risk is the risk that the level and composition of the Group and/or subsidiary undertaking's capital is not adequate or appropriate, and/or that the level of capital required to manage the business has been under-estimated.

The Group has low appetite for capital management risk and maintains capital in excess of regulatory requirements to support both its existing business and potential new transactions.

This risk is mitigated as follows:

- Active management of relationships with all regulators within whose jurisdictions the Group and relevant subsidiary entities operate
- Active involvement of actuarial, risk management, capital and compliance functions
- Deployment of appropriate sources of capital to underpin strategic objectives, commensurate with capacity to take risk and with prevailing regulatory stipulations in force
- Maintenance of capital providing an adequate margin over the Group Solvency Capital Requirement while maintaining local capital which meets or exceeds the relevant local minimum.

Regulatory & Legal Risk

Regulatory and legal risk is the risk of action by regulators or legislators resulting in sanction or financial loss as a result of non-compliance with applicable laws, regulations and conditions to which the Group and/or its subsidiary undertakings are subject. This also comprises the risk that the Group fails to implement or adapt to emerging new regulatory or political or legislative changes.

There is no appetite for any major regulatory infringement or non-compliance with laws and regulations.

The following is performed to mitigate this risk:

- Oversight by the Chief Governance Officer
- Employing staff with strong regulatory backgrounds in each of our key markets
- Active management of relationships with all local regulators where the Group has a presence
- Internal working and steering groups to analyse, interpret and oversee the implementation of all emerging external changes
- Active oversight by Group Risk Committee
- Maintenance and operation of an effective governance framework that leverages the expertise of the Group and individual entity boards and management
- Leverage of specific additional local regulatory and legal expertise as and when appropriate.

In terms of risk reporting, this is primarily on a 'by exception' basis.

Tax risk

Tax risk is the risk that the Group or any of its subsidiary undertakings fails to comply with tax requirements in the jurisdiction it operates and/or the Group fails to identify tax exposures relating to emerging tax legislation and fails to implement appropriate controls and processes to ensure compliance.

The Group has no appetite or tolerance for any tax-related infringements or missed deadlines. In terms of risk reporting, this is primarily on a "by exception" basis.

The Group seeks to mitigate tax risk by:

- Quarterly review with Head of Tax of the Group's current tax position and potential future implications of current and emerging legislation and developments
- Retention of external tax advisors to assist in keeping abreast of local developments in jurisdictions the Group has a presence

- Optimisation of the Group's cross-jurisdictional tax position and maintenance of a credible tax presence in its various locations.

In terms of risk reporting, this is primarily on a 'by exception' basis.

Concentration risk

Concentration risk is the risk that arises from a single, sizeable counterparty exposure. Concentration risk can exist in (1) the Group's investment portfolio (2) reinsurance recoveries and receivables and (3) concentration of underwriting risk in one line of business or geographical location.

The Group low appetite for concentration risk, with a tolerance for concentration within reinsurance counterparty exposure, where such concentration acquires as a result of acquiring a legacy portfolio with inuring reinsurance.

The Group mitigates the concentration risk as follows:

- Regular meetings of the Reinsurance Asset Committee to review the in-force reinsurance protections
- Documented investment guidelines which stipulate the level of concentration tolerated within the investment portfolio
- Purchasing of reinsurance when significant concentrations of underwriting risk are identified (including but not limited to geographical location and line of business).

In terms of risk reporting, this is primarily on a 'by exception' basis.

Reputational risk

Reputational risk refers to the potential for negative publicity, public perception or uncontrollable events to have an adverse impact on the Group's reputation, thereby affecting its revenues and/or profitability.

Reputational risk can arise because of other risks (e.g. regulatory/legal, tax etc.)

There is no appetite for any event leading to a loss in the Group's reputation and standing including any capital impact. Furthermore, there is no appetite for any negative movements in the public ratings of any of company within the Group.

This risk is mitigated as follows:

- Active process for managing external communications, including disclosure committee for any announcements to the Stock Exchange
- Regular liaison with the rating agencies

In terms of risk reporting, this is primarily on a 'by exception' basis.

Emerging Risk

These risks lend themselves neither to a formal expression of a quantitative appetite / tolerance nor to reporting on an aggregate basis.

Accordingly, the Group articulates its appetite in terms of a requirement that individual operating entities have in place a process to identify these risks, operate this process effectively and communicate its outputs to the relevant stakeholders.

Whilst certain emerging risks may have the potential to affect more than one operating entity, local evaluation will rightly tend to be based more upon the specific entity than on that of the wider Group. Rather than creating an industry, the process of reviewing entity analysis and wider market analysis is centralized.

b. Risk Mitigation in the Organization

The Group has a comprehensive Risk Management framework implemented both at a group level and in each operating subsidiary. The Risk Management Function is under the control of the Group Chief Risk Officer and reports directly to the Group's Board and the Group Risk Committee.

The Risk Management function has established and implemented risk management across the Group which includes the co-ordination, aggregation, facilitating and enabling the function and is specifically responsible for strategy, risk appetite, risk ownership, risk governance, internal models, emerging risks, risk assessment, risk policies and procedures, risk co-ordination, risk reporting and communications, business continuity, insurance and liaison with external parties.

c. Material Risk Concentrations

The Company has policies governing risk concentrations in relation to counterparties, credit quality, concentration and geographical locations. The Group monitors exposures, risk limits and concentrations. The Group's risk exposure monitoring is completed by the Actuarial and Risk Management teams in London.

d. Investment in Assets in Accordance with the Prudent Person Principle

The Company's investment portfolio is managed in accordance with the investment policy and investment guidelines. These guidelines are designed to ensure that highly liquid and low volatility investments support technical provisions to ensure that claims can be paid as they fall due. The investment policy and guidelines are reviewed as required, for example if any significant developments have occurred that affect the financial markets.

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

The Group performs various stress tests on an annual basis to determine the adequacy of capital/solvency/liquidity to ensure regulatory requirements are met. The stress tests performed relate to underwriting risk exposures, interest rate risk, credit risk and reverse stress tests.

IV. SOLVENCY VALUATION

a. Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class

The Group has used the valuation principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" for the statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- Cash and Cash Equivalents – includes cash time deposits. The fair value of these holdings is determined by using mark to market valuation, or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible, or mark to model valuation otherwise.
- Fixed Income Securities – are valued in accordance with mark to market principles where possible or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible. For fixed income securities that are not actively traded and for which similar assets are also not actively traded, the Company uses pricing services to prepare inputs to assist the Company with mark to model valuations.
- Equities and investment funds - includes common stock and preferred shares and are valued using the quoted market prices.
- Accounts Receivable and Premium Receivable – are recorded at a fair value and balances due in more than one year have been discounted at the relevant risk-free rate.
- Intangible Assets – consists of computer software which are recorded at fair value but only to the extent that these assets are deemed to be separable and the future economic benefit can be reliably measured. Other intangible assets are recorded at nil value.

b. Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

Insurance technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure with an appropriate illiquidity adjustment. In addition, there is a risk margin to reflect the uncertainty contained inherent in the underlying cash flows which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the Bermuda Monetary Authority for each reporting period.

The best estimate for the loss and loss expense provision is calculated by using IFRS Accounting Principles reserves as the starting point and then performing a series of adjustments:

- Removal of prudence margins.
- Incorporation of expected reinsurance counterparty defaults.
- Incorporation of events not in data (ENID).
- Other adjustments related to consideration for investment expenses, etc.
- Discounting of cash flows.

The best estimate for the premium provision is calculated by using the unearned premium reserve on a IFRS basis, adjusting for bound but not incepted business as at 31st December 2018 and applying expected future loss ratios, expense ratios and appropriate claims pay-out patterns to derive cash flows which are then discounted.

At 31 December 2019, the total Technical Provisions amounted to \$746.0m comprising the following (reported in \$'000s):

- Best Estimate Loss and Loss Expense Provision \$660.5m
- Best Estimate Premium Provision \$27.4m
- Risk Margin \$58.1m

c. Recoverables from Reinsurance Contracts

The valuation of recoverables from reinsurance contracts is based upon principles similar to the gross best estimate.

The recoverables from reinsurance contracts balance is adjusted for potential impairment based upon counterparty credit rating (from official rating agencies) and experience of each underlying reinsurer's statistics of default or dispute.

d. Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities

Similar to the valuation principles for assets, the Company's liabilities follow the valuations principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" which values liabilities at a fair value basis. All other liabilities (with the exception of Notes Payable and Derivative Instruments) are valued on an IFRS basis and settlements not expected to be settled within a year, are discounted using the prescribed discount rates provided by the Bermuda Monetary Authority as at 31st December 2018. Notes Payable are valued on an IFRS basis. In the absence of an active market, prices are based on observable market inputs.

e. Any Other Material Information

No additional material information to report.

V. CAPITAL MANAGEMENT

a. Eligible capital

i. Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period

The primary capital management objectives of the Group are to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements. The Group strives to achieve an appropriate capital structure that efficiently allocates risk to the Group's capital. The Group's capital and risk management strategy are primarily unchanged over the prior year.

To maintain a strong capital base, the Group identifies, assesses, manages and monitors the various risk sources it faces in the course of business. This process culminates in an assessment of the capital necessary to maintain solvency at the threshold targeted by senior management given the Group's risk profile. The Group's risk profile includes an assessment of the current and anticipated future material risks faced by the Group, the strength of the organisation's risk management, capital measures, qualitative risks, stress testing, liquidity, and financing mechanisms.

ii. Eligible Capital Categorised by Tiers in Accordance with the Eligible Capital Rules

At the end of the reporting period, the Company's Eligible Capital was categorized as follows:

		\$000s
Tier 1 Capital	Share Capital	5,117
	Contributed Surplus	176,199
	Statutory economic surplus	156,695
	Minority interest	579
Total Tier 1 Capital		338,590
Total Eligible Capital		338,590

The Company's Tier 1 Capital, consists of share capital, contributed surplus, and statutory surplus.

There are no pledged assets that exceed the Company's policyholder obligations, therefore there are no adjustments to the Eligible Capital tiers.

iii. Eligible Capital Categorised by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act

At the end of the reporting period, the Company's Eligible Capital for its Minimum Margin of Solvency (MSM) and Enhanced Capital Requirement (ECR) was categorized as follows:

	MSM	ECR
Tier 1	338,011	338,590

iv. Confirmation of Eligible Capital That is Subject to Transitional Arrangements

There are no transitional arrangements for Eligible Capital

v. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR

None.

vi. Identification of Ancillary Capital Instruments Approved by the Authority

None

vii. Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus

Other than the impact of employing statutory-based technical provision valuation techniques, significant differences between IFRS shareholder equity and available statutory capital and surplus include the reduction in available statutory capital for goodwill and other intangible assets and non-admitted assets.

b. Regulatory capital requirements

i. ECR and MMS Requirements at the End of the Reporting Period

At the end of the reporting period, the Company's regulatory capital requirements were assessed as follows:

Requirement	\$'000
Minimum Margin of Solvency	\$138,097
Transitional Enhanced Capital Requirement	\$190,938
Transitional Target capital level (unaudited)	\$229,125
Actual statutory capital and surplus	\$338,590

The Transitional Enhanced Capital Requirement ratio of 177% is significantly in excess of the minimum requirement of 100% and above the Target Capital level of 120%.

ii. Identification of Any Non-Compliance with the MMS and the ECR

The Company was compliant with its Minimum Margin of Solvency and Enhanced Capital Requirements during the reporting period.

iii. A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and Their Effectiveness

There was no non-compliance in 2019.

iv. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance

The Insurance Group was in compliance in 2019.

c. Approved Internal Capital Model

The company does not use an internal capital model.

vi. Subsequent Events

There were no reportable subsequent events other than those noted in Appendix 2 (full text available on request or via www.rqih.com).

Appendix 1 – Directors Bios

Ken Randall

Director & Group Chairman

Ken Randall is the founding chief executive of the Randall & Quilter Group and has been a pioneer in the acquisition and management of discontinued business for over 25 years. In July 2019, he stood down as the Group Chief Executive Officer, but remains as the Executive Chairman.

Randall & Quilter Group's antecedents go back to 1991 when Ken founded Eastgate Group with Alan Quilter after leaving the Lloyd's Market. Over the next eight years they developed Eastgate into the UK's largest third-party provider of insurance services with 1,300 employees and a turnover of £80million per annum. Following the sale of Eastgate to Capita plc in November 2000, Ken and Alan refocused the Randall & Quilter Group onto the acquisition of non-life legacy run-off portfolios.

Ken led the Randall & Quilter Group admission to AIM in 2007 and remains a significant shareholder. He was a driving force in the Group's new strategic focus in 2017.

A Certified Accountant, Ken has worked in the insurance industry for more than 40 years. During the early 1980s, Ken was Head of Market Regulation at Lloyd's, then a self-regulated institution, before becoming Chief Executive of a leading Lloyd's Insurance Group.

Alan Quilter

Director & Group Joint Chief Executive Officer

Alan Quilter is the co-founder of the Randall & Quilter Group and was appointed as Joint Group Chief Executive Officer when Ken Randall stood down. Alan has continued as the Chief Executive Officer following the resignation of Roger Sellek in January 2020.

A chartered accountant, Alan has been a driving force in the development of the Randall & Quilter Group since co-founding the business key milestones as Group Chief Financial Officer including the Company's admission to AIM in 2007. Alan is responsible at board level for the program management segment of the Group's business.

In 2018-19, Alan led substantial equity and debt fundraises which provided the cornerstones for a significant transformation in R&Q's strategy. He also oversaw the successful sale of non-core operations which realised substantial funds to further fuel its growth.

Alan has worked in the London insurance market since 1969. Between 1980 and 1987, he headed the Market Financial Services Group at Lloyd's before becoming Managing Director of a specialist investment management company focused on investment markets in the UK. Alan joined Ken Randall as Chief Financial Officer (CFO) of the Eastgate Group, the predecessor company to the Randall & Quilter Group.

Mark Langridge

Executive Director and Head of Legacy

Mark 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 KMS Group before its acquisition by R&Q in 2008.

Prior to his appointment as Executive Director in January 2018, Mark was Chief Executive Officer of the R&Q Insurance Investments Division. Mark resigned as Executive Director and Board member in December 2019 but continues to consult for the Group.

Roger Sellek

Director and (former) Joint Chief Executive Officer

Roger was appointed as Joint Group Chief Executive Officer with Alan Quilter following Ken Randall stepping down in June 2019. Prior to joining R&Q, Roger was CEO with A.M. Best in Singapore.

Whilst at A.M. Best, Roger had responsibility for the firm's international activities excluding the Americas. He brings more than 25 years of industry experience to the role, and prior to A.M. Best, Dr. Sellek held numerous senior positions within the Corporation of Lloyd's.

Roger resigned as Joint Group Chief Executive Officer in January 2020.

William Spiegel

Director and Group Deputy Chairman

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

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

Prior to co-founding Pine Brook, he was with The Cypress Group from its inception in 1994 until 2006, leading its financial services and healthcare investing activities. Prior to Cypress he worked in the Merchant Banking

Group at Lehman Brothers. He has served on the board of directors of over 20 companies, including eight publicly traded corporations. William is currently a member of The Polsky Council of The University of Chicago Polsky Center for Entrepreneurship and Innovation, and its Private Equity Council.

Michael Smith

Non-Executive Director

Michael Smith is a solicitor, having spent his professional career at City solicitors Titmuss, Sainer & Webb (now international law firm Dechert) of which he was senior partner from 1990 to 1998, retiring from legal practice in 2001.

He was a corporate lawyer, having specialised from the mid-1980s in the London and international insurance markets, with a concentration on capital transactions of all types. Michael is also a non-executive director of WR Berkeley Syndicate Management Limited and a trustee of two charities, The Foyle Foundation (of which he is a chairman) and the National Hospital Development Foundation.

Michael retired from the Group Board in December 2019.

Philip Barnes

Non-Executive Director

Philip Barnes is a Chartered Accountant and has worked in the insurance industry for the past 33 years. Philip is currently the president of the representative office of the Jardine Matheson Group of Companies in Bermuda.

A Fellow of the Institute of Chartered Accountants in England & Wales, Philip qualified with a national firm of accountants in the UK before continuing his career with Deloitte in Bermuda. He then joined Alexander & Alexander which was subsequently acquired by the global broker Aon. During his 25-year career with Aon, Philip oversaw the growth and development of the Bermuda office into the leading manager of captives and reinsurance companies on the island.

Philip has served on various industry and Government advisory committees over the years. He currently holds a number of non-executive directorships of Bermuda insurance and reinsurance companies.

Alastair Campbell

Non-Executive Director

Alastair Campbell qualified as a Chartered Accountant in 1968. After qualifying, he worked with PKF Littlejohn LLP, becoming a partner in 1970. Between 1984 and 1998 he acted as Senior Partner and Chairman of the firm.

During his 40 years as a partner, he acted for a wide range of commercial entities, mainly in the service sector. Throughout his career he has been involved in the London Insurance Market and has extensive experience of advising on acquisitions and disposals, investigation work and giving advice at Board level.

Following his retirement in 2010, he has worked as an independent consultant and expert witness on accounting related projects.

Joanne (Jo) Fox

Non-Executive Director

Jo is a finance professional with over 20 years' experience at board and management levels, having qualified as a Chartered Accountant with Arthur Andersen in 1990. Jo has worked in the insurance industry since 1996 when she worked for Liberty Risk Services, and later with International Insurance Company of Hannover and Lancashire Insurance. More recently, Jo was chair and non-executive director of R&Q Managing Agency Limited, which was acquired by Coverys in 2017.

Jo has held 5 FCA/PRA posts (2 European risk carriers, a London Market Intermediary and 2 Lloyd's Managing Agents). In addition to her board experience Jo has chaired Audit, Risk and Capital and Compliance committees and was Chair of the IUA Solvency Working Group from 2014 to 2016.

Jo joined the Group Board in May 2019.

Eamonn Flanagan

Non-Executive Director

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

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

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

Appendix 2

2020 Website Announcements

Date	Website Announcement
January 13, 2020	Appointment of Executive Deputy Chairman
January 15, 2020	Directorate Change
January 16, 2020	Director Dealings
January 27, 2020	Acquisition of Montana Captive Insurer
January 30, 2020	Portfolio transfer from SAAB subsidiary to Accredited Insurance Europe
February 11, 2020	Inperio and Accredited Pioneer Extension of UK Solicitors' PI Market
March 13, 2020	R&Q and UK P&I Club agree transfer of occupational diseases liabilities to R&Q
March 16, 2020	Share Repurchase Programme
March 17, 2020	Accredited announces new underwriting program with Brazos-Whitehill
March 19, 2020	Anglo French Part VII Transfer
April 14, 2020	Acquisition of ICI Insurance Company Limited
April 24, 2020	Loss Portfolio Transfer with Repwest Insurance Company
April 29, 2020	Significant new investment in the Group
May 7, 2020	Notice of General Meeting and Posting of Circular
May 13, 2020	Board Appointment
May 21, 2020	Appointment of Chief Financial Officer
May 29, 2020	Result of General Meeting
June 1, 2020	Final results for the year ended 31 st December 2019
June 4, 2020	Loss Portfolio Transfer with Houston International Insurance Group
June 5, 2020	Acquisition of NationsBuilders Insurance Company
June 15, 2020	Notice of Annual General Meeting and Bonus Share Issue
June 16, 2020	Distribution of Annual Report & Accounts
June 24, 2020	Bonus Share Issue Ex-Entitlement Date
June 26, 2020	Acquisition of Vermont-based Captive