

Independent auditor's report to the members of R&Q Insurance Holdings Ltd.

Opinion

We have audited the group financial statements of R&Q Insurance Holdings Ltd (the 'group') for the year ended 31 December 2022 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, consolidated statement of financial position and the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs).

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2022 and its loss for the year then ended; and
- have been properly prepared in accordance with IFRSs.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2.d in the financial statements, which indicates that the going concern basis is conditional on the successful sale of the Accredited Group which should give rise to substantial cash proceeds. At the date of signing of these financial statements the group has not yet completed this sale but has received interest from a number of bidders which indicate that it is probable that the sale process would be successful. As stated in note 2.d, these events or conditions, along with the other matters as set forth in note 2.d, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

- We confirmed our understanding of management's going concern assessment process and also engaged with management to ensure all key factors were considered in their assessment.
- We obtained management's going concern assessment, including the cash forecast for the going concern period, the effects of the sale of the Accredited Group by the end of 2023, and the raising of up to \$60m of non-voting preferred equity. The group has modelled various scenarios in their cash forecasts in order to incorporate unexpected changes to the forecasted liquidity of the group.
- We have reviewed the bids received from the process established by the group for the disposal of the Accredited Group.
- We have reviewed the factors and assumptions included in the cash forecast. We considered the appropriateness of the methods used to calculate the cash forecasts and determined that the methods utilised were appropriate to be able to make an assessment for the group. We have also carried out a sensitivity analysis of the group's cashflow forecast to factor in different scenarios.
- We reviewed the group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

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

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, either individually or in aggregate, could reasonably be expected to influence the economic decisions of users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements. The application of these key considerations gives rise to the following level of materiality, the quantum and purpose of which is tabulated below.

Materiality measure	How we determined it	Key considerations and benchmarks	Quantum \$
Financial statement materiality	5% of the loss before tax.	In determining our materiality, we have considered financial benchmarks which we believe to be relevant to the primary users of the group's financial statements. We concluded that the loss before tax was the most relevant benchmark to these users.	14,600,000 (2021: 8,300,000)

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment. This was set at \$10,950,000 (2021: \$6,300,000).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$730,000 (2021: \$420,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We reassessed materiality at the end of the audit and did not find it necessary to revise our planning materiality.

Our approach to the audit

Our audit approach was developed by obtaining an understanding of the group's activities, taking into account the geographic structure of the group, the key subjective judgements made by the directors, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain, and the overall control environment.

Based on this understanding we assessed those aspects of the group's transactions and balances which were most likely to give rise to a material misstatement and were most susceptible to irregularities including fraud or error. Specifically, we identified what we considered to be key audit matters and planned our audit approach accordingly.

The group operates in a number of overseas locations. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group auditors, and the component auditors of the overseas subsidiaries.

Where the work was performed by component auditors of the overseas subsidiaries, we determined the level of involvement we needed as the group auditors to have in the audit work to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our group opinion on the financial statements as a whole. We carried out detailed reviews of the audit work of the material components in Bermuda, Malta and the United States of America. We also kept in regular communication with those overseas auditors, through discussions and written instructions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Area	Reason	Audit response
Recognition of program income Refer to Notes 2 f) and 5 to the group financial statements for disclosures of related accounting policies and balances.	The group has entered into a number of new programs in the year. In accordance with IFRS, the income arising from these programs should only be recognised as income within the income statement when the performance conditions associated with it have been met. The determination of the performance conditions associated with such income gives rise to significant judgements to be exercised by management. There is a risk that such judgements are not made in accordance with IFRS and thus the accounting for such income is materially misstated in the financial statements.	We obtained an understanding and evaluated the design and implementation of controls that the group has established in relation to the recognition of the program income. We also performed the following procedures: • Reviewed the underlying program agreements; and • Tested, on a sample basis, whether amounts recognised were reasonable and appropriately recorded in the correct accounting period based on the contractual obligations of the insurance agreements. Based on the procedures we performed, we observed that the recognition of the program income was reasonable and appropriate based on the requirements of IFRS and the nature of the underlying agreements.
Valuation of insurance contract provisions Refer to Notes 2 h) and 23 to the group financial statements for disclosures of related accounting policies and balances.	Total net insurance contract provisions for the year end 31 December 2022 are \$1,118 million. The methodologies and assumptions utilised to develop insurance contract provisions involve a significant degree of judgement. The liabilities are based on the estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not. In addition, classes of business where there is a greater length of time between initial claim event and settlement (such as historic asbestosis and environmental pollution classes) also tend to display greater variability between initial estimates and final settlements. A range of methods may be used to determine these provisions.	We evaluated whether the group's actuarial methodologies were consistent with those used generally in the industry and with prior periods. We also evaluated the governance around the overall group reserving process, including the scrutiny applied by the group audit and risk committee, as well as group level actuarial reviews. Additionally, we performed the following procedures: • Tested, on a sample basis, the underlying data to source documentation to assess the completeness and accuracy; • Reviewed any significant prior year reserve movements by reference to any significant adverse market development;

Area	Reason	Audit response
	We focused on this area as the underlying methods include a number of explicit and implicit assumptions relating to the expected settlement amounts and settlement patterns of claims and are subject to complex calculations including application of management's judgement which can give rise to materially different values.	- Performed independent re-projections and sensitivity analyses on selected classes of business and compared our re-projected claims reserves to those booked by management, and challenged management to understand any significant differences; and - Tested the calculations used in identifying reinsurers' share of any claims. Based on the procedures we performed, we observed that the value of the insurance contract provisions was reasonable and appropriate.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the group financial statements does not cover the other information, except to the extent otherwise explicitly stated in our report, and we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- We obtained an understanding of the group and the insurance sector in which it operates to identify laws and regulations that could reasonably be expected to have a direct effect on the

financial statements. We obtained our understanding in this regard through discussions with management, industry research and the application of our cumulative audit knowledge and experience of the insurance sector.

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with our engagement letter. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Carmine Papa.



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28 June 2023

R&Q Insurance Holdings Ltd

Results for the year ended 31 December 2022

Strong growth in Accredited offset by Legacy adverse development

29 June 2023

R&Q Insurance Holdings Ltd (AIM: RQIH) (“R&Q” or the “Group”), the leading non-life global specialty insurance company focusing on the Program Management (“Accredited”) and Legacy Insurance (“R&Q Legacy”) businesses, today announces its results for the year ended 31 December 2022.

Strategic and Governance Update

- Completed the legal separation of Accredited and R&Q Legacy and announced exploration of strategic transactions with third parties as part of the separation
- Recognition by AM Best of Accredited as an independent rating unit, with an A- financial strength rating
- Completed sale of minority stake in Tradesman Program Managers for \$47 million at 10x adjusted EBITDA and 3.7x initial investment
- Raised \$50m of preferred equity from Scopia Capital, with the opportunity to raise an additional \$10 million to increase the capital resources of R&Q Legacy
- Appointed Jeff Hayman as our Independent Non-Executive Chairman

2022 Financial Highlights

Accredited

- Gross Written Premium of \$1.8 billion (2021: \$1.0 billion, a 76% increase)
- Fee Income (excluding MGA stakes) of \$80.0 million (2021: \$44.9 million, a 78% increase)
- Pre-Tax Operating Profit of \$55.7 million (2021: \$20.6 million, a 170% increase)
- Pre-Tax Operating Profit Margin of 56.8% (2021: 35.7%, a 21.1 percentage point increase)

R&Q Legacy

- Completed four transactions while exercising discipline in a soft market with Gross Reserves Acquired of \$68.8 million (2021: \$735.0 million)
- Reserves Under Management of \$395.6 million at year-end, which has increased to over \$1 billion with MSA Safety transaction involving non-insurance liabilities that closed in January 2023 (2021: \$417.0 million)
- Fee Income of \$12.1 million (2021: \$0 million)
- Pre-Tax Operating Loss of \$56.6 million, which includes \$32.0 million of adverse development primarily from older transactions. The loss, excluding adverse development, reflects the first full year of a transition to a capital efficient annual recurring, fee-based revenue model from a balance sheet intensive, Day-1 gain model

Group

- Total Fee Income (excluding MGA stakes) of \$92.0 million (2021: \$44.9 million, a 105% increase)
- Pre-Tax Operating Loss of \$33.3 million impacted by \$32.0 million of adverse development and the transition to a fee-based revenue model at R&Q Legacy

Non-Recurring Items

- Significant non-recurring items:
 - Non-cash charges of c.\$205 million primarily associated with:
 - Unrealised and realised non-economic net investment losses of \$135.8 million; \$18 million of realised losses arising primarily from rebalancing the portfolio for higher returns
 - \$43 million of non-cash adverse development associated with a non-core subsidiary, that will become a discontinued operation in Q1 2023 at which time such charges will be reversed
 - Unearned program fee income of \$17.0 million in which cash has already been received
 - Net intangible amortisation of past legacy acquisitions of \$9.6 million
 - Extraordinary one-off cash charges of c.\$50 million primarily associated with:
 - \$28 million in one-off historic legal matters associated with older legacy transactions and discontinued programs
 - \$14 million in automation spend which should yield meaningful productivity savings starting in 2024
 - \$8 million in advisory costs associated with shareholder activism and sale process

Operational Highlights

- Continued focus on cost control with Fixed Operating Expenses decreasing 13% year-over-year
- Operational improvement program underway with c. \$15 million of the total \$20 – 25 million investment deployed since 2021, with the remainder to be incurred in 2023
- Investment in automation and technology processes is expected to generate approximately \$10 million of recurring annual cost efficiencies by 2024

Outlook

- Focus remains on the separation of R&Q Legacy and Accredited
- Accredited and R&Q Legacy both with excellent pipelines

Summary Financial Performance (see Notes for definitions)

(\$m, except where noted)	2022	2021*	% Change
Accredited			
Gross Written Premium	1.8b	1.0b	76%
Fee Income ¹	80.0	44.9	78%
Pre-Tax Operating Profit	55.7	20.6	170%
Pre-Tax Operating Profit Margin	56.8%	35.7%	21.1 pp
R&Q Legacy			
Gross Reserves Acquired ²	68.8	735.0	(91%)
Reserves Under Management	395.6	417.0	(5%)
Fee Income	12.1	0.0	N/A
Pre-Tax Operating (Loss)	(56.6)	(6.1)	N/A
Corporate / Other			
Net Unallocated Expenses	(1.9)	(13.2)	(86%)
Interest Expense	(30.5)	(22.7)	34%
Group			
Fee Income (excl. MGA stakes)	92.0	44.9	105%
Pre-Tax Operating (Loss)	(33.3)	(21.4)	55%
IFRS (Loss) After Tax	(297.0)	(127.1)	134%
Est. US GAAP (Loss) After Tax	(90.0)-(115.0)	--	NA
Operating (Loss) Earnings per Share ³	(9.9)¢	(7.5)¢	32%

* Restated for change in accounting policy as noted in 2.a. of the financial statements

William Spiegel, Chief Executive Officer of R&Q, commented:

“2022 was, without doubt, an eventful year for R&Q. I would like to start by thanking our shareholders and partners for their support and our employees for their focus and commitment. During the year we saw substantial progress with regards to our Five-Pillar Strategy, which includes significant investment and change aimed at making R&Q a more modern and efficient company with a stronger culture. In many ways the changes we are making represent a multi-year operational turnaround at R&Q and, although not always easy, they will make us a stronger, more sustainable and more effective business.

While our Pre-Tax Operating Loss of \$33.3 million is driven primarily by \$32 million of adverse development in R&Q Legacy, at an underlying level our performance reflects two businesses at different stages of their development. Accredited continued to grow and reported record results while R&Q Legacy reported a loss but has shown good execution against its transition plan to become a more capital efficient business.

We announced in April 2023 that the Board had concluded that it was in shareholders' best interests to evaluate strategic options that allowed for a separation of Accredited and R&Q Legacy. We have two great businesses, but they operate in different parts of the insurance ecosystem, require different skillsets and expertise, and have different rating and regulatory needs. We are now in a position where each has the scale, maturity, and brand strength to stand on its own. By separating these businesses, we can ensure both have the right level of management focus and appropriate capital structures to achieve their full potential.

¹ Excludes minority stakes in MGAs

² Gross of cessions to Gibson Re

³ On a fully diluted basis

Looking ahead, we are confident the outlook is strong for Accredited and R&Q Legacy. Both businesses have excellent pipelines and, while we remain highly disciplined, we are confident of growing Gross Written Premium and Reserves Under Management in each business respectively.”

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Notes to financials

Pre-Tax Operating Profit is a measure of how the Group's core businesses performed adjusted for Unearned Program Fee Income, intangibles created in Legacy Insurance acquisitions, net realised and unrealised investment gains on fixed income assets, exceptional foreign exchange net gains upon consolidation and non-core, non-recurring costs.

Operating EPS represents Pre-Tax Operating Profit adjusted for the marginal tax rate, divided by the average number of diluted shares outstanding in the period.

Tangible Net Asset Value represents Net Asset Value adjusted for Unearned Program Fee Income, intangibles created in Legacy Insurance acquisitions, net unrealised investment gains on fixed income assets and foreign currency translation reserves.

Gross Operating Income represents Pre-Tax Operating Profit before Fixed Operating Expenses and Interest Expense

Fee Income represents Program Fee Income, Fee Income on Reserves Under Management and excludes share of earnings from minority stakes in MGAs.

Program Fee Income represents the full fee income from insurance policies already bound including Unearned Program Fee Income, regardless of the length of the underlying policy period. We believe Program Fee Income is a more appropriate measure of the revenue of the business during periods of high growth, due to a larger than normal gap between written and earned premium.

Unearned Program Fee Income represents the portion of Program Fee Income that has not yet been earned on an IFRS basis.

Underwriting Income represents net premium earned less net claims costs, acquisition expenses, claims management costs, premium taxes / levies and the cost of excess of loss coverage.

Investment Income represents income on the investment portfolio excluding net realised and unrealised investment gains on fixed income assets.

Fixed Operating Expenses include employment, legal, accommodation, information technology, Lloyd's syndicate, and other fixed expenses of ongoing operations, excluding non-core and exceptional items.

Pre-Tax Operating Profit Margin is R&Q's profit margin on Gross Operating Income.

Gross Reserves Acquired represent Legacy Insurance reserves acquired gross of reinsurance to Gibson Re.

Reserves Under Management represent insurance reserves ceded to Gibson Re and non-insurance liabilities for which R&Q earns annual recurring fees.

Chairman's Statement

I was pleased to be appointed Independent Non-Executive Chairman in March 2023. Since joining I have spent time getting to know our businesses (Legacy Insurance ("R&Q Legacy") and Program Management ("Accredited")), our people and our shareholders.

Clearly both of R&Q's two businesses have excellent fundamentals: they are well-established players in attractive non-life insurance niche segments, enjoy high barriers to entry, have high quality management teams and employees with strong technical expertise, and they both have well established reputations in the market.

However, it is also important to acknowledge 2022's challenges. These included continued volatility and adverse development in our older legacy books as well as a number of corporate events that absorbed significant Board and management time. In addition, the company oversaw extensive and ongoing internal transformation to ensure its people, technology, risk management, culture and governance are appropriate to support R&Q's strategic and growth ambitions.

On an underlying basis, I believe the picture is encouraging. Accredited has established itself as a genuine leader with exciting growth. At the same time R&Q Legacy is building momentum in its strategic transformation, albeit at a slower pace than originally envisaged given the need for prudence in a softer legacy market. The joint venture with Obra Capital, Inc. to acquire MSA Safety post-period end is also indicative of a meaningful opportunity to provide solutions for corporate liabilities through partnerships with third-party capital, adding to what is now a sizeable pool of reserves managed by R&Q Legacy.

The focus for R&Q therefore needs to be unlocking the value within both businesses. Doing this will create more opportunity for our people, stronger counterparties for capital and trading partners and greater returns for our shareholders.

Although transitioning to a fee-oriented business, R&Q Legacy has a more volatile earnings profile than Accredited, which could impact the financial strength rating critical to Accredited. It is therefore clear to the Board that achieving our objective of unlocking value in each business is best managed through a separation of Accredited and R&Q Legacy. William will discuss this further in his CEO Statement.

My appointment as Non-Executive Chairman has also enabled R&Q to move to a corporate governance structure that is better aligned with best market practice. As Executive Chairman, the role William was undertaking was far closer to that of Group CEO and it is appropriate that this is now formalised.

Since starting my role, I have been deeply impressed by the caliber of R&Q's leadership team, many of whom have joined in the last two to three years. William has assembled a bench with deep experience across insurance, capital markets and financial services. This has been particularly important given the extensive transformation that has taken place within the business to ensure it has the technology, platforms and processes required to support the growth of Accredited and R&Q Legacy. This has included substantial changes to make R&Q a more efficient business, improve its risk management and governance practices and build a stronger culture that can attract and retain the talent we need.

The Board and I are focused on supporting the leadership team as they continue to drive these essential changes, while also pursuing the strategic separation of our two businesses. Since coming into the business, my confidence in the inherent value within R&Q has only increased. I firmly believe we have the right team and strategy to realise these objectives.

Chief Executive Officer's Statement

2022 was, without doubt, an eventful year for R&Q. I would like to start by thanking our shareholders and partners for their support and our employees for their focus and commitment.

During the year we saw substantial progress with regards to our strategic pillars, most notably the continued evolution and transition of R&Q Legacy and significant investment and change aimed at making R&Q a modern and efficient company with a strong culture. In many ways these changes represent a multi-year operational turnaround at R&Q. Turnarounds are difficult; they take time, focus and resilience in the face of both many obstacles and outside scrutiny.

In 2022 we were also required to navigate a number of events we had not anticipated at the start of the year, and which took up significant management time. In particular, while we were successful in our defense against the shareholder activism, this event, including the public attention drawn to it, took a toll on the mental health of many of our employees who are proud of their work at R&Q. I have been particularly impressed with the way our employees responded with continued focus and commitment.

Turning to our performance for 2022, we are disappointed with our headline operating result, which is a Pre-Tax Operating Loss of \$33.3 million. This loss is larger than expected, primarily driven by \$32 million of adverse development in R&Q Legacy, mainly from our older legacy transactions. Beyond the adverse development, and at an underlying level, this result reflects two businesses at different stages of their development. Accredited continued to grow and reported record results and a profit of \$55.7 million while R&Q Legacy reported a loss of \$56.6 million. If not for the adverse development, R&Q Legacy would have shown good execution against its transition plan to become a more capital efficient business. Our overall loss was also impacted by \$32.4 million in Corporate and Other, which is primarily interest expense. I will discuss Accredited and R&Q Legacy in more detail shortly.

Accredited has seen remarkable growth in the past five years and is now the largest program manager in Europe and one of the largest in the US. It also relies on an 'A' financial strength rating to conduct its business and, although it has historically relied on the strength of the broader Group to obtain its financial strength rating, it now has both the size and scale to achieve a standalone rating. Conversely, R&Q Legacy, which does not require a financial strength rating to conduct business, is at an earlier stage of its strategic journey as it transitions to a fee-oriented and capital-efficient model that will create a more profitable, sustainable and valuable business. Therefore, we announced in April 2023 that the Board had concluded that it was in shareholders' best interests to evaluate strategic options that allowed for a separation of Accredited and R&Q Legacy. A process is underway for the sale of Accredited with interest expressed from a number of parties. In addition, a variety of strategic actions are being explored in relation to R&Q Legacy.

We have two great businesses, but they operate in different parts of the insurance ecosystem, require different skillsets and expertise, and have different rating and regulatory needs. We are now in a position where each has the scale, maturity, and brand strength to stand on their own. By separating these businesses, we can ensure both have the right level of management focus and appropriate capital structures to achieve their full potential. Legal separation was successfully completed as planned in Q2 2023 and with the completion of the reorganisation, AM Best announced the recognition of Accredited as an independent rating unit (separate from R&Q) and has maintained an A- financial strength rating pending the completion of the sale process.

We also announced in June 2023 that we have raised \$50 million of preferred equity from Scopia Capital, one of our largest shareholders, with the opportunity to raise an additional \$10 million. This is being used to increase the capital resources of R&Q Legacy, which is providing reinsurance support to Accredited, as well as general corporate purposes given that Accredited will no longer pay intra-group dividends to R&Q as part of a requirement to secure its financial strength rating from AM Best.

Turning to corporate governance, I am pleased that we were able to welcome Jeff Hayman as our Non-Executive Chairman recently. Jeff's long career in the global insurance sector and Board experience made him the outstanding candidate and he is already making a valuable contribution.

Accredited review

Accredited was launched in 2017 and when I joined R&Q in early 2020, it had circa \$370 million in Gross Written Premium ("GWP"). Today that has increased by nearly 550% and, with GWP of circa \$2.0 billion, Accredited is now one of the most important hybrid carriers globally.

Accredited's results for last year reflect not only outstanding growth, but a robust, operationally-mature and well-diversified business. In 2022, we reported a Pre-Tax Operating Profit of \$55.7 million and Fee Income (excluding minority stakes in Managing General Agents("MGAs")) of \$80 million, increases of 170% and 78% respectively. This Pre-Tax Operating Profit included \$12 million that arose from the Group's minority stake in Tradesman Program Managers ("Tradesman"). In March we announced that we completed the sale of our 40% minority stake in Tradesman for \$47 million or approximately 10x EBITDA upon adjusting for the maximum contingent commissions that could become payable to reinsurers should the program underperform expectations and \$67 million of net debt on Tradesman's balance sheet as at 31 December 2022. Furthermore, our decision to reduce our exposure to certain Tradesman programs meant the minority investment was no longer strategic to R&Q; we have made 3.7x our initial investment in Tradesman of \$25 million, including \$46 million of dividends received to date and have subsequently replaced the GWP from Tradesman's programs with new MGA partnerships.

We are also now seeing Accredited increasingly benefit from operational leverage given its meaningful scale with margin improvement of 21 percentage points over the year, increasing from 36% to 57%. It is not only scale driving this enhanced margin; we are starting to see benefits emerge from our smart investments in data and technology to make Accredited a more efficient business. This has included moving to a cloud-based architecture, centralising our data, enabling new analytics and reporting, automating a number of processes and optimising resources. This remains a core focus, and we expect to drive further operational improvements in 2023 that will both support growth and enhance our profitability.

Our overall result was driven by an 76% increase in GWP to \$1.8 billion written through our 77 programs and supported

by over 250 reinsurance partnerships. As Accredited continues to scale, we believe this diversification by program, class of business and reinsurer is particularly important. Supporting this growth is the consistently strong feedback we get from MGAs on the value they place in Accredited as a partner.

From an underwriting portfolio perspective, it means we are not over-exposed to either a single program or specific classes of business, giving us protection against headwinds in any part of the market. Furthermore, Accredited employs a rigorous screening process in order to select only high-quality programs out of a large pipeline of opportunities. We couple this with highly active oversight that includes regular audits and reviews and our technology allows underwriting, actuarial and finance to perform ongoing monitoring of each program's performance, giving us early indication of any developing situations, enabling the quality of performance to be maintained.

From a reinsurer perspective, our diversification gives us multiple channels for sourcing capacity. It also supports our focus on managing counterparty credit, something that is critical for any program manager. We have developed a broad panel of highly-rated reinsurers to support Accredited. Our focus on due diligence and active management of our programs is an important differentiator for these reinsurance partners when providing capacity to Accredited.

Looking ahead our strategy for Accredited remains unchanged. We will look to:

- Partner with high quality MGAs and reinsurers to drive annual, recurring Fee Income.
- Minimise balance sheet volatility through low retention of underwriting risk and protecting our retentions with excess of loss reinsurance.
- Continue to invest in data to enable better analytics and automation to support growth and create operating leverage.
- Make Accredited a destination for talent by empowering our employees.
- Acting responsibly and embracing ESG practices.

To achieve this, we have set out a number of priorities for 2023:

- Develop more multi-program, 'super MGAs'. These partnerships, which are often multi-year partnerships, enable us to bring in significant new GWP through writing large single programs or multiple programs with a single MGA, with whom we already have a partnership. We already have a number of 'super MGA's' as partners.
- Upgrade to a smoother speed-to-market process for new business, making it easier and quicker for new MGAs to onboard their programs.
- Keep driving our innovative and client-centric business model, making Accredited an industry partner of choice. This includes our two conferences in Florida and Zurich which last year were attended by over 350 professionals.

Finally, I believe it worth reiterating the attractive structural tailwinds that give us such confidence in the future for Accredited. Independent MGA written premium is growing at double the rate of the overall P&C market, with MGAs becoming the platforms of choice for more and more entrepreneurial underwriters and insurance talent. Therefore, it is not surprising that in 2022, according to Conning, non-affiliated MGAs became a larger part of the MGA market than affiliated MGAs, a testament to the importance and growing position of hybrid carriers in the P&C market. We also think that hybrid carriers like Accredited will continue to capture an increased proportion of premium (currently the hybrid carriers collectively write c.10% of the c.\$130 billion global MGA premium) as MGAs look to align with conflict free capacity that can not only support their ambitions but offer a best-in-class approach to data and operational excellence. We remain excited about the future.

R&Q Legacy review

R&Q Legacy is in the process of transitioning to a fee-oriented model. As we knew when we started this journey, the transition will take time and this is reflected by our results for R&Q Legacy. However, we remain firm in our belief that this will result in a less volatile business that generates more sustainable and predictable profit and with greater ability to scale.

R&Q Legacy includes historical transactions which predate the sidecar reinsurance arrangement with Gibson Re and, as discussed below, are therefore subject to increased volatility in earnings over the life of the transaction from any adverse development. Disappointingly, in 2022, for the second year in a row, we experienced adverse development of c.3.6% of net reserves in these books. We are currently exploring solutions to reduce the volatility arising from pre-Gibson Re transactions.

The softer conditions impacting the legacy market saw us adopt a more cautious approach to transactions in 2022. While significant opportunities remain, and our deal team sees a high volume of these, we have been highly disciplined in our approach to pricing. In 2022, this saw us complete only four deals with a total of \$68 million in Gross Reserves Acquired.

As a result of these factors, R&Q Legacy reported a Pre-Tax Operating Loss of \$56.6 million, including \$32 million of

net adverse development. We earned Fee Income of \$12.1 million on \$395.6 million of Reserves Under Management.

As we have discussed previously, prior to new accounting rules effective from 1 January 2023, our previous IFRS accounting regime allowed “Day-1 gains.” This meant that a majority of a transaction’s profits could be recorded upfront upon closing of the transaction. Any net reserve development after a transaction had closed therefore created heightened volatility in earnings over the course of that transaction’s lifetime. However, it does not mean that the underlying returns of a transaction would not meet expectations when taking into account the Day-1 gain and investment income. Going forward, neither IFRS 17 nor our new US GAAP accounting regime allow for Day-1 gains. Furthermore, our transition to a fee-oriented model will make Underwriting Income a smaller part of our R&Q Legacy returns, with R&Q now retaining only 20% of a typical transaction and the remaining 80% being ceded to Gibson Re.

From an operational perspective, and aligned to our broader strategy, we are focused on making R&Q Legacy a more efficient and scalable business. The Legacy team has identified and taken action on a number of opportunities to reduce expenses, including simplifying our legal entity structure and rationalising our real estate footprint. Work is also underway to automate the input of data we receive from our third party administrators (“TPAs”) and move our internal systems to the cloud. Better use of data is enabling us to make smarter decisions, quicker, while more automated processing is reducing duplication and costs. As we have seen with Accredited, we expect this work to create operational leverage benefits as we grow our Reserves Under Management. In addition, we continue to attract strong talent including senior hires into our Legacy M&A team and our North America Legacy Claims team.

Looking ahead, we are confident of successfully building our Reserves Under Management. Our pipeline is healthy with identified transactions comprising over \$1 billion of reserves and we continue to focus our attention on areas where we have a competitive advantage which is in the small to medium size range where R&Q has historically operated.

In addition, shortly after the year-end we announced a landmark deal to invest alongside Obra Capital to acquire and professionally manage the non-insurance legacy liabilities of MSA Safety, our first transaction involving non-insurance liabilities. This transaction increased our Reserves Under Management to more than \$1 billion. Our objective is to identify and execute similar deals that create compelling finality solutions for corporates in the US, UK and Europe. This, alongside Gibson Re, will see R&Q Legacy earn fees from two distinct but complementary pools of liabilities – traditional insurance reserves, and corporate non-insurance liabilities - enabling us to realise our vision for R&Q Legacy as a leading global manager of insurance reserves and non-insurance legacy liabilities.

Strategic and operational update

A significant focus for the management team in 2022 was driving forward our strategic pillars, and I am pleased by the progress we have made across each of these:

- **Increase Fee Income and Capital Efficiency:** growing annual recurring fee income that produces higher returns on equity.
- **Enhance Transparency:** putting in place clear metrics to drive economic decision making that facilitates long-term value creation.
- **Automate Processes:** investing in automation and data to support growth and create operating leverage.
- **Engage Employees:** empowering our employees to execute our strategy and attracting new talent.
- **Act Responsibly:** respecting all our stakeholders and embedding ESG in our business processes.

I have already touched on the progress we are making in growing Fee Income and profitability, but less visible is the extensive work we have undertaken to make R&Q a more modern, technology- and data-enabled and operationally robust business.

As part of *Enhance Transparency* we are making R&Q a stronger and more resilient business by improving our reporting, risk management, governance and compliance. This has included developing a more formal reserving committee, an enhanced risk framework supported by more sophisticated stochastic modelling of risks and their impact on liquidity and earnings, optimising our investment portfolio with a focus on asset-liability management and improving our Treasury function.

As part of *Automate Processes* we are investing \$20-25 million in operational improvements, with c.\$15 million of this deployed to date. This investment was not optional, but rather it was required in order for the business to scale and meet reporting requirements. The good news is that this investment is expected to generate approximately \$10 million of recurring annual productivity efficiencies by 2024. This investment includes moving to a single group-wide general ledger, implementing automation tools including robotics to eliminate extensive manual business processes, digitising over one million paper documents into a modern document management solution, implementing a robust cloud-based infrastructure for our financial and actuarial data and migrating data to our enterprise warehouse to reduce reliance on legacy technologies and reduce our application footprint. These tools will triage emails and documents automatically, eliminate paper costs to leverage searchable digital documents, and fully automate processes that took several hours a day of manual processing across multiple departments.

Our pipeline of automation is very strong. With the proficiency that we've built over the past two years, we are working on several new initiatives where we are aiming for another \$1 million of annual run rate savings by further leveraging our cloud automation, document management system and robotics.

In 2022 *Engaging Employees* was an important driver for several actions. We rolled out a much needed brand refresh and, most notably, we launched R&Q's Purpose and Values. We set out our Purpose as: **"We enable the success of our customers by delivering tailored, data-driven and innovative insurance solutions that provide protection and assurance in an uncertain world."** Supporting this are our four values:

- **Operate as One** - collaborating across teams and geographies to deliver our best, while upholding a shared commitment to integrity.
- **Invest in People** - passionately investing energy, attention and capital into our relationships. This means that we help each other, our customers, and communities succeed today... and tomorrow.
- **Own the Next Step** - encouraging accountability and transparency. We want to benefit from the insights and expertise of everyone at R&Q and we know we see the best results when we combine our expertise with empowerment, ownership and action.
- **Create Sustainable Value** - we are committed to delivering value for our customers, partners, investors and each other. To address the needs of the industries we serve, we must be agile and sustainable with our products and solutions setting the standard for quality and innovation.

It has been exciting to see the meaningful engagement and enthusiasm we have seen from our employees, and we are committed to embedding these values into our behaviours and actions in 2023 and beyond. We further engaged both our employees and the external audiences via our brand refresh for RQIH, Accredited and R&Q Legacy, which provides a more confident and contemporary image to our clients, customers and partners. This new look and feel of our brand has helped us to better distinguish ourselves at external events and conferences and rejuvenate interest in R&Q from potential new talent.

We introduced changes to make our compensation and goal-setting more metrics-based to help our people better track their progress and help ensure tighter alignment with our strategy across the business. And finally, through a year that had its share of change, we have continued to enhance the variety of our communications and respond to feedback from our people, giving them the information they need to perform and be inspired. We have taken a more proactive approach to engagement including more regular town halls and the provision of dedicated briefings for managers to help them provide context to their teams and answer questions more effectively.

Our sector remains one where the battle for talent is intense, and we are confident in our efforts to provide our people with a dynamic environment where they can contribute and grow their careers in a meaningful way.

ESG update

We continue to make positive progress in terms of embedding ESG across our business and this is clearly reflected in our strategic pillars and refreshed purpose and values. We have developed an ESG framework, aligned to the guidance provided by Lloyd's and the UN's Principles for Sustainable Insurance, the latter we are pleased to have joined as a signatory. We continue to assess potential risks and opportunities within our business and across our value chain. As part of these efforts, we have made our initial voluntary TCFD climate change risk disclosure in this Report.

Outlook

Our immediate focus remains the separation of Accredited and R&Q Legacy. This process is progressing well, with the legal separation of these entities achieved in Q2 2023, as planned, and the recognition by AM Best of Accredited as an independent rating unit, with an A- financial strength rating. We continue to assess the strategic options for both businesses and expect to provide further updates over the course of 2023.

We believe the outlook is strong for Accredited and R&Q Legacy. Both businesses have excellent pipelines and, while we remain highly disciplined, we are confident of growing GWP and Reserves Under Management in each business respectively.

Chief Financial Officer Review

We are pleased to report our financial results for the year ending 31 December 2022, which is the final year we will do so under IFRS. For future periods, we will report our financial results in accordance with US GAAP.

Group

Our Key Performance Indicators ('KPIs') measure the economics of the business and adjust IFRS results to include fully written Program Fee Income and exclude non-cash intangibles created from acquisitions at R&Q Legacy, net

realised and unrealised investment gains and losses on fixed income assets, foreign currency translation reserves, non-core expenses and exceptional items.

Our Pre-Tax Operating Loss was \$33.3 million, primarily due to adverse reserve development in R&Q Legacy's core reserve portfolios of \$32 million and fewer than expected legacy transactions completed. One of our KPIs is to grow our Fee Income which was \$92.0 million (excluding minority stakes in MGAs), a 105% increase compared to 2021.

Tangible Net Asset Value was \$301.0 million, a 16% decrease compared to year-end 2021, primarily as a result of adverse development in R&Q Legacy and c.\$100 million in extraordinary one-time charges, of which \$43 million is associated with a non-cash charge related to adverse reserve development in a non-core subsidiary, which will reverse upon deconsolidation from the Group and movement to discontinued operations in Q1 2023. The remaining extraordinary one-time expenses include reinsurance litigation associated with older legacy transactions and discontinued program businesses (\$28 million), automation process implementation costs (\$14 million), which is expected to yield meaningful productivity savings starting in 2024, advisory costs associated with last year's unsuccessful sale of the Group and subsequent shareholder activism (\$8 million) and other one-off costs (\$3 million). On a fully diluted basis, our Operating Loss Per Share was 9.9 cents and our Tangible Net Asset Value Per Share was 79.7 cents.

Our IFRS Loss After Tax was \$297.0 million for the year, impacted by c.\$162 million of non-cash items, including net unrealised and realised investment losses on fixed income assets of \$135.8m, unearned program fee income of \$17.0 million and amortisation of net intangibles of \$9.6 million. Our IFRS Net Asset Value was \$185.2 million, which is impacted by c.\$218 million of non-cash items, including accumulated net unrealised investment losses on fixed income assets of \$111.6 million, unearned program fee income of \$34.9 million and net intangibles of \$71.0 million. On a fully diluted basis, our IFRS Loss Per Share was 91.3 cents and our IFRS Net Asset Value Per Share was 49.1 cents.

In 2023 we are adopting US GAAP as our accounting standard. US GAAP has a number of differences from IFRS, namely fair market value measurement of legacy gross and ceded reserves including a risk margin, as well as the recognition of unallocated loss adjustment expenses and current expected credit losses on reinsurance recoverables. Neither US GAAP nor other accounting standards, such as IFRS 17, recognise Day-1 gains in legacy insurance transactions. As a result of these differences, our unaudited US GAAP Loss After Tax for 2022 was estimated at c.\$90-115 million and our US GAAP Net Asset Value at 31 December 2022 was estimated at c.\$225-250 million, significantly different than IFRS results.

Accredited

The Accredited business continued to grow rapidly in 2022. Our Gross Written Premium was \$1.8 billion, a 76% increase compared to 2021. Our results demonstrate the benefits of scale as we earned a Pre-Tax Operating Profit of \$55.7 million, a 170% increase compared to 2021, representing a 56.8% margin on Gross Operating Income, an increase of 21.1 percentage points compared to 2021. This Pre-Tax Operating Profit includes \$12.4 million associated with our minority stakes in MGAs.

The primary driver of Pre-Tax Operating Profit is our Fee Income. Fee Income excluding minority stakes in MGAs was \$80.0 million, a 78% increase compared to 2021. Program Fees averaged 4.7% of ceded written premium, which is flat compared to 2021, and we expect Fee Income to generally grow in line with Gross Written Premium. Underwriting Income represents our c.7% retention of Program Insurance risk. Our Underwriting result was breakeven primarily due to the purchase of excess of loss reinsurance above and beyond the underlying combined ratio of 85% in order to minimise any balance sheet volatility. Our Investment Income was \$5.6 million, a 108% increase compared to 2020 associated with higher reinvestment rates. Finally, Fixed Operating Expenses increased 14% compared to 2021 due to the expansion of our staff and a higher allocation of corporate expenses.

R&Q Legacy

R&Q Legacy concluded four transactions with Gross Reserves Acquired of \$68 million, a decrease of 91% compared to 2021 due to extra prudence in a softer pricing market. At year-end 2022, we had Reserves Under Management of \$396 million and during 2022 we reported Fee Income of \$12.1 million compared with none in 2021. We expect Fee Income to become the predominant driver of Pre-Tax Operating Profit once we fully deploy capital in our sidecar, Gibson Re. Our Pre-Tax Operating Loss was \$56.6 million, which included \$32 million of adverse reserve development (included in Underwriting Income). Note that Underwriting Income in 2022 is not comparable with 2021, which included Day-1 accounting gains on legacy transactions closed before Q4 that were 100% retained by R&Q. Our Investment Income was \$24.9 million, a 29% increase compared to 2021 driven by higher reinvestment yields. Finally, our Fixed Operating Expenses decreased 15% compared to 2021 due to expense control and foreign exchange rates.

Corporate and other

Our Corporate and Other segment includes unallocated operating expenses and finance costs. Unallocated operating

expenses were \$1.9 million, an 86% decrease compared to 2021 primarily driven by higher allocations to the two business segments. Interest expense was \$30.5 million, a 34% increase compared to 2021 associated with higher interest rates.

Cash and investments

Our Cash and Investments at year-end 2022, excluding funds withheld, was \$1.6 billion. We produced a book yield, which excludes net realised and unrealised gains on fixed income assets, of 1.9%, an increase of 50 bps compared to 2021, due to the higher interest rate environment.

We maintain a conservative, liquid investment portfolio so that we can produce consistent cash flows to meet our liability obligations, while also earning a reasonable risk-adjusted return. 97% of our portfolio was invested in cash, money market funds, and fixed income investments. Of our fixed income investments, 95% were rated investment-grade. After cash, which comprised 20% of our portfolio, our largest allocations were to corporate bonds (39%), government and municipal securities (20%), asset-backed securities (17%) and equities (3%). We have maintained a duration in our portfolio of 3 years, shorter than that of our liabilities of 6 years.

During 2022, financial markets witnessed a significant increase in interest rates. As a result, our investment portfolio experienced unrealised net investment losses of \$118 million, which are included in our IFRS results. Given the high credit quality of our investment portfolio and the primarily casualty-focused retained liabilities, we do not expect to realise these mark-to-market losses other than to rebalance the portfolio for more attractive reinvestment opportunities, and hence do not include such movement in our Pre-Tax Operating Profit.

Capital and liquidity

Last year we raised \$130 million of equity capital (\$121 million net of fees), of which \$60 million was contributed to Funds At Lloyd's and the rest for general corporate purposes. Since then, we experienced unexpected adverse development in R&Q Legacy, primarily in Lloyd's, which requires an even greater amount of collateral to support such adverse development. We also had \$28 million in unexpected one-off historic legal matters associated with older legacy transaction and discontinued programs. As a result, our preliminary Group Solvency ratio at 31 December 2022 was 158%, which is above our target level of 150%. Nevertheless, this adverse development and one-off historic legal matters used up a material amount of our capital resources, and without the ability to take dividends from Accredited as part of the planned separation, required that we raise \$50-\$60 million of preferred equity this year. Our total debt at year end 2022 was \$344.9 million, which includes a bank facility as well as subordinated notes. In addition, we have \$175.4 million of unsecured letters of credit that provide security on assumed reinsurance of legacy exposures, which are guaranteed by the Group.

Consolidated Income Statement
For the year ended 31 December 2022

		2022		2021	
	Note	\$m	\$m	\$m	\$m
					Restated *
Gross written premiums		1,908.7		1,539.7	
Written premiums ceded to reinsurers		<u>(1,764.9)</u>		<u>(1,463.5)</u>	
Net written premiums			143.8		76.2
Net change in provision for unearned premiums			<u>(42.5)</u>		<u>(12.2)</u>
Earned premium, net of reinsurance			101.3		64.0
Earned fee income	6	75.0		31.8	
Gross investment income	7	(97.4)		6.4	
Other income	8	<u>2.9</u>		<u>6.6</u>	
Total fee, investment and other income			<u>(19.5)</u>		<u>44.8</u>
Total income			81.8		108.8
Gross claims paid		(651.9)		(485.9)	
Proceeds from commutations and reinsurers' share of gross claims paid		<u>484.5</u>		<u>154.2</u>	
Claims paid, net of reinsurance			(167.4)		(331.7)
Net change in provisions for claims			<u>0.3</u>		<u>205.4</u>
Net claims provision increase			(167.1)		(126.3)
Operating expenses	9		<u>(178.9)</u>		<u>(166.0)</u>
Result of operating activities before goodwill on bargain purchase			(264.2)		(183.5)
Goodwill on bargain purchase	29		0.6		49.7
Amortisation and impairment of intangible assets	15		(9.7)		(12.8)
Share of profit of associates			<u>12.4</u>		<u>11.2</u>
Result of operating activities			(260.9)		(135.4)
Finance costs	10		<u>(31.7)</u>		<u>(26.5)</u>
Loss before income taxes	11		(292.6)		(161.9)
Income tax (charge)/credit	12		<u>(4.4)</u>		<u>34.8</u>
Loss for the year			<u>(297.0)</u>		<u>(127.1)</u>
Attributable to:-					
Shareholders of the parent			(297.0)		(127.1)
Non-controlling interests	30		<u>—</u>		<u>—</u>
			<u>(297.0)</u>		<u>(127.1)</u>

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

		2022	2021
Earnings per share			
Basic	13	(91.3)c	(46.8)c
Diluted	13	<u>(91.3)c</u>	<u>(46.8)c</u>

*All restatements in the financial statements relate to the change in discounting as noted in 2.a.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2022

	2022 \$m	2021 \$m Restated
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Pension scheme actuarial (losses)/gains	(4.5)	3.1
Deferred tax on pension scheme actuarial losses/(gains)	<u>1.1</u>	<u>(0.2)</u>
	(3.4)	2.9
Items that may be subsequently reclassified to profit or loss:		
Exchange losses on consolidation	<u>(35.7)</u>	<u>(3.3)</u>
Other comprehensive income	(39.1)	(0.4)
Loss for the year	<u>(297.0)</u>	<u>(127.1)</u>
Total comprehensive income for the year	(336.1)	(127.5)
Attributable to:		
Shareholders of the parent	<u>(336.1)</u>	<u>(127.5)</u>
Total comprehensive income for the year	<u>(336.1)</u>	<u>(127.5)</u>

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

Consolidated Statement of Changes in Equity
For the year ended 31 December 2022

	Notes	Share capital \$m	Share premium \$m	Foreign currency translation reserve \$m	Retained earnings \$m	Total \$m
Year ended 31 December 2022						
At beginning of year		7.5	288.3	(15.7)	117.2	397.3
Loss for the year		—	—	—	(297.0)	(297.0)
Other comprehensive income						
Exchange losses on consolidation		—	—	(35.7)	—	(35.7)
Pension scheme actuarial losses		—	—	—	(4.5)	(4.5)
Deferred tax on pension scheme actuarial losses		—	—	—	1.1	1.1
Total other comprehensive income for the year		—	—	(35.7)	(3.4)	(39.1)
Total comprehensive income for the year		—	—	(35.7)	(300.4)	(336.1)
Transactions with owners						
Issue of shares	25	2.5	121.5	—	—	124.0
At end of year		10.0	409.8	(51.4)	(183.2)	185.2

	Notes	Share capital \$m	Share premium \$m	Treasury shares \$m	Convertible debt \$m	Foreign currency translation reserve \$m	Retained earnings \$m	Sub- total \$m	Non-controlling interests \$m	Total \$m Restated
Year ended 31 December 2021										
At beginning of year		6.2	200.9	(0.2)	80.0	(24.7)	267.5	529.7	(0.5)	529.2
Restated	2a	—	—	—	—	—	0.5	0.5	—	0.5
Functional currency revaluation		(0.2)	7.2	—	7.2	12.3	(26.6)	(0.1)	—	(0.1)
Loss for the year (restated)		—	—	—	—	—	(127.4)	(127.4)	—	(127.4)
Other comprehensive income										
Exchange losses on consolidation		—	—	—	—	(3.3)	—	(3.3)	—	(3.3)
Pension scheme actuarial gains		—	—	—	—	—	3.1	3.1	—	3.1
Deferred tax on pension scheme actuarial gains		—	—	—	—	—	(0.2)	(0.2)	—	(0.2)
Total other comprehensive income for the year		—	—	—	—	(3.3)	2.9	(0.4)	—	(0.4)
Total comprehensive income for the year		—	—	—	—	(3.3)	(124.2)	(127.5)	—	(127.3)
Transactions with owners										
Share based payments		0.1	2.6	0.2	—	—	—	2.9	—	2.9
Issue of convertible debt		1.4	85.9	—	(87.2)	—	—	0.1	—	0.1
Purchase of shares		—	—	—	—	—	—	—	—	—
Dividend	14	—	(8.3)	—	—	—	—	(8.3)	—	(8.3)
Non-controlling interest in disposed subsidiary		—	—	—	—	—	—	—	0.5	0.5
At end of year (restated)		7.5	288.3	—	—	(15.7)	117.2	397.3	—	397.5

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

Consolidated Statement of Financial Position
As at 31 December 2022

Company Number 47341	Note	2022 \$m	2021 \$m Restated
Assets			
Intangible assets	15	71.0	81.8
Investments in associates		22.4	46.2
Property, plant and equipment	16	1.8	2.1
Right of use assets	17	4.1	6.1
Investment properties	18a	—	1.8
Financial instruments			
- Investments (fair value through profit and loss)	18b	1,580.9	1,511.3
- Deposits with ceding undertakings	4b	49.6	21.8
Reinsurers' share of insurance liabilities	23	2,693.2	2,003.1
Deferred tax assets	24	42.2	20.4
Current tax assets	24	7.4	3.6
Insurance and other receivables	19	1,125.4	1,096.3
Cash and cash equivalents	20	316.9	266.3
Total assets		5,914.9	5,060.8
Liabilities			
Insurance contract provisions	23	3,811.1	3,100.9
Financial liabilities			
- Amounts owed to credit institutions	22	344.9	395.9
- Lease liabilities	22	5.4	7.6
- Deposits received from reinsurers	22	38.2	3.0
Deferred tax liabilities	24	16.6	7.9
Insurance and other payables	21	1,498.3	1,140.1
Current tax liabilities	24	7.3	2.4
Pension scheme obligations	27	7.9	5.7
Total liabilities		5,729.7	4,663.5
Equity			
Share capital	25	10.0	7.5
Share premium	25	409.8	288.3
Foreign currency translation reserve		(51.4)	(15.7)
Retained earnings		(183.2)	117.2
Attributable to equity holders of the parent		185.2	397.3
Non-controlling interests in subsidiary undertakings	30	—	—
Total equity		185.2	397.3
Total liabilities and equity		5,914.9	5,060.8

The Consolidated Financial Statements were approved by the Board of Directors on 28 June 2023 and were signed on its behalf by:


W L Spiegel


T S Solomon

Date: 28 June 2023

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

Consolidated Cash Flow Statement
For the year ended 31 December 2022

	Note	2022 \$m	2021 \$m Restat ^{ed}
Cash flows from operating activities			
Loss for the year		(297.0)	(127.1)
Tax included in consolidated income statement		4.4	(34.4)
Finance costs	10	31.7	26.5
Depreciation and impairment	16 & 17	2.4	2.9
Share based payments	25	—	2.8
Share of profits of associates		(12.4)	(11.2)
Profit on divestment		—	(2.6)
Goodwill on bargain purchase	29	(0.5)	(49.7)
Amortisation and impairment of intangible assets	15	9.7	12.8
Fair value loss on financial assets		135.8	17.7
Contributions to pension plan		(2.1)	(1.1)
Loss on net assets of pension schemes		0.3	0.1
Increase in receivables		(26.7)	(409.5)
(Increase)/decrease in deposits with ceding undertakings		(27.8)	158.7
Increase in payables		373.4	705.7
Increase/(decrease) in net insurance technical provisions		42.2	(193.5)
Net cash from operating activities		233.4	98.1
Cash flows from investing activities			
Purchase of property, plant and equipment	16	(0.3)	(0.7)
Proceeds from sale of financial assets		269.9	100.8
Purchase of financial assets		(531.1)	(397.6)
Acquisition of subsidiary undertakings (offset by cash acquired)		0.6	46.7
Divestment (offset by cash disposed of)		1.7	3.5
Distributions from associate		36.2	10.3
Net cash used in investing activities		(223.0)	(237.0)
Cash flows from financing activities			
Repayment of borrowings		(84.5)	(42.0)
Proceeds from new borrowing arrangements		44.8	121.7
Dividends paid		—	(8.3)
Interest and other finance costs paid	10	(31.7)	(26.5)
Receipts from issue of shares		124.0	—
Net cash from financing activities		52.6	44.9
Net increase/(decrease) in cash and cash equivalents		61.1	(94.0)
Cash and cash equivalents at beginning of year		266.3	363.5
Exchange (losses)/gains on cash and cash equivalents		(10.5)	(3.2)
Cash and cash equivalents at end of year	20	316.9	266.3
Share of Syndicates' cash restricted funds		50.7	50.7
Other funds		266.2	215.6
Cash and cash equivalents at end of year		316.9	266.3

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2022

1. Corporate information

R&Q Insurance Holdings Ltd (the 'Company') is a company incorporated in Bermuda and listed on AIM, a sub-market of the London Stock Exchange. The Company and its subsidiaries (together forming the 'Group') carry on business worldwide as owners and managers of insurance companies, providing program capacity to managing general agents ('MGAs') and run-off solutions to the non-life insurance market. The Consolidated Financial Statements were approved by the Board of Directors on 28 June 2023.

2. Accounting policies

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

a. Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), endorsed by the European Union, International Financial Reporting Interpretations Committee interpretations and with the Bermuda Companies Act 1981 (as amended).

The Consolidated Financial Statements have been prepared under the historical cost convention, except that financial assets (including investment property), financial liabilities (including derivative instruments) and purchased reinsurance receivables are recorded at fair value through profit and loss account. All amounts are stated in US dollars and millions, unless otherwise stated.

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

Policy change

The Group has opted to apply discounting to portfolios that would be better represented on a true economic basis by discounting the claims and IBNR provisions where the liability cash flows are 'fixed and determinable' by nature. For example, where contractual terms result in no claim payments for several years and with a known maximum quantum thereafter and Periodic Payment Orders (PPOs) as they are based on the defined pay out structure of the PPO court orders. The presented financial statements include the discounting and restatement of the prior year comparatives accordingly.

The above change results in the following amendments to the 2021 comparatives:

	As reported \$m	Effect of change in accounting policy \$m	As restated \$m
Consolidated statement of financial position			
Intangible Assets	86.2	(4.4)	81.8
Reinsurers' share of insurance liabilities	2,105.6	(102.5)	2,003.1
Insurance contract provisions	(3,207.5)	106.6	(3,100.9)
Deferred tax liabilities	(9.0)	1.1	(7.9)
Retained earnings brought forward 1 January 2021	267.5	0.5	268.0
Loss for the year	(127.4)	0.3	(127.1)
Consolidated income statement			
Net claims provision increase	205.8	(0.4)	205.4
Amortization and impairment of intangible assets	(13.3)	0.5	(12.8)
Income tax	34.6	0.2	34.8
Basic and diluted earnings per share for the prior year have also been restated:			
Basic	(46.9)c		(46.8)c
Diluted	(46.9)c		(46.8)c

New and amended Standards adopted by the Group

The group is adopting US GAAP for the reporting of financial statements beginning on 1 January 2023. The US GAAP basis of preparation will result in changes to Consolidated Financial Statements:

- (v) **Gross and ceded technical provisions** - There are significant differences in the measurement of gross and ceded reserves under US GAAP and IFRS as follows:
- Under US GAAP, a provision for unallocated loss adjustment expenses ('ULAE') is required. This is not required under IFRS provided the estimated future investment income is sufficient to cover ULAE.
 - Under US GAAP, Program Management reserves are carried at best estimate on an undiscounted basis with an allowance for expected credit losses ('CECL') against the reinsurance recoverable. This allowance is established based on impairment factors provided by AM Best that take into account the duration and credit rating of the reinsurance recoverables at a confidence level of 95%.
 - Under US GAAP, Legacy Insurance reserves are measured at fair value. R&Q is adopting this methodology in order to recognise reinsurance credit for Legacy Insurance reserves ceded to Gibson Re, which is not recognised under traditional GAAP accounting for retroactive policies. The Legacy Insurance reserves are carried at fair value based on a building block model that factors in discounted cash flows, risk margin and ULAE. On a transaction close, the fair value of the liabilities are set to the fair value of the investment assets transferred. Hence, there is no Day 1 gain recognised under US GAAP and as a result, a higher level of reserves are created at transaction close due to greater claim uncertainty compared to a portfolio which has been owned and managed by the Group for a period of time. Over time, as the portfolio matures and claim

uncertainty reduces, reserves are adjusted to the best-estimate but no earlier than twelve months after transaction close.

- (ix) **Deferred acquisition costs** – US GAAP does not allow for the capitalisation and deferral of internal costs unless they can be directly attributable to successful acquisition of the policies.
- (x) **Goodwill / intangible assets** – Under IFRS, Legacy Insurance acquisitions include the creation of intangible assets associated with the discounting of technical provisions. Under US GAAP, Legacy Insurance reserves are already discounted at fair value and thus intangible assets are not created.
- (xi) **Deferred taxation** – Deferred taxes are temporary differences between tax and accounting bases. As the accounting bases of certain assets and liabilities (mainly reserves and intangibles) will change, with no change in the tax bases, the temporary differences will also change.

5. **Bonus accrual** - IFRS does not require accrual of discretionary bonuses. Under US GAAP, bonuses need to be accrued when they are probable and can be reasonably estimated.

b. **Selection of accounting policies**

Judgement, estimates and assumptions are made by the Directors in selecting each of the Group's accounting policies. The accounting policies are selected by the Directors to present Consolidated Financial Statements based on the most relevant information. In the case of certain accounting policies, there are different accounting treatments that could be adopted, each of which would be in compliance with IFRS and would have a significant influence upon the basis on which the Consolidated Financial Statements are presented.

In respect of financial instruments, the Group accounting policy is to designate all financial assets as fair value through profit or loss, including purchased reinsurance receivables.

c. **Consolidation**

The Consolidated Financial Statements incorporate the Financial Statements of the Company, and entities controlled by the Company (its subsidiaries), for the years ended 31 December 2022 and 2021. Control exists when the Group is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial results of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes non-controlling interests to have a deficit balance.

The Group uses the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of acquisition. Acquisition-related costs are charged to the Consolidated Income Statement in the year in which they are incurred.

Certain Group subsidiaries underwrite as corporate members of Lloyd's on Syndicates managed by Coverys Managing Agency Limited, Asta Managing Agency Limited and Capita Managing Agency Limited. In view of the several and direct liability of underwriting members at Lloyd's for the transactions of Syndicates in which they participate, only attributable shares of transactions, assets and liabilities of those Syndicates are included in the Consolidated Financial Statements. The Group continues to conclude that it remains appropriate to consolidate only its share of the result of these Syndicates. The Group is the sole provider of capacity on Syndicate 1110, and these Consolidated Financial Statements include 100% of the economic interest in this Syndicate. For Syndicate 1991, the Group provides 0.04% of the capacity on the 2018, 2019 and 2020 years of account. For Syndicate 2689, the Group provides 0.09% on 2023 and 0.07% of the capacity on the 2022 and 2021 year of account. These Consolidated Financial Statements include the Group's relevant share of the

result for those years and attributable assets and liabilities.

Associates are those entities in which the Group has power to exert influence but which it does not control. Investments in associates are accounted for using the equity method of accounting. Under this method the investments are initially measured at cost. Thereafter the Group's share of post-acquisition profits or losses are recognised in the Consolidated Income Statement and adjusted against the cost of the investment included in the Consolidated Statement of Financial Position.

When the Group's share of losses equals or exceeds the carrying amount of the investment in the associate, the carrying amount is reduced to nil and recognition for the losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate. Equity accounting is discontinued when the Group no longer has significant influence over the investment.

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

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

d. ***Going concern***

The Consolidated Financial Statements have been prepared on a going concern basis, which is conditional on the completion of the Group strategic review, and this includes the raising of up to \$60m through the issuance of preference shares and the separation and sale of the Accredited Group from R&Q Legacy. At the date of signing these Consolidated Financial Statements, the Group has completed the issuance of the preference shares and has received interest from a number of bidders and is in the process of selecting the preferred bidder for the Accredited Group. There is uncertainty about the timing and completion of the sale of the Accredited Group however assuming the sale is completed the Group's financial position and forecasts for 2023 and 2024 demonstrate that it has adequate cash resources to meet its liabilities as they fall due.

Given these factors, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future. For the purposes of these Consolidated Financial Statements, this is considered to be a minimum of 12 months from the date on which these financial statements are signed.

e. ***Foreign currency translation***

Functional and presentational currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The Consolidated Financial Statements are presented in US dollars, which is the Group's presentational currency.

Transactions and balances

Transactions in foreign currencies are recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period; the resulting exchange gain or loss is recognised in the Consolidated Income Statement. Non-monetary items recorded at historical cost in a

foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated.

Group translation

The assets and liabilities of overseas subsidiaries, including associated goodwill, held in functional currencies other than the Group's presentational currency are translated at the exchange rate as at the period end date. Income and expenses are translated at average rates for the period. All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in the Consolidated Statement of Financial Position.

On the disposal of foreign operations, cumulative exchange differences previously recognised in other comprehensive income are recognised in the Consolidated Income Statement as part of the gain or loss on disposal.

f. Premiums

Gross written premiums represent premiums on business commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates for premiums from contracts entered into during the course of the year. Gross written premiums are stated before deduction of brokerage and commission but net of taxes and duties levied on premiums.

Unearned premiums

A provision for unearned premiums represents that part of the gross written premiums that is estimated will be earned in the following financial periods. It is calculated on a time apportionment basis having regard, where appropriate, to the incidence of risk. For After the Event policies written by the Group, premiums remain unearned until the point at which the claims exposures relating to these policies become crystallised.

Reinsurance premium costs are allocated to financial periods to reflect the protection arranged in respect of the business written and earned.

Acquisition costs

Acquisition costs, which represent commission and other related direct underwriting expenses, are deferred over the period in which the related premiums are earned. Acquisition costs recognised during the period are recorded in operating expenses in the Consolidated Income Statement.

g. Claims

These include the cost of claims and related expenses paid in the year, together with changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries. These are shown as net claims provisions (increase)/release in the Consolidated Income Statement.

h. Insurance contract provisions and reinsurers' share of insurance liabilities

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

The provisions for claims incurred but not reported ('IBNR') have been based on a number of factors including previous experience in claims and settlement patterns, the nature and amount of business written, inflation and the latest available information as regards specific and general industry experience and trends.

A reinsurance asset (reinsurers' share of technical provisions) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the outstanding claims reported and IBNR. The amount recoverable from reinsurers is initially valued on the same basis as the underlying claims provision.

The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Group may not receive all amounts due under the contract.

Neither the claims provisions nor the IBNR provisions have been discounted, other than for long term liabilities with predictable cashflows.

The uncertainties which are inherent in the process of estimating are such that, in the normal course of events, unforeseen or unexpected future developments may cause the ultimate cost of settling the outstanding liabilities to differ materially from that estimated. Any differences between provisions and subsequent settlements are recorded in the Consolidated Income Statement in the year which they arise.

Having regard to the significant uncertainty inherent in the business of insurance as explained in Note 3, and in light of the information available, in the opinion of the Directors the provisions for outstanding claims and IBNR in the Consolidated Financial Statements are fairly stated.

Provision for future claims handling costs

Provision for future run-off costs relating to the Group's run-off businesses is made to the extent that the estimate of such costs exceeds the estimated future investment income expected to be earned by those businesses.

Estimates are made for the anticipated costs of running off the business of those insurance subsidiaries and the Group's participation in Syndicates which have insurance businesses in run-off. Where insurance company subsidiaries have businesses in run-off and underwrite new business, management estimates the run-off costs and the future investment income relating to the run-off business. Syndicates are treated as being in run-off for the Consolidated Financial Statements where they have ceased writing new business and, in the opinion of management, there is no current probable reinsurer available to close the relevant syndicate year of account.

Changes in the estimates of such costs and future investment income are reflected in the year in which the changes in estimates are made.

When assessing the amount of any provision to be made, the future investment income and claims handling and all other costs of all the insurance company subsidiaries' and syndicates' businesses in run-off are considered in aggregate.

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

Unexpired risks provision

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

i. Provisions

Provisions, other than insurance provisions, are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expected expenditure to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

j. **Structured settlements**

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

In the opinion of the Directors, this treatment reflects the substance of the transaction on the basis that any remaining liability of Group companies under structured settlements will only arise upon the failure of the relevant third party life insurance companies and will be reduced by any available reinsurance cover.

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

Disclosure of the position in relation to structured settlements is shown in Note 21.

k. **Segmental reporting**

The Group's business segments are based on the Group's management and internal reporting structures and represent the level at which financial information is reported to the Board, being the chief operating decision maker as defined in IFRS 8.

l. **Financial instruments**

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

Financial assets

i) Acquisition

On acquisition of a financial asset, the Group is required under IFRS to classify the asset into one of the following categories: 'financial assets at fair value through profit or loss', 'loans and receivables held to maturity' and 'available for sale'. The Group does not currently hold assets classified as 'held to maturity' and 'available for sale'.

ii) Financial assets at fair value through profit and loss

All financial assets, other than cash, loans and receivables, are currently designated as fair value through profit and loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Group's key management. The Group's investment strategy is to invest and evaluate their performance with reference to their fair values.

iii) Fair value measurement

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

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

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking

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

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

iv) Insurance receivables and payables

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

v) Investment income

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

Financial liabilities

Borrowings

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

Senior and subordinated debt

R&Q Insurance Holdings Ltd and Group subsidiaries have issued senior and subordinated debt. At Group level this is treated as a financial liability and interest charges are recognised in the Consolidated Income Statement.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The best evidence of fair value of a derivative at initial recognition is the transaction price. The method of recognising the resulting fair value gains or losses depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group has not designated any derivatives as fair value hedges, cash flow hedges or net investment hedges.

m. ***Property, plant and equipment***

All assets included within property, plant and equipment ('PPE') are carried at historical cost less depreciation

and assessed for impairment. Depreciation is calculated to write down the cost less estimated residual value of motor vehicles, office equipment, IT equipment, freehold property and leasehold improvements by the straight-line method over their expected useful lives.

The principal rates per annum used for this purpose are:

	%
Motor vehicles	25
Office equipment	8 – 50
IT equipment	20 – 25
Freehold property	2
Leasehold improvements	Term of lease

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

n. Leases

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to refurbish the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of Property, plant and equipment. In addition, the right-of-use asset is reviewed for impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense to the Consolidated Income Statement on a straight-line basis over the lease term.

Right-of-use assets are disclosed under note 17.

o. Goodwill

The Group uses the acquisition method in accounting for acquisitions. The difference between the cost of acquisition and the fair value of the Group's share of the identifiable net assets acquired is capitalised and recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired the difference is recognised directly in the Consolidated Income Statement as goodwill on bargain purchase.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the fair value of the consideration paid for the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at the cash generating unit level, as shown in Note 15, on a biannual basis or if events or changes in circumstances indicate that the carrying amount may be impaired.

p. Other intangible assets

Intangible assets, other than goodwill, that are acquired separately are stated at cost less accumulated amortisation and impairment.

Intangible assets acquired in a business combination, and recognised separately from goodwill, are recognised initially at fair value at the acquisition date. This includes intangible assets calculated by measuring the difference between the discounted and undiscounted fair value of net technical provisions acquired.

Amortisation is charged to operating expenses in the Consolidated Income Statement as follows:

Purchased IT software	3 – 5 years, on a straight-line basis
On acquisition of insurance companies in run-off	Estimated pattern of run-off
On acquisitions – other	Useful life, which may be indefinite

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

US insurance authorisation licences

US state insurance authorisation licences acquired in business combinations are recognised initially at their fair value. The asset is not amortised, as the Directors consider that economic benefits will accrue to the Group over an indefinite period due to the long-term stability of the US insurance market. The licences are tested annually for impairment. This assumption is reviewed annually to determine whether the asset continues to have an indefinite life. Costs of acquiring new licences are recognised in the year of acquisition.

Rights to customer contractual relationships

Costs directly attributable to securing the intangible rights to customer contractual relationships are recognised as an intangible asset where they can be identified separately and measured reliably, and it is probable that they will be recovered by directly related future profits. These costs are amortised on a straight-line basis over the useful economic life which is deemed to be 15 years and are carried at cost less accumulated amortisation and impairment losses.

q. **Employee Benefits**

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

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

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

Current service cost, net interest income or cost and any curtailments/settlements are charged to the Consolidated Income Statement. The present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets is recognised and disclosed separately as a net pension liability in the Consolidated Statement of Financial Position. Surpluses are only recognised up to the aggregate of any cumulative unrecognised net actuarial gains and past service costs, and the present value of any economic benefits available in the form of any refunds or reductions in future contributions.

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

r. **Cash and cash equivalents**

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less from the date of acquisition, and bank overdrafts which are repayable on demand.

s. **Finance costs**

Finance costs comprise interest payable and are recognised in the Consolidated Income Statement in line with the effective interest rate on liabilities.

t. ***Operating expenses***

Operating expenses are accounted for in the Consolidated Income Statement in the period to which they relate.

Pre-contract costs

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

Pre-contract costs are charged to the Consolidated Income Statement over the shorter of the life of the contract or five years.

Onerous contracts

Onerous contract provisions are provided for in circumstances where the Group has a present legal or constructive obligation as a result of past events to provide services, the costs of which exceed future income. The costs of providing the services are projected based on management's assessment of the contract.

Arrangement fees

Arrangement fees in relation to loan facilities are deducted from the relevant financial liability and amortised over the period of the facility.

u. ***Other income***

Other income is stated excluding any applicable value added tax and includes the following items:

Management fees

Management fees are from non-Group customers and are recognised when the right to such fees is established through a contract and to the extent that the services concerned have been performed. Billing follows the supply of service and the consideration is unconditional because only the passage of time is required before the payment is due.

Purchased reinsurance receivables

The Group accounts for purchased reinsurance receivables at fair value through profit and loss. Fair value is defined as the price at which an orderly transaction would take place between market participants at the reporting date and is therefore an estimate which requires the use of judgement.

Earned fee income

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

v. ***Share based payments***

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

w. ***Current and deferred income tax***

Tax on the profit or loss for the year comprises current and deferred tax.

Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the Consolidated Statement of Comprehensive Income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income.

Deferred tax liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination and which, at the time of the transaction, affects neither accounting, nor taxable profit or loss, it is not provided for.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised.

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

x. ***Share capital***

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

y. ***Distributions***

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

3. **Estimation techniques, uncertainties and contingencies**

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

Significant uncertainty in technical provisions

Significant uncertainty exists as to the accuracy of the insurance contract provisions and the reinsurers' share of insurance liabilities established in the insurance company subsidiaries and the Lloyd's Syndicates on which the Group participates as shown in the Consolidated Statement of Financial Position. The ultimate costs of claims and the amounts ultimately recovered from reinsurers could vary materially from the amounts established at the year end.

In the event that further information were to become available to the Directors of an insurance company subsidiary which gave rise to material additional liabilities, the going concern basis might no longer be appropriate for that company and adjustments would have to be made to reduce the value of its assets to their realisable amount, and to provide for any further liabilities which might arise in that subsidiary. The Group bears no financial responsibility for any liabilities or obligations of any insurance company subsidiary in run-off, except as disclosed. Should any insurance company subsidiary cease to be able to continue as a going concern in the light of further information becoming available, any loss to the Group would thus be restricted to the book value of their investment in and amounts due from that subsidiary and any guarantee liability that may arise.

Claims provisions

The Consolidated Financial Statements include provisions for all outstanding claims and IBNR, for related reinsurance recoveries and for all costs expected to be incurred to run-off its liabilities.

The insurance contract provisions including IBNR are based upon actuarial and other studies of the ultimate cost of liabilities including exposure based and statistical estimation techniques. There are significant uncertainties inherent in the estimation of each insurance company subsidiary's and Lloyd's Syndicate's insurance liabilities and reinsurance recoveries. There are many assumptions and estimation techniques that may be applied in assessing the amount of those provisions which individually could have a material impact on the amounts of liabilities, related reinsurance assets and reported shareholders' equity funds. Actual

experience will often vary from these assumptions, and any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified. Potential adjustments arising in the future could, if adverse in the aggregate, exceed the amount of shareholders' equity funds of an insurance company subsidiary.

Independent external actuaries are contracted to provide a Statement of Actuarial Opinion for the Lloyd's Syndicates on which Group participates. This statement confirms that, in the opinion of the actuary, the booked reserves are greater than or equal to their view of best estimate.

In the case of the Group's larger insurance companies, independent external actuaries provide a view of best estimate reserves and confirm that the held reserves are within their range of reasonable estimates.

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

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

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

While many claims are clearly covered under policy wordings and are paid quickly, many other claims are subject to significant disputes, for example over the terms of a policy and the amount of the claim. The provisions for disputed claims are based on the view of the Directors of each insurance company subsidiary as to the expected outcomes of such disputes. Claim types impacted by such disputes include asbestos, pollution and certain health hazards and retrocessional reinsurance claims.

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

Asbestos, pollution and health hazard claims

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

Insurance claims handling expenses

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

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

Reinsurance recoveries

Reinsurance recoveries are included in respect of claims outstanding (including IBNR claims) and claims paid after making provision for irrecoverable amounts. The reinsurance recoveries on IBNR claims are estimated based on the recovery rate experienced on notified and paid claims for each class of business.

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

Recognition and de-recognition of assets and liabilities in run-off

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

Defined benefit pension scheme

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

Litigation, mediation and arbitration

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

Changes in foreign exchange rates

The Group's Consolidated Financial Statements are prepared in US dollars. Therefore, fluctuations in exchange rates used to translate other currencies, particularly the Euro and sterling, into US dollars will impact the reported Consolidated Statement of Financial Position, results of operations and cash flows from year to year. These fluctuations in exchange rates will also impact the US dollar value of the Group's investments and the return on its investments. Income and expenses are translated into US dollars at average exchange rates. Monetary assets and liabilities are translated at the closing exchange rates at the period end date.

Assessment of impairment of intangible assets

Goodwill and US insurance authorisation licences are deemed to have an indefinite life as they are expected to have a value in use that does not erode or become obsolete over the course of time. Consequently, they are not amortised but tested for impairment on a biannual basis or if events or changes in circumstances indicate that the carrying amount may be impaired.

The impairment tests involve evaluating the recoverable amount of the Group's cash generating units and

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

Provisions

Estimates are based on reports provided by recognised specialists as well as the Group's own internal review. Liabilities may not be settled for many years and significant judgement is involved in making an assessment of these liabilities, the period over which they will be settled and, where appropriate, the discount rate to be applied to assess the present value of the amounts to be settled.

4. Management of insurance and financial risks

The Group's activities expose it to a variety of insurance and financial risks. The Board is responsible for managing the Group's exposure to these risks and, where possible, for introducing controls and procedures that mitigate the effects of the exposure to risk.

The Group has a Risk and Compliance Committee which is a formal Committee of the Board. The Committee has responsibility for maintaining the effectiveness of the Group's Risk Management Framework, systems of internal control, risk policies and procedures and adherence to risk appetite.

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

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

The Group has established a dedicated Investment Committee which has taken over responsibility from the former Group Capital and Investment Committee for setting and recommending to the Board a strategy for the management of the Group's investment assets owned or managed by companies within the Group within an acceptable level of risk as set out in the Group's Risk Management Framework. The investment of the Group's financial assets, except certain deposits with ceding undertakings, is managed by external investment managers, appointed by the Investment Committee. The Investment Committee is responsible for setting the policy to be followed by the investment managers. The investment strategy strives to mitigate the impact of interest rate fluctuation and credit risks and to provide appropriate liquidity, in addition to monitoring and managing foreign exchange exposures.

The Investment Committee is also responsible for keeping under review the investment control procedures, monitoring and amending (where appropriate) the investment policies and oversight of loans and guarantees between Group companies.

The main objective of the investment policy is to maximise risk adjusted returns whilst adhering to regulatory and group investment guidelines together with seeking to optimise the matching of asset and liability cashflows.

The investment allocation (including surplus cash) at 31 December 2022 and 2021 is shown below:

	2022	2021
	\$m	\$m
Government and government agencies	395.3	330.9
Corporate bonds	1,079.2	1,055.9
Equities	22.0	11.9
Cash based investment funds	84.4	112.6
Cash and cash equivalents	316.9	266.3
	<u>1,897.8</u>	<u>1,777.6</u>
	%	%
Government and government agencies	20.8	18.6
Corporate bonds	56.9	59.4
Equities	1.2	0.7
Cash based investment funds	4.4	2.4
Cash and cash equivalents	16.7	18.9
	<u>100.0</u>	<u>100.0</u>

Corporate bonds include asset backed mortgage obligations totalling \$28.8m (2021: \$45.1m).

Based on invested assets at external managers of \$1,580.9m as at 31 December 2022 (2021: \$1,511.3m), a 1 percentage increase/decrease in market values would result in an increase/decrease in the profit before income taxes for the year to 31 December 2022 of \$15.8m (2021: \$15.1m).

(i) Pricing risk

The following table shows the fair values of financial assets using a valuation hierarchy; the fair value hierarchy has the following levels:

Level 1 – Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date.

Level 2 – Valuations based on quoted prices in markets that are not active or based on pricing models for which significant inputs can be corroborated by observable market data.

Level 3 – Valuations based on inputs that are unobservable or for which there is limited activity against which to measure fair value.

2022	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
Government and government agencies	395.3	—	—	395.3
Corporate bonds	1,062.4	16.8	—	1,079.2
Equities	21.3	0.7	—	22.0
Cash based investment funds	—	84.4	—	84.4
Purchased reinsurance receivables (Note 19)	—	—	6.6	6.6
Total financial assets measured at fair value	<u>1,479.0</u>	<u>101.9</u>	<u>6.6</u>	<u>1,587.5</u>

2021	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Government and government agencies	330.9	—	—	330.9
Corporate bonds	999.0	56.9	—	1,055.9
Equities	11.6	0.3	—	11.9
Cash based investment funds	—	112.6	—	112.6
Purchased reinsurance receivables (Note 19)	—	—	6.6	6.6
Total financial assets measured at fair value	1,341.5	169.8	6.6	1,517.9

The following table shows the movement on Level 3 assets measured at fair value:

	2022 \$m	2021 \$m
Opening balance	6.6	6.4
Total net gains recognised in the Consolidated Income Statement	—	0.2
Closing balance	6.6	6.6

Level 3 investments (purchased reinsurance receivables) have been valued using detailed models outlining the anticipated timing and amounts of future receipts. The net gains recognised in the Consolidated Income Statement in other income for the year amounted to nil (2021: \$0.2m). The Group purchased no further reinsurance receivables in 2022 (2021: nil). Short term delays in the anticipated receipt of these investments will not have a material impact on their valuation.

There were no transfers between Level 1 and Level 2 investments during the year under review.

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

(ii) Liquidity risk

As at 31 December 2022

Maturity date or contractual re-pricing date

	Total \$m	Less than one year \$m	After one year but less than two years \$m	After two years but less than three years \$m	After three years but less than five years \$m	More than five years \$m
Debt securities	1,506.9	224.2	264.8	153.0	275.8	589.1

Interest rate ranges (coupon-rates)

	Less than one year %	After one year but less than two years %	After two years but less than three years %	After three years but less than five years %	More than five years %
Debt securities	0.10 - 8.25	0.13 - 9.75	0.05 - 8.88	0.01 - 9.25	0.01 - 9.36

As at 31 December 2021

Maturity date or contractual re-pricing date

	Total	Less than one year	After one year but less than	After two years but less than	After three years but less than	More than five years
	\$m	\$m	\$m	\$m	\$m	\$m
Debt securities	1,499.4	258.0	176.2	172.6	235.4	657.2

Interest rate ranges (coupon-rates)

	Less than one year	After one year but less than	After two years but less than	After three years but less than	More than five years
	%	%	%	%	%
Debt securities	0.13 - 8.25	0 - 8.25	0.10 - 7.38	0.13 - 9.75	0.01 - 9.25

The Investment Committee determines, implements and reviews investment strategies for each entity and for the Group as a whole, having appropriate regard for the duration characteristics of the liabilities supported by the investments and the specific liquidity requirements for each entity. Liquidity risk is also monitored by the Group's financial planning and treasury functions' established cash flow and liquidity management processes.

(iii) Interest rate risk

Fixed income investments represent a significant proportion of the Group's assets and the Investment Committee continually monitors investment strategy to minimise the risk of a fall in the portfolio's market value.

The fair value of the Group's investment portfolio of debt and fixed income securities is normally inversely correlated to movements in market interest rates. If market interest rates rise, the fair value of the Group's debt and fixed income investments would tend to fall and vice versa.

Debt and fixed income assets are predominantly invested in high-quality corporate, government and asset-backed bonds. The investments typically have relatively short durations and terms to maturity.

The Group is exposed to interest rate risk within the Group's financial liabilities. This exposure lies predominately with amounts owed to credit institutions and debentures secured over the assets of the Company and its subsidiaries.

b. Credit risk

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

The Group guideline is for the reinsurers of program management to meet a minimum of the AM Best's A credit rating or otherwise fully collateralise the obligation, in order to mitigate counterparty credit risk.

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

recognised ratings agency.

As at 31 December 2022

	A rated	B rated	Less than B	Other *	Exposures of less than 3 months	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Deposits with ceding undertakings	38.3	1.5	—	9.1	0.7	49.6
Reinsurers' share of insurance liabilities	2,077.1	80.3	—	496.0	39.8	2,693.2
Receivables arising out of reinsurance contracts	202.0	7.8	—	48.3	3.9	262.0

As at 31 December 2021 Restated

	A rated	B rated	Less than B	Other *	Exposures of less than 3 months	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Deposits with ceding undertakings	16.8	0.6	—	4.0	0.4	21.8
Reinsurers' share of insurance liabilities	1,198.8	50.3	—	729.1	24.9	2,003.1
Receivables arising out of reinsurance contracts	367.5	14.2	—	87.8	7.0	476.5

* Other includes reinsurers who currently have no credit rating, but for which the Group endeavours to obtain collateral.

The reinsurers' share of insurance liabilities is based upon a best estimate given the profile of the insurance provisions outstanding and the related IBNR. Receivables arising out of reinsurance contracts are included in insurance and other receivables in the Consolidated Statement of Financial Position.

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

As at 31 December 2022	0-6 months	6-12 months	12-24 months	> 24 months
	%	%	%	%
Percentage of receivables	39.5	11.3	11.8	37.4
As at 31 December 2021	0-6 months	6-12 months	12-24 months	> 24 months
	%	%	%	%
Percentage of receivables	93.2	1.2	1.6	4.0

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

		Financial assets past due but not impaired			
As at 31 December 2022	Neither past due nor impaired \$m	Past due 1-90 days \$m	Past due more than 90 days \$m	Assets that have been impaired \$m	Carrying value in the balance sheet
Deposits with ceding undertakings	47.0	—	—	2.6	49.6
Reinsurers' share of insurance liabilities	2,613.4			79.9	2,693.2
Receivables arising out of reinsurance contracts	220.7	—	—	41.3	262.0

		Financial assets past due but not impaired			
As at 31 December 2021 restated	Neither past due nor impaired \$m	Past due 1-90 days \$m	Past due more than 90 days \$m	Assets that have been impaired \$m	Carrying value in the balance sheet
Deposits with ceding undertakings	19.0	—	—	2.8	21.8
Reinsurers' share of insurance liabilities	1,908.7			94.4	2,003.1
Receivables arising out of reinsurance contracts	419.5	—	—	57.0	476.5

The Directors believe the amounts past due but not impaired, or with no provisions provided, are recoverable in full. Where no provisions have been made, the Directors believe that there are no merits for a provision to be made and amounts are recoverable in full. Where there are merits for a provision then such provisions are made.

Credit risk is managed by committees established by the Group, R&Q Syndicate Management Limited ('RQSML'), Asta Managing Agency Limited ('Asta' and Coverys Managing Agency Limited ('Coverys'). RQSML, Asta and Coverys are the Lloyd's Managing Agents which manage the Syndicates on which the Group participates. RQSML, Asta and Coverys have established Syndicate Management Committees in relation to each managed syndicate and the Group has representation on each of these committees with the exception of the S1991 and S2689 Committees on which the Group only has a nominal participation. The committees are responsible for establishing minimum security levels for all reinsurance purchases by the managed Syndicates by reference to appropriate rating agencies, for agreeing maximum concentration levels for individual reinsurers and intermediaries, and for dealing with any other issue relating to reinsurance assets.

Reinsurance assets will be overseen by the Group Risk and Compliance and Audit committees, with some responsibilities now residing with management.

There are also a number of Key Risk Indicators pertaining to reinsurance security and concentration which have been developed under the auspices of the Group Risk and Compliance Committee and the RQSML, Asta and Coverys Risk and Capital Committees, which monitor adherence to predefined risk appetite and tolerance levels.

c. Currency risk

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

The Group's principal transactions are carried out in US dollars and its exposure to foreign exchange risk arises primarily with respect to Sterling and Euros.

The Group's main objective in managing currency risk is to mitigate exposure to fluctuations in foreign exchange rates. There have been no material changes in trading currencies during the year under review. The Group manages this risk by way of matching assets and liabilities by individual entity. Asset and liability matching is monitored by the Group's financial planning and treasury functions' established cash flow and liquidity management processes.

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

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

31 December 2022	Sterling \$m	US dollar \$m	Euro \$m	Total \$m
Intangible assets	35.6	35.3	0.1	71.0
Reinsurers' share of insurance liabilities	1,229.2	1,452.6	11.4	2,693.2
Financial instruments	706.5	925.4	21.0	1,652.9
Insurance receivables	563.2	66.7	1.5	631.4
Cash and cash equivalents	176.5	139.4	1.1	317.0
Insurance liabilities and insurance payables	(2,416.2)	(2,524.4)	(35.7)	(4,976.3)
Deferred tax and pension scheme obligations	(18.3)	(6.1)	(0.2)	(24.6)
Trade and other (payables)/receivables	(119.0)	(58.0)	(2.4)	(179.4)
Total	157.5	30.9	(3.2)	185.2
31 December 2021 restated	Sterling \$m	US dollar \$m	Euro \$m	Total \$m
Intangible assets	8.1	73.7	—	81.8
Reinsurers' share of insurance liabilities	1,054.0	895.3	53.8	2,003.1
Financial instruments	811.9	697.3	71.8	1,581.0
Insurance receivables	301.4	476.0	1.7	779.1
Cash and cash equivalents	132.9	124.6	8.8	266.3
Insurance liabilities and insurance payables	(1,823.3)	(2,071.4)	(70.1)	(3,964.8)
Deferred tax and pension scheme obligations	3.9	(6.0)	(0.2)	(2.3)
Trade and other (payables)/receivables	(453.0)	151.4	(46.4)	(348.0)
Total	35.9	340.9	19.4	396.5

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

Currency	Changes in variables	31 December 2022		31 December 2021	
		Impact on profit \$m	Impact on equity* \$m	Impact on profit \$m	Impact on equity* \$m
Euro weakening	10 %	2.2	0.1	(3.1)	(5.9)
Sterling weakening	10 %	(3.8)	(17.8)	(4.8)	(27.4)
Euro strengthening	10 %	(2.4)	—	3.8	7.3
Sterling strengthening	10 %	4.9	22.1	5.8	33.5

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

d. Capital management

The Group's objectives with respect to capital sufficiency are to maintain capital at a level that provides a suitable margin over that deemed by the Group's regulators and supervisors as providing an acceptable level of policyholder protection, whilst remaining economically viable. The Group is regulated in Bermuda by the Bermuda Monetary Authority ('BMA'). The BMA assesses the capital and solvency adequacy of the Group and requires that sufficient capital is in place to meet the Bermuda Solvency Capital Requirement ('BSCR'). The BSCR generates a risk-based capital measure by applying capital factors to capital and solvency return elements, including investments and other assets, premiums and reserves, operational risk, and insurer-specific catastrophe exposure measures, in order to establish an overall measure of capital and surplus for statutory solvency purposes.

The Group maintains a capital level that provides an adequate margin over the Group's solvency capital requirements whilst maintaining local capital which meets or exceeds the relevant local minima including, where appropriate, those relating to maintenance of external credit ratings. This is monitored by way of a capital sufficiency assessment by the Group Risk and Compliance Committee.

e. Insurance risk

7. Program management business

The Group underwrites live business (which is largely reinsured) through a network of MGAs. This program management business is underwritten in the US by Accredited Surety and Casualty Inc. ('ASC') and Accredited Speciality Insurance Company ('ASI'), and in Europe by Accredited Insurance (Europe) Limited ('AIEL'). Each of these insurance companies is rated A- by AM Best. The Group is exposed to the risk of its net retention increasing due to fluctuations in the timing, frequency and severity of insured events.

9. Syndicate participations

The Group participates on Syndicates shown below:

Syndicate	Year of account	Syndicate Capacity £m	Group participation £m	Open / closed
2689	2023	52.0	0.1	Open
2689	2022	71.6	0.1	Open
2689	2021	0.1	—	Open
1991	2020	110.0	—	Open
1991	2019	126.8	0.1	Open
1991	2018	126.8	0.1	Open
1110	2022	3.0	3.0	Open
1110	2020	3.0	3.0	Open
1110	2019	3.0	3.0	Open
1110*	2017	280.0	280.0	Open

*Syndicate 1110 2017 year of account benefits from reinsurance arrangements in place with New York Marine and General Insurance Company which protects the Group from and adverse net claims development

Syndicates 1110, 1991 and 2689 are classified by Lloyd's as run-off Syndicates and their capacity shown above is reflective of this status. Syndicate 1110 is the Group's platform for consolidating legacy transactions at Lloyd's. The capacity of run-off Syndicates does not represent the level of risk they are able to take on, but is a nominal level set by Lloyd's; they are able to receive portfolios of risk greater than this nominal capacity.

The Group is exposed to the risk of its Syndicate participation exposures increasing due to fluctuations in the timing, frequency and severity of insured events.

10. **Underwriting risk**

Underwriting risk is the primary source of risk in the Group's program management operations and is reflected in the scope and depth of the risk appetite and monitoring frameworks implemented in those entities. Individual operating entities are responsible for establishing a framework for the acceptance and monitoring of underwriting risk including appropriate consideration of potential individual and aggregate occurrence exposures, adequacy of reinsurance coverage and potential geographical and demographic concentrations of risk exposure.

In the event that potential risk concentrations are identified across operating entities, appropriate monitoring is developed to manage the overall Group exposure.

11. **Reserving risk**

Reserving risk represents a significant risk to the Group in terms of both driving required capital levels and the threat to volatility of earnings.

Reserving risk is managed through the application of an appropriate reserving approach to both live and run-off portfolios and the performance of extensive due diligence on new run-off portfolios and acquisitions prior to acceptance. Reserving exercises undertaken by the in-house actuarial team are supplemented with both scheduled and ad hoc reviews conducted by external actuaries.

Reserving risk is also mitigated through the use of reinsurance on live underwriting portfolios and through assuming the inuring reinsurance treaties in place in respect of acquired run-off acquisitions/portfolios.

Claims development information is disclosed below in order to illustrate the effect of the uncertainty in the estimation of future claims settlements by the Group. The tables compare the ultimate claims estimates with the payments made to date. Details are presented on an aggregate basis and show the movements on a gross and net basis, and separately identify the effect of the various acquisitions made by the Group since 1 January 2019. The analysis of claims development in the Group's run-off insurance entities is as follows:

Gross	Group entities at 1 January 2019 \$m	Entities acquired by the Group during 2019 \$m	Entities acquired by the Group during 2020 \$m	Entities acquired by the Group during 2021 \$m	Entities acquired by the Group during 2022 \$m
Gross claims at:					
1 January/acquisition	467.6	374.6	938.0	521.5	68.0
First year movement	(77.3)	(173.1)	9.2	(10.8)	—
Second year movement	150.7	30.5	(131.4)	—	—
Third year movement	(115.4)	13.0	—	—	—
Fourth year movement	(112.5)	(2.9)	—	—	—
Gross provision at 31 December 2022	313.1	242.1	815.8	510.7	68.0
Gross claims at:					
1 January/acquisition	467.6	374.6	938.0	521.5	68.0
Exchange adjustments	31.3	(8.2)	(13.4)	9.3	(0.6)
Payments	(196.3)	(8.6)	(185.3)	(135.1)	(10.3)
Gross provision at 31 December 2022	(313.1)	(242.1)	(815.8)	(510.7)	(68.0)
Deficit to date	(10.5)	115.7	(76.5)	(115.0)	(10.9)
Net	Group entities at 1 January 2019 \$m	Entities acquired by the Group during 2019 \$m	Entities acquired by the Group during 2020 \$m	Entities acquired by the Group during 2021 \$m	Entities acquired by the Group during 2022 \$m
Net claims at :					
1 January/acquisition	310.8	351.6	642.1	109.8	13.6
First year movement	(50.4)	(159.9)	(6.6)	(10.8)	—
Second year movement	87.5	18.4	(106.7)	—	—
Third year movement	(157.8)	15.0	—	—	—
Fourth year movement	(155.7)	(2.1)	—	—	—
Net provision at 31 December 2022	34.4	223.0	528.8	99.0	13.6
Net claims at:					
1 January/acquisition	310.8	351.6	642.1	109.8	13.6
Exchange adjustments	(5.5)	(8.8)	(18.6)	16.1	(0.6)
Payments	(186.7)	(7.7)	(177.7)	(119.9)	(10.3)
Net position at 31 December 2022	(34.4)	(223.0)	(528.8)	(99.0)	(13.6)
(Deficit)/surplus to date	84.2	112.1	(83.0)	(93.0)	(10.9)

The above figures include the Group's participation on Lloyd's Syndicates treated as being in run-off.

Foreign exchange movements shown above are offset by comparable foreign exchange movements in cash and investments held to meet insurance liabilities.

Additional information regarding movements in claims reserves is disclosed in note 23.

5. Segmental information

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

- Program Management – delegates underwriting authority to MGAs to provide program capacity through its licensed platforms in the US and Europe
- Legacy Insurance – acquires legacy portfolios and manages the run-off of claims reserves
- Corporate / Other – primarily includes the holding company costs and interest expense on debt

Segmental results for the year ended 31 December 2022

	Note	Program Management \$m	Legacy Insurance \$m	Corporate / Other \$m	Total \$m
Underwriting income	(i)	0.1	(22.3)	—	(22.2)
Fee income	(ii)	92.3	12.1	—	104.4
Investment income	(iii)	5.6	24.9	1.2	31.7
Gross operating income	(iv)	98.0	14.7	1.2	113.9
Fixed operating expenses	(v)	(42.3)	(71.3)	(3.1)	(116.7)
Interest expense		—	—	(30.5)	(30.5)
Pre-tax operating profit/(loss)	(vi)	55.7	(56.6)	(32.4)	(33.3)
Unearned program fee income	(vii)				(17.0)
Net intangibles	(viii)				(9.6)
Net unrealised and realised gains/(losses)					(135.8)
Non-core and exceptional items	(ix)				(96.9)
Loss before tax					(292.6)
Segment assets		2,197.0	3,220.6	497.3	5,914.9
Segment liabilities		2,121.0	2,988.6	620.1	5,729.7

Segmental results for the year ended 31 December 2021 Restated

	Note	Program Management \$m	Legacy Insurance \$m	Corporate / Other \$m	Total restated \$m
Underwriting income	(i)	(1.1)	58.1	—	57.0
Fee income	(ii)	56.1	—	—	56.1
Investment income	(iii)	2.7	19.3	2.8	24.8
Gross operating income	(iv)	57.7	77.4	2.8	137.9
Fixed operating expenses	(v)	(37.1)	(83.5)	(16.0)	(136.6)
Interest expense		—	—	(22.7)	(22.7)
Pre-tax operating profit/(loss)	(vi)	20.6	(6.1)	(35.9)	(21.4)
Unearned program fee income	(vii)				(13.2)
Net intangibles	(viii)				2.8
Net unrealised and realised gains/(losses)					(18.4)
Non-core and exceptional items	(ix)				(111.7)
Loss before tax					(161.9)
Segment assets		1,039.6	4,006.4	14.8	5,060.8
Segment liabilities		864.1	3,184.5	614.9	4,663.5

The above key performance indicators used by management measure the economics of the business and adjust IFRS results to include fully written Program Fee Income and exclude non-cash intangible assets created from acquisitions in Legacy Insurance, net realised and unrealised investment gains on fixed income and lease-based assets, foreign currency translation reserves, non-core expenses and exceptional items.

Notes:

12. Underwriting income represents Legacy Insurance tangible day one gains and reserve development / savings, net of claims costs and brokerage commissions. Underwriting income also includes Program Management retained earned premiums, net of claims costs, acquisition costs, claims handling expenses and premium taxes / levies.
13. Fee income comprises program fee income from insurance policies already bound (written), regardless of the amount of premium earned in the financial period, and earnings from minority stakes in MGAs.
14. Investment income represents income arising on the investment portfolio excluding net realised and unrealised investment gains or losses on fixed income and lease-based assets.
15. Gross operating income represents pre-tax operating profit before fixed operating expenses (v) and interest expense.

16. Fixed operating expenses include employment, legal, accommodation, information technology, Lloyd's Syndicate and other fixed expenses of ongoing operations, excluding non-core and exceptional items.
17. Pre-tax operating profit is a measure of how the Group's core businesses performed adjusted for unearned program fee income (vii), intangible assets created in Legacy acquisitions and net realised and unrealised investment gains on fixed income and lease-based assets.
- (vii) Unearned program fee income represents the portion of program fee income (ii) which has not yet been earned on an IFRS basis.
- (viii) Movement on net intangibles comprises the aggregate of intangible assets arising on acquisitions in the period less amortisation on existing intangible assets charged in the period.
- (ix) Non-core and exceptional items comprises the results of entities which are considered non-core and one-off or exceptional income and expenditure.

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

Geographical analysis

As at 31 December 2022

	UK \$m	North America \$m	Europe \$m	Total \$m
Gross assets	1,539.8	3,031.8	1,767.2	6,338.8
Intercompany eliminations	(132.3)	(229.2)	(62.4)	(423.9)
Segment assets	1,407.5	2,802.6	1,704.8	5,914.9
Gross liabilities	1,524.9	2,967.1	1,661.6	6,153.6
Intercompany eliminations	(274.6)	(82.6)	(66.7)	(423.9)
Segment liabilities	1,250.3	2,884.5	1,594.9	5,729.7
Revenue from external customers	2.1	17.9	61.8	81.8

Revenue from external customers represents the Group's total consolidated income, after elimination of internal revenue.

As at 31 December 2021 Restated

	UK \$m	North America \$m	Europe \$m	Total \$m
Gross assets	1,609.8	2,418.6	1,331.9	5,360.3
Intercompany eliminations	(137.4)	(103.5)	(58.6)	(299.5)
Segment assets	<u>1,472.4</u>	<u>2,315.1</u>	<u>1,273.3</u>	<u>5,060.8</u>
Gross liabilities	1,199.6	2,566.5	1,196.9	4,963.0
Intercompany eliminations	(238.3)	(12.2)	(49.0)	(299.5)
Segment liabilities	<u>961.3</u>	<u>2,554.3</u>	<u>1,147.9</u>	<u>4,663.5</u>
Revenue from external customers	<u>7.9</u>	<u>59.6</u>	<u>41.3</u>	<u>108.8</u>

6. Earned fee income

Written fee income for Program Management represents the fee income from insurance policies written in the period. Earned fee income adjusts written fee income to reflect the portion of written free income to be earned in the following financial periods and to recognise the written fee income written in prior financial periods earned in this financial period.

	2022 \$m	2021 \$m
Written fee income	92.0	45.0
Unearned fee income	<u>(17.0)</u>	<u>(13.2)</u>
Earned fee income	<u>75.0</u>	<u>31.8</u>

7. Gross investment income

	2022 \$m	2021 \$m
Investment income (excluding realised and unrealised gains and losses)	38.4	24.1
Realised net (losses)/gains on financial assets	(18.8)	3.8
Unrealised losses on financial assets	<u>(117.0)</u>	<u>(21.5)</u>
Investment income	<u>(97.4)</u>	<u>6.4</u>

8. Other income

	2022 \$m	2021 \$m
Income from contracts with customers		
Management fees	1.6	3.0
Income from other sources		
Insurance commissions	—	0.7
Gain on sale of subsidiary	1.1	2.6
Interest expense on pension scheme deficit	(0.1)	(0.1)
Rental income from investment properties	0.2	0.2
Purchased reinsurance receivables	0.1	0.2
	<u>2.9</u>	<u>6.6</u>

Income from contracts with customers is derived from the supply of insurance and administration related management services to third parties. The Group derives this income from the transfer of services over time.

9. Operating expenses

	2022 \$m	2021 \$m
Expenses of insurance company subsidiaries	59.8	58.6
Expenses of Syndicate participations	20.6	24.8
Employee benefits	62.4	59.3
Other operating expenses	36.1	23.3
	<u>178.9</u>	<u>166.0</u>

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

Operating expenses have increased as a result of the organic and acquisitive growth of the Group's Program Management and Legacy Insurance (including Syndicate participations) segments.

Auditor remuneration

	2022 \$m	2021 \$m
Fees payable to the Group's auditor for the audit of the parent company and its Consolidated Financial Statements	0.3	0.3
Fees payable for the audit of the Group's subsidiaries by:		
– Group auditor	1.0	0.9
– Other auditors	0.9	0.8
Other services under legislative requirements	0.1	0.2
Total	<u>2.3</u>	<u>2.2</u>

Included within fees payable to audit the Group's subsidiaries is an amount for Group's share of the audit fee payable for Syndicate audits.

10. Finance costs

	2022 \$m	2021 \$m
Bank loan and overdraft interest	12.1	11.1
Interest on lease liabilities	0.3	0.3
Subordinated debt interest	19.3	15.1
	<u>31.7</u>	<u>26.5</u>

11. (Loss)/Profit before income taxes

(Loss)/Profit before income taxes is stated after charging:

	2022 \$m	2021 \$m restated
Employee benefits (Note 26)	62.4	59.3
Legacy acquisition costs (including aborted transactions)	0.9	4.3
Depreciation and impairment of fixed assets and right-of-use assets (Notes 16 & 17)	2.4	2.9
Short term and low value lease rental expenditure	0.1	0.1
Amortisation of pre contract costs	1.2	1.6
Amortisation and impairment of intangibles (Note 15)	9.7	12.8

12. Income tax charge

a. Analysis of charge in the year

	2022 \$m	2021 \$m restated
Current tax		
Current year	—	—
Adjustments in respect of prior periods	(0.1)	0.3
Foreign tax	0.8	(7.7)
	<u>0.7</u>	<u>(7.4)</u>
Deferred tax		
Current year	(8.6)	(27.4)
Adjustments in respect of prior periods	11.9	—
Income tax charge/(credit) for the year	<u>4.4</u>	<u>(34.8)</u>

b. Factors affecting tax charge for the year

The tax assessed differs from the standard rate of corporation tax in the United Kingdom of 19%. The differences are explained below:

	2022 \$m	2021 \$m restated
Loss before income taxes	<u>(292.6)</u>	<u>(161.9)</u>
Loss on ordinary activities at the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	(55.6)	(30.8)
Income not taxable for tax purposes	(1.8)	(24.1)
Expenses not deductible for tax purposes	20.6	6.3
Differences in taxation treatment	2.4	(2.0)
Unrelieved tax losses carried forward	18.8	20.0
Utilisation of brought forward losses	(2.2)	(0.7)
Foreign tax	0.8	(7.7)
Tax rate differential	9.3	3.9
Adjustments in respect of previous years	<u>12.1</u>	<u>0.3</u>
Income tax charge/(credit) for the year	<u>4.4</u>	<u>(34.8)</u>

c. ***Factors that may affect future tax charges***

In addition to the recognised deferred tax asset, the Group has other trading losses of approximately \$322.8m (2021: \$366.4m) in various Group companies available to be carried forward against future trading profits of those companies. The recovery of these losses is uncertain and no deferred tax asset has been provided in respect of these losses. Should it become possible to offset these losses against taxable profits in future years, the Group tax charge in those years will be reduced accordingly.

The Group has available capital losses of \$34.2m (2021: \$37.9m).

In the Finance Bill 2021, it was announced that the main rate of UK corporation tax would increase to 25% from 1 April 2023.

13. **Earnings and net assets per share**

a. ***Basic earnings per share***

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	2022 \$m	2021 \$m restated
Loss for the year attributable to ordinary shareholders	<u>(297.0)</u>	<u>(127.1)</u>
	No. 000's	No. 000's
Shares in issue throughout the year	275,211	224,284
Weighted average number of ordinary shares issued in year	50,031	47,327
Weighted average number of ordinary shares	<u>325,242</u>	<u>271,611</u>
Basic earnings per ordinary share	<u>(91.3)c</u>	<u>(46.8)c</u>

b. ***Diluted earnings per share***

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares for conversion of all potentially dilutive ordinary shares. The Group's earnings per share is diluted by the effects of outstanding share options.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	2022 \$m	2021 \$m restated
Loss for the year attributable to ordinary shareholders	<u>(297.0)</u>	<u>(127.1)</u>
	No. 000's	No. 000's
Weighted average number of ordinary shares in issue in the year	<u>325,242</u>	<u>271,611</u>
Diluted earnings per ordinary share	<u>(91.3)c</u>	<u>(46.8)c</u>

c. ***Net asset value per share***

	2022 \$m	2021 \$m restated
Net assets attributable to equity shareholders as at 31 December	<u>185.2</u>	<u>397.3</u>
	No. 000's	No. 000's
Ordinary shares in issue as at 31 December	<u>377,395</u>	<u>275,211</u>
Net asset value per ordinary share	<u>49.1c</u>	<u>144.4c</u>

d. ***Diluted net asset value per share***

	2022 \$m	2021 \$m restated
Net assets attributable to equity shareholders as at 31 December	185.2	397.3
	No. 000's	No. 000's
Ordinary shares in issue as at 31 December	<u>377,395</u>	<u>275,211</u>
Diluted net asset value per ordinary share	<u>49.1c</u>	<u>144.4c</u>

14. Distributions

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

	2022 \$m	2021 \$m
Dividend	—	8.3
Total distributions to shareholders	<u>—</u>	<u>8.3</u>

15. Intangible assets

	US State licences & customer	Arising on acquisition restated	Goodwill	Other	Total restated
	\$m	\$m	\$m	\$m	\$m
Cost					
As at 1 January 2021	5.0	82.8	25.1	0.9	113.8
Exchange adjustments	—	(1.1)	(0.2)	—	(1.3)
Acquisition of subsidiaries	—	14.6	3.4	—	18.0
Disposals	—	—	—	(0.7)	(0.7)
As at 31 December 2021	5.0	96.7	28.3	0.2	130.2
Exchange adjustments	—	(3.7)	(0.4)	—	(4.1)
Additions	—	—	—	1.9	1.9
As at 31 December 2022	5.0	93.0	27.9	2.1	128.0
Amortisation/Impairment					
As at 1 January 2021	—	12.0	23.9	0.7	36.6
Exchange adjustments	—	(0.5)	—	—	(0.5)
Charge for the year	—	12.3	0.5	—	12.8
Disposals	—	—	—	(0.5)	(0.5)
As at 31 December 2021	—	23.8	24.4	0.2	48.4
Exchange adjustments	—	(0.9)	(0.2)	—	(1.1)
Charge for the year	—	9.7	—	—	9.7
As at 31 December 2022	—	32.6	24.2	0.2	57.0
Carrying amount					
As at 31 December 2022	5.0	60.4	3.7	1.9	71.0
As at 31 December 2021	5.0	72.9	3.9	—	81.8

Goodwill acquired through business combinations has been allocated to the Legacy insurance business segment, which is also an operating and reportable segment, for impairment testing.

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

The recoverable amount is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management.

Key assumptions used in value in use calculations

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

- Discount rates, which represent the current market assessment of the risks specific to each cash generating unit, regarding the time value of money and individual risks of the underlying assets which have not been

incorporated in the cash flow estimates. The pre-tax discount rate applied to the cash flow projections is 13.4% (2021: 10.0%). The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital ('WACC') with uplift for expected increases in interest rates. The WACC takes into account both debt and equity. The cost of equity is derived from the expected investment return.

- Growth rate used to extrapolate cash flows beyond the budget period is based on published industry standards. Cash flows beyond the four-year period are extrapolated using a 10% growth rate (2021: 10.0%).

The Directors believe that no reasonably foreseeable change in any of the above key assumptions would require an impairment of the carrying amount of goodwill.

16. Property, plant and equipment

	Computer equipment	Office equipment	Leasehold improvements	Total
	\$m	\$m	\$m	\$m
Cost				
As at 1 January 2021	1.3	2.3	1.6	5.2
Exchange adjustments	—	—	—	—
Additions	0.1	—	0.6	0.7
Disposals	(0.1)	(0.4)	—	(0.5)
As at 31 December 2021	1.3	1.9	2.2	5.4
Exchange adjustments	—	(0.2)	—	(0.2)
Additions	0.1	—	0.3	0.4
Disposals	—	(0.2)	—	(0.2)
As at 31 December 2022	1.4	1.5	2.5	5.4
Depreciation				
As at 1 January 2021	1.2	1.0	0.9	3.1
Exchange adjustments	(0.1)	—	—	(0.1)
Charge for the year	0.2	0.3	0.2	0.7
Disposals	—	(0.4)	—	(0.4)
As at 31 December 2021	1.3	0.9	1.1	3.3
Exchange adjustments	—	(0.1)	—	(0.1)
Charge for the year	0.1	0.3	0.2	0.6
Disposals	—	(0.2)	—	(0.2)
As at 31 December 2022	1.4	0.9	1.3	3.6
Carrying amount				
As at 31 December 2022	—	0.6	1.2	1.8
As at 31 December 2021	—	1.0	1.1	2.1

As at 31 December 2022, the Group had no significant capital commitments (2021: none). The depreciation charge for the year is included in operating expenses.

17. **Right-of-use assets**

	Property \$m	Office equipment \$m	Total \$m
Position recognised at 1 January 2021	5.5	0.1	5.6
Depreciation charge for the year	(2.1)	(0.1)	(2.2)
Additions in the year	2.7	—	2.7
As at 31 December 2021	6.1	—	6.1
Depreciation charge for the year	(1.8)	—	(1.8)
As at 31 December 2022	4.1	—	4.1

The cost of leases with a rental period of less than 12 months or with a contract value of less than £4,000 was \$0.1m for the year (2021: \$0.1m) and is reflected within expenses in the Consolidated Income Statement.

18. **Investment properties and financial assets**

	2022 \$m	2021 \$m
a. Investment properties		
As at 1 January	1.8	1.8
Disposal	(1.8)	—
As at 31 December	—	1.8

Rental income from the investment properties for the year was \$0.1m (2021: \$0.2m) and is included in Other Income within the Consolidated Income Statement.

b. **Financial instruments**

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

	2022 \$m	2021 \$m
Equities	22.0	11.9
Debt and fixed interest securities	1,474.5	1,386.8
Cash based investment funds	84.4	112.6
	<u>1,580.9</u>	<u>1,511.3</u>

Included in the above amounts are \$104.1m (2021: \$126.6m) pledged as part of the Funds at Lloyd's in support of the Group's underwriting activities. Lloyd's has the right to apply these monies in the event the corporate member fails to meet its obligations. These monies are not available to meet the Group's own working capital requirements and can only be released with Lloyd's permission. Also included in the above amounts are \$50.5m (2021: \$95.6m) of funds withheld as collateral for certain of the Group's reinsurance contracts.

c. ***Shares in subsidiary and associate undertakings***

The Company had interests in the following subsidiaries and associates at 31 December 2022:

<i>Name of subsidiary/associate</i>	<i>Country of incorporation/ registration</i>	<i>The Company</i>	<i>% of ordinary shares held via: Subsidiary and associate undertakings</i>	<i>Overall effective % of share capital held</i>
Distinguished Re Ltd	Barbados	-	100	100
R&Q Services Bermuda Limited	Bermuda	-	100	100
R&Q Re (Bermuda) Ltd.	Bermuda	-	100	100
RQLM Limited	Bermuda	100	-	100
Sandell Holdings Ltd.	Bermuda	-	100	100
Tradesman Program Managers, LLC	USA	-	40	40
R&Q Re (Cayman) Ltd.	Cayman Island	-	100	100
R&Q Capital No. 1 Limited	England and Wales	-	100	100
R&Q Capital No. 6 Limited	England and Wales	-	100	100
R&Q Capital No. 7 Limited	England and Wales	-	100	100
R&Q Capital No. 8 Limited	England and Wales	-	100	100
R&Q Central Services Limited	England and Wales	-	100	100
R&Q Delta Company Limited	England and Wales	-	100	100
R&Q Eta Company Limited	England and Wales	-	100	100
R&Q Gamma Company Limited	England and Wales	-	100	100
Inceptum Insurance Company Limited	England and Wales	-	100	100
R&Q Insurance Services Limited	England and Wales	-	100	100
R&Q Munro MA Limited	England and Wales	-	100	100
R&Q Munro Services Company Limited	England and Wales	-	100	100
R&Q Oast Limited	England and Wales	-	100	100
R&Q Overseas Holdings Limited	England and Wales	-	100	100
R&Q Reinsurance Company (UK) Limited	England and Wales	-	100	100
R&Quiem Financial Services Limited	England and Wales	-	100	100
Randall & Quilter II Holdings Limited	England and Wales	-	100	100
Randall & Quilter IS Holdings Limited	England and Wales	-	100	100
Randall & Quilter Underwriting Management Holdings Limited	England and Wales	-	100	100
R&Q UK Holdings Limited	England and Wales	100	-	100
The World Marine & General Insurance Company PLC	England and Wales	-	100	100
Vibe Services Management Limited	England and Wales	-	100	100
R&Q Syndicate Management Limited	England and Wales	-	100	100
La Licorne Compagnie de Reassurances SA	France	-	100	100
Capstan Insurance Company Limited	Guernsey	-	100	100
R&Q Ireland Claims Services Limited #	Ireland	-	100	100
R&Q Ireland Company Limited by Guarantee #	Ireland	-	100	100
Hickson Insurance Limited	Isle of Man	-	100	100
Pender Mutual Insurance Company Limited	Isle of Man	-	100	100
R&Q Insurance Management (IOM) Limited	Isle of Man	-	100	100
R&Q Insurance (IOM) Limited	Isle of Man	-	100	100

Accredited Insurance (Europe) Limited {	Malta	-	100	100
R&Q Malta Holdings Limited	Malta	-	100	100
Accredited Bond Agencies Inc.	USA	-	100	100
Accredited America Insurance Holding Corporation	USA	-	100	100
Accredited Specialty Insurance Company	USA	-	100	100
Accredited Surety and Casualty Company, Inc.	USA	-	100	100
CMAL LLC }	USA	-	-	-
Excess and Treaty Management Corporation	USA	-	100	100
GLOBAL Reinsurance Corporation of America	USA	-	100	100
GLOBAL U.S. Holdings Incorporated	USA	-	100	100
Grafton US Holdings Inc.	USA	-	100	100
ICDC Ltd	USA	-	100	100
National Legacy Insurance Company	USA	-	100	100
R&Q Healthcare Interests LLC	USA	-	100	100
R&Q Reinsurance Company	USA	-	100	100
R&Q Solutions LLC	USA	-	100	100
Randall & Quilter America Holdings Inc	USA	-	100	100
Randall & Quilter PS Holdings Inc	USA	-	100	100
Risk Transfer Underwriting Inc.	USA	-	100	100
Transport Insurance Company	USA	-	100	100

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

{ Has a UK and an Italian Branch

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

19. Insurance and other receivables

	2022 \$m	2021 \$m restated
Receivables arising from direct insurance operations	369.4	302.6
Receivables arising from reinsurance operations	262.0	476.5
Insurance receivables	631.4	779.1
Trade receivables/ Receivables arising from contracts with customers	8.5	3.2
Other receivables	218.5	134.3
Purchased reinsurance receivables	6.6	6.6
Prepayments and accrued income	260.4	173.1
	494.0	317.2
Total	1,125.4	1,096.3

Of the purchased reinsurance receivables balance \$3.6m is expected to be received after 12 months (2021: After 12 months \$6.6m).

Included in receivables arising from contracts with customers are amounts due from customers in relation to the supply of management services which are now unconditionally due. There are no amounts due from contracts with customers which are subject to further performance or conditions before settlement.

Prepayments and accrued income includes gross deferred acquisition costs which have increased in

accordance with the growth of Program Management.

20. **Cash and cash equivalents**

	2022 \$m	2021 \$m
Cash at bank and in hand	<u>316.9</u>	<u>266.3</u>

Included in cash and cash equivalents is \$0.8m (2021: \$0.8m) being funds held in escrow accounts in respect of guarantees provided to the Institute of London Underwriters.

In the normal course of business, insurance company subsidiaries will have deposited funds in respect of certain contracts which can only be released with the approval of the appropriate regulatory authority.

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

21. **Insurance and other payables**

	2022 \$m	2021 \$m
Structured liabilities	504.4	506.2
Structured settlements	<u>(504.4)</u>	<u>(506.2)</u>
	<u>—</u>	<u>—</u>
Payables arising from reinsurance operations	721.8	751.3
Payables arising from direct insurance operations	<u>405.2</u>	<u>109.7</u>
Insurance payables	<u>1,127.0</u>	<u>861.0</u>
Trade payables	6.2	4.9
Other taxation and social security	43.5	23.4
Other payables	171.5	135.4
Accruals and deferred income	<u>150.1</u>	<u>115.4</u>
	<u>371.3</u>	<u>279.1</u>
Total	<u>1,498.3</u>	<u>1,140.1</u>

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

Structured Settlements

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

22. **Financial liabilities**

	2022 \$m	2021 \$m
Amounts owed to credit institutions	344.9	395.9
Lease liabilities	5.4	7.6
Deposits received from reinsurers	38.2	3.0
	<u>388.5</u>	<u>406.5</u>

Amounts due to credit institutions are payable as follows:

	2022 \$m	2021 \$m
Less than one year	26.5	8.0
Between one and five years	123.3	188.1
Over five years	195.1	199.8
	<u>344.9</u>	<u>395.9</u>

As outlined in Note 31, \$103.0m (2021: \$153.6m) owed to credit institutions is secured by debentures over the assets of the Company and several of its subsidiaries.

The Group has issued the following debt:

Issuer	Principal	Rate	Maturity
R&Q Insurance Holdings Ltd	\$70.0m	6.35% above USD LIBOR	2028
R&Q Insurance Holdings Ltd	\$125.0m	6.75% above USD LIBOR	2033
Accredited Insurance (Europe) Limited	€20.0m	6.7% above EURIBOR	2025
Accredited Insurance (Europe) Limited	€5.0m	6.7% above EURIBOR	2027
R&Q Re (Bermuda) Limited	\$20.0m	7.75% above USD LIBOR	2023

The Group's subsidiary, Randall & Quilter America Holdings Corporation (reassigned from Accredited Holding Corporation) provides a full and unconditional guarantee for the payment of principal, interest and any other amounts due in respect of the \$70.0m Notes issued by R&Q Insurance Holdings Ltd.

The Group also has \$175.4 million of unsecured letters of credit which are guaranteed by the Group.

Lease liabilities maturity analysis – contractual undiscounted cash flows

	2022 \$m	2021 \$m
Less than one year	2.2	2.2
Between one and five years	3.4	5.5
Over five years	—	0.2
Total undiscounted lease liabilities at 31 December	<u>5.6</u>	<u>7.9</u>

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from the financing activities are those for which cash flows were, or future cash flows will be, classified in the Group Consolidated Cash Flow Statement as cash flows from financing activities.

	2022 \$m	2021 \$m
Balance at 1 January	395.9	330.2
Financing cash flows ⁽¹⁾	(39.7)	70.5
Non-cash exchange adjustment	(11.3)	(4.8)
Balance at 31 December	<u>344.9</u>	<u>395.9</u>

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

23. Insurance contract provisions and reinsurance balances

	2022			2021 restated		
	Program Management \$m	Legacy Insurance \$m	Total \$m	Program Management \$m	Legacy Insurance \$m	Total \$m
Gross						
Insurance contract provisions at 1 January	1,210.4	1,890.5	3,100.9	682.6	1,613.2	2,295.8
Claims paid	(325.2)	(326.7)	(651.9)	(197.1)	(288.8)	(485.9)
Increases in provisions arising from the acquisition of subsidiary undertakings and Syndicate	—	0.5	0.5	—	91.1	91.1
Increases in provisions arising from acquisition of reinsurance portfolios	—	67.5	67.5	—	430.4	430.4
Increase in claims provisions	831.9	129.3	961.2	459.3	65.1	524.4
Increase/(decrease) in unearned premium reserve	453.4	—	453.4	287.9	(8.6)	279.3
Net exchange differences	(49.6)	(70.9)	(120.5)	(22.3)	(11.9)	(34.2)
As at 31 December	2,120.9	1,690.2	3,811.1	1,210.4	1,890.5	3,100.9
Reinsurance						
Reinsurers' share of insurance contract provisions at 1 January	1,151.4	851.7	2,003.1	653.7	424.4	1,078.1
Proceeds from commutations and reinsurers' share of gross claims paid	(284.1)	(200.4)	(484.5)	(182.9)	28.7	(154.2)
Increases in provisions arising from the acquisition of subsidiary undertakings and Syndicate	—	0.4	0.4	—	164.2	164.2
Increases in provisions arising from acquisition of reinsurance portfolios	—	54.0	54.0	—	247.5	247.5
Increase/(decrease) in claims provisions	755.1	52.1	807.2	430.5	(13.6)	416.9
Increase/(decrease) in unearned premium reserve	410.9	—	410.9	270.7	(3.7)	267.0
Net exchange differences	(21.3)	(76.6)	(97.9)	(20.6)	4.2	(16.4)
As at 31 December	2,012.0	681.2	2,693.2	1,151.4	851.7	2,003.1
Net						
Net insurance contract provisions at 1 January	59.0	1,038.8	1,097.8	28.9	1,188.8	1,217.7
Net claims paid	(41.1)	(126.3)	(167.4)	(14.2)	(317.5)	(331.7)

Increases/(decreases) in provisions arising from the acquisition of subsidiary undertakings and contracts reinsurance	—	0.1	0.1	—	(73.1)	(73.1)
Increases in provisions arising from acquisition of reinsurance portfolios	—	13.5	13.5	—	182.9	182.9
Increase/(decrease) in claims provisions	76.8	77.2	154.0	28.8	78.7	107.5
Increase/(decrease) in unearned premium reserve	42.5	—	42.5	17.2	(4.9)	12.3
Net exchange differences	(28.3)	5.7	(22.6)	(1.7)	(16.1)	(17.8)
As at 31 December	108.9	1,009.0	1,117.9	59.0	1,038.8	1,097.8

	2022			2021		
	Program Management	Legacy Insurance	Total	Program Management	Legacy Insurance	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Gross						
Claims reserves	1,084.1	1,689.6	2,773.7	600.0	1,889.9	2,489.9
Unearned premium reserves	1,036.8	0.6	1,037.4	610.4	0.6	611.0
As at 31 December	2,120.9	1,690.2	3,811.1	1,210.4	1,890.5	1,890.5
Reinsurance						
Claims reserves	1,019.5	681.1	1,700.6	572.4	851.6	1,424.0
Unearned premium reserves	992.5	0.1	992.6	579.0	0.1	579.1
As at 31 December	2,012.0	681.2	2,693.2	1,151.4	851.7	851.7
Net						
Claims reserves	64.6	1,008.5	1,073.1	27.6	1,038.3	1,065.9
Unearned premium reserves	44.3	0.5	44.8	31.4	0.5	31.9
As at 31 December	108.9	1,009.0	1,117.9	59.0	1,038.8	1,097.8

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

Assumptions, changes in assumptions and sensitivity

The assumptions used in the estimation of provisions relating to insurance contracts are intended to result in provisions which are sufficient to settle the net liabilities from insurance contracts. The amounts presented above include estimates of future reinsurance recoveries expected to arise on the settlement of the gross insurance liabilities.

Provision is made at the period end date for the estimated ultimate cost of settling all claims incurred in respect of events and developments up to that date, whether reported or not.

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

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

and IBNR are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. Insurance companies and Syndicates within the Group are covered by a variety of treaty, excess of loss and stop loss reinsurance programs.

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

As stated in Note 2 the Group has opted to discount reserves on long term liabilities with predictable cashflows.

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

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

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

A 1 percent reduction in the net technical provisions would increase net assets by \$11.2m (2021: \$11.0m).

24. Current and deferred tax

Current tax

	2022 \$m	2021 \$m	\$ 0 n
Current tax assets	7.4	3.6	
Current tax liabilities	(7.3)	(2.4)	
Net current tax assets	0.1	1.2	

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 25% for the UK (2021: 25%) and 21% for the US (2021: 21%).

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

The movements in deferred tax assets and liabilities during the year are shown below. The movement in deferred tax is recorded in the income tax charge in the Consolidated Income Statement.

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

	Deferred tax assets \$m	Deferred tax liabilities \$m	Total restated \$m
As at 1 January 2021	5.7	(17.1)	(11.4)
Movement in year	14.7	9.2	23.9
As at 31 December 2021	20.4	(7.9)	12.5
Movement in year	21.8	(8.7)	13.1
As at 31 December 2022	42.2	(16.6)	25.6

The movement on the deferred tax account is shown below:

	Accelerated capital allowances \$m	Trading losses \$m	Pension scheme deficit \$m	Other temporary differences \$m	Total restat ed \$m
As at 1 January 2021	(0.1)	18.2	1.9	(31.4)	(11.4)
Movement in year	—	4.4	(0.5)	20.0	23.9
As at 31 December 2021	(0.1)	22.6	1.4	(11.4)	12.5
Movement in year	—	7.9	0.5	4.7	13.1
As at 31 December 2022	(0.1)	30.5	1.9	(6.7)	25.6

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

	Exchange Adjustment \$m	Deferred tax in Consolidated Income Statement \$m	Deferred Tax in Consolidated Statement of Comprehensive Income \$m	Total restated \$m
Movement in 2021	1.3	22.8	(0.2)	23.9
Movement in 2022	8.3	3.7	1.1	13.1

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

	2022 £m	2021 £m
Deferred tax assets – relating to trading losses		
Deferred tax assets to be recovered after more than 12 months	15.9	5.6
Deferred tax assets to be recovered within 12 months	14.6	17.0
Deferred tax assets	<u>30.5</u>	<u>22.6</u>

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Directors have prepared forecasts which indicate that, excluding the deferred tax asset on the pension scheme deficit, the deferred tax assets will substantially reverse over the next six years.

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

The Group's total deferred tax asset includes \$30.5m (2021: \$22.6m) in respect of trading losses carried forward. The tax losses have arisen in individual legal entities and will be used as future taxable profits arise in those legal entities. Substantially all of the unused tax losses for which a deferred tax asset has been recognised arises in the US subgroup.

25. Share capital

	Number of shares	Ordinary shares \$m	Share premium \$m	Treasury share reserve \$m	Total \$m
At 1 January 2021	224,283,759	6.2	200.9	0.2	207.3
Functional currency revaluation		(0.2)	7.2	—	7.0
Issue of ordinary shares	49,772,168	1.4	85.9	—	87.3
Share based payments	1,043,816	0.1	2.6	—	2.7
Treasury	111,525	—	—	(0.2)	(0.2)
			(8.3)		(8.3)
Distribution	—	—		—	
At 31 December 2021	275,211,268	7.5	288.3	—	295.8
Issue of ordinary shares	102,183,967	2.5	121.5	—	124.0
At 31 December 2022	377,395,235	10.0	409.8	—	419.8

	2022 \$m	2021 \$m
Allotted, called up and fully paid		
377,395,235 ordinary shares of 2p each (2021: 275,211,268 ordinary shares of 2p each)	10.0	7.4
1 Preference A Share of £1	—	—
1 Preference B Share of £1	—	—
	<u>10.0</u>	<u>7.4</u>
Included in Equity	2022 \$m	2021 \$m
377,395,235 ordinary shares of 2p each (2021: 275,211,268 ordinary shares of 2p each)	10.0	7.4
1 Preference A Share of £1	—	—
1 Preference B Share of £1	—	—
	<u>10.0</u>	<u>7.4</u>

Cumulative Redeemable Preference Shares

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

- Preference A Share: one half of all distributions arising from the Company's investment in R&Q Reinsurance Company up to a maximum of \$5.0m.
- Preference B Share: one half of all distributions arising from the Company's investment in R&Q Reinsurance Company (UK) Limited up to a maximum of \$10.0m.

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

26. Employees and Directors

Employee benefit expense for the Group during the year

	2022 \$m	2021 \$m
Wages and salaries	50.9	46.8
Social security costs	4.4	5.4
Pension costs	1.8	1.8
Share based payment charge	5.3	5.3
	<u>62.4</u>	<u>59.3</u>

Pension costs are recognised in operating expenses in the Consolidated Income Statement and include \$1.9m (2021: \$1.8m) in respect of payments to defined contribution schemes.

Average number of employees	2022 Num	2021 Number
Program Management	168	125
Legacy Insurance	144	154
Other	18	16
	<u>330</u>	<u>295</u>

Remuneration of the Directors and key management

	2022 \$m	2021 \$m
Aggregate Director emoluments	7.3	11.1
Aggregate key management emoluments	3.5	3.5
Share based payments – Directors	4.7	4.8
Share based payments – Key management	0.5	0.5
	<u>16.0</u>	<u>19.9</u>
Highest paid Director		
Aggregate emoluments	<u>7.7</u>	<u>6.9</u>

Key management refers to employees who are Directors of subsidiaries within the Group but not members of the Group's Board of Directors.

Directors' emoluments

Name	Salary	Directors' Fees	Bonus paid	Movement in bonus accrued	Share award cost	Total
	\$m	\$m	\$m	\$m	\$m	\$m
A K Quilter	0.7	—	0.9	(0.2)	—	1.4
W L Spiegel*	1.5	—	1.5	0.8	3.9	7.7
T S Solomon	0.5	—	1.0	—	0.8	2.3
A H F Campbell	—	0.1	—	—	—	0.1
P A Barnes	—	0.2	—	—	—	0.2
J P Fox	—	0.2	—	—	—	0.2
E M Flanagan	—	0.1	—	—	—	0.1
R Legget	—	—	—	—	—	—

*Out of \$7.7m of total compensation, \$3.9m represents the vesting of the stock award of \$12m granted in 2020 at 177.5p, which vested after three years at 67.8p. To satisfy tax liabilities arising from the vesting William Spiegel sold 2.8m Ordinary Shares which, in accordance with the share award agreement, have been purchased by the Group to be held in Treasury.

Bonus payments relating to the reporting year are paid in the following 3 years being 50%, 25% and 25% annually, and reflect the performance of the Group and the individuals. The costs in the 2022 financial year represent the amounts paid in 2022 and provision for costs relating to the 2020, 2021 and 2022 reporting years' performance, which will be paid in 2022, 2023 and 2024. The provisions are established on the likelihood of the performance (financial and personal) and service period criteria being met based on a board approved scorecard. Where contractual arrangements supersede the above policy, the contractual arrangements are included.

27. Pension scheme obligations

The Group operates one defined benefit scheme in the UK. The defined benefit scheme's assets are held in separate trustee administered funds. The pension cost is assessed by an independent qualified actuary. In the valuation, the actuary used the projected unit method as the scheme is closed to new employees. A full actuarial valuation of the scheme is carried out every three years, with the last valuation completed as at 1 January 2021.

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

The position and assumptions under IAS 19 as at the reporting period are as follows.

a. **Employee benefit obligations – amount disclosed in the Consolidated Statement of Financial Position**

	2022 \$m	2021 \$m
Fair value of plan assets	20.0	36.6
Present value of funded obligations	(27.9)	(42.3)
Net defined benefit liability	(7.9)	(5.7)
Related deferred tax asset	2.0	1.4
Net position in the Consolidated Statement of Financial Position	(5.9)	(4.3)

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

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

	Present value of obligation \$m	Fair value of plan assets \$m	Deficit of funded plan \$m
As at 31 December 2021	(42.3)	36.6	(5.7)
Interest (expense)/income	(0.7)	0.6	(0.1)
	(43.0)	37.2	(5.8)
Remeasurements:-			
Return on plan assets, excluding amounts included in interest expense	—	(14.4)	(14.4)
Loss from changes in financial assumptions	11.9	—	11.9
Experience gain	(2.0)	—	(2.0)
Loss on curtailments	(0.2)	—	(0.2)
	(33.3)	22.8	(10.5)
Employer's contributions	—	2.1	2.1
Benefit payments from the plan	2.5	(2.5)	—
Currency revaluation	0.6	(0.8)	(0.2)
As at 31 December 2022	(30.2)	21.6	(8.6)

	Present value of obligation	Fair value of plan assets	Deficit of funded plan
	\$m	\$m	\$m
As at 31 December 2020	(47.6)	37.7	(9.9)
Interest (expense)/income	(0.6)	0.5	(0.1)
	(48.2)	38.2	(10.0)
Remeasurements:-			
Loss from changes in financial assumptions	2.7	—	2.7
Loss from changes in demographic assumptions	(0.1)	—	(0.1)
Experience gain	0.5	—	0.5
	(45.1)	38.2	(6.9)
Employer's contributions	—	1.1	1.1
Benefit payments from the plan	2.0	(2.0)	—
Currency revaluation	0.8	(0.7)	0.1
As at 31 December 2021	(42.3)	36.6	(5.7)

c. **Significant actuarial assumptions**

i) **Financial assumptions**

	2022	2021
Discount rate	4.75%	1.90%
RPI inflation assumption	Pre 2030: 3.20%/Post 2030: 2.85%	3.50%
CPI inflation assumption	Pre 2030: 2.40%/Post 2030: 2.85%	3.20%
Pension revaluation in deferment: - CPI, maximum 5%	Pre 2030: 2.40%/Post 2030: 2.85%	2.70%
Pension increases in payment: - RPI, maximum 5%	Pre 2030: 3.20%/Post 2.95%	3.50%

ii) **Demographic assumptions**

Assumed life expectancy in years, on retirement at 65

	2022	2021
Retiring today		
- Males	21.7	21.6
- Females	24.2	24.1
Retiring in 20 years		
- Males	23.0	22.9
- Females	25.6	25.5

d. **Sensitivity to assumptions**

The results of the IAS 19 valuation at 31 December 2022 are sensitive to the assumptions adopted.

The sensitivities regarding the principal assumptions used to measure the Scheme liabilities are set out below:

Assumption	Change in assumption	Change in liabilities
Discount rate	Increase by 0.1%/Decrease by 0.1%	Decrease by £238k/Increase by
Rate of inflation	Increase by 0.1%/Decrease by 0.1%	Increase by £56k/Decrease by £55k
Life expectancy	Increase by 1 year/Decrease by 1 year	Increase by £621k/Decrease by

The above sensitivity analyses are based on a change in assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to significant actuarial assumptions has been estimated, based on the average age and the normal retirement age of members and the duration of the Scheme.

e. **The major categories of plan assets are as follows**

	As at 2022			As at 2021		
			\$m			\$m
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	—	2.6	2.6	—	1.6	1.6
Investment funds:						
– equities	—	5.1	5.1	—	22.7	22.7
– bonds	—	2.0	2.0	—	4.0	4.0
– property	—	—	—	—	—	—
– liability driven	—	10.3	10.3	—	8.3	8.3
	—	20.0	20.0	—	36.6	36.6

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

f. **Contributions and present value of defined benefit obligation**

Funding levels are monitored on an annual basis. \$2.1m of contributions were made directly into the scheme

during 2022 (2021: \$1.1m). In March 2022, a recovery plan was renegotiated and agreed with the Trustees to eliminate the plan deficit by 31 December 2025. From July 2022, monthly payments increased to provide annualised payments of \$1.9m, and further single annual payments of \$0.8m will be made, finalising in December 2025.

28. Related party transactions

Transactions with subsidiaries

Transactions between the Group's wholly owned subsidiary undertakings, which are related parties, have been eliminated on consolidation and accordingly not disclosed.

Transactions with Directors

The following Directors and connected parties were entitled to the following distributions during the year:-

	2022 \$m	2021 \$m
A K Quilter and family	—	0.1
W L Spiegel	—	0.2

Transactions with associate

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

	2022 \$m	2021 \$m
Written premium	303.3	245.2
Written commissions	30.6	12.2
Funds due at year end	5.5	5.4

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

	2022 \$m	2021 \$m
Assets	29.7	29.0
Liabilities	(97.1)	(33.2)
Net assets/(liabilities)	(67.4)	(4.2)
Income for the year	67.9	63.5
Profit for the year	31.1	29.4

29. Business combinations

Business combinations

During the year, the Group made two business combinations of run-off portfolios. All of the Group's business combinations involved Legacy Insurance transactions and have been accounted for using the acquisition method of accounting.

Legacy entities and businesses

The following table shows the fair value of assets and liabilities (and consideration where paid) included in the Consolidated Financial Statements at the date of acquisition of the legacy businesses:

	Intangible assets	Other receivables	Cash & Investments	Other payables	Technical provisions	Tax & deferred tax	Net assets acquired	Consideration	Goodwill on bargain purchase
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
La Vittoria	0.1	—	0.6	—	(0.5)	(0.1)	0.1	—	0.1
Energia	—	—	1.4	—	—	—	1.4	0.9	0.5
	0.1	—	2.0	—	(0.5)	(0.1)	1.5	0.9	0.6

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

Goodwill on bargain purchase arises when the consideration is less than the fair value of the net assets acquired. It is calculated after the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition. The long-tail nature of the liabilities causes significant problems for former owners such as absorbing capital and requiring recruitment of specialist staff. As a specialist service provider and manager, the Group is more efficient at managing such entities and former owners are prepared to sell at a discount on the fair value of the net assets.

In order to disclose the impact on the Group as though the legacy entities had been owned the whole year, assumptions would have to be made about the Group's ability to manage efficiently the run-off of the legacy liabilities prior to the acquisition. As a result, and in accordance with IAS 8, the Directors believe it is not practicable to disclose revenue and profit before tax as if the entities had been owned for the whole year.

Where significant uncertainties arise in the quantification of the liabilities, the Directors have estimated the fair value based on the currently available information and on assumptions which they believe to be reasonable.

30. Non-controlling interests

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

	2022 \$m	2021 \$m
Non-controlling interests		
Balance at 1 January	—	(0.5)
Changes in non-controlling interest in subsidiaries	—	0.5
Balance at 31 December	—	—

31. Guarantees and indemnities in ordinary course of business

The Group has entered into a guarantee agreement and a debenture arrangement with its bankers, along with several of its subsidiaries, in respect of the Group term loan facilities. The total liability to the bank at 31 December 2022 was \$103.0m (2021: \$153.6m).

The Group also gives various other guarantees in the ordinary course of business.

32. Foreign exchange rates

The Group used the following exchange rates to translate foreign currency assets, liabilities, income and expenses into US dollars, being the Group's presentational currency:-

	2022		2021	
	Average	Year end	Average	Year end
UK Sterling	0.80	0.81	0.73	0.75
Euro	0.95	0.94	0.84	0.88

33. Events after the reporting date

On 6 January 2023, the Group announced that it had acquired a non-controlling interest in a corporate vehicle which owns corporate liability exposures (formerly MSI Safety). The Group will manage the exposures for an annual management fee.

On 17 March 2023, the Group sold its 40% non-controlling interest in TPM Holdings (Tradesman) for a total consideration of \$47m.

In March 2023, the Group and the Pennsylvania Insurance Department agreed to proceed with a liquidation of R&Q Reinsurance Company. As a result of provisions made in the past this liquidation will not negatively impact the Group's net assets.

On 4 April 2023, the Group announced the intention to separate its Program Management business, Accredited, from Legacy Insurance and in June 2023 received all regulatory consents required.

On 12 June 2023, the Group announced a \$50m issuance of preferred stock to a current shareholder, with the potential to upsize the transaction to \$60m.

On 12 June 2023, the Group announced it was exploring a potential sale of the Accredited Group. To date the Group has received a number of bids for this sale.

34. Ultimate controlling party

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