Randall & Quilter Investment Holdings Ltd.
and its subsidiaries

Financial Condition Report (FCR)

31 December 2021

Company Profile

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

I. BUSINESS AND PERFORMANCE

a. Name of Insurance Group

Randall & Quilter Investment Holdings Ltd.

b. Insurance Group Supervisor

Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

Email: Ttrott@bma.bm

c. Approved Auditor

Statutory and IFRS Reporting

PKF Littlejohn LLP Chartered Accountants and Registered Auditor

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

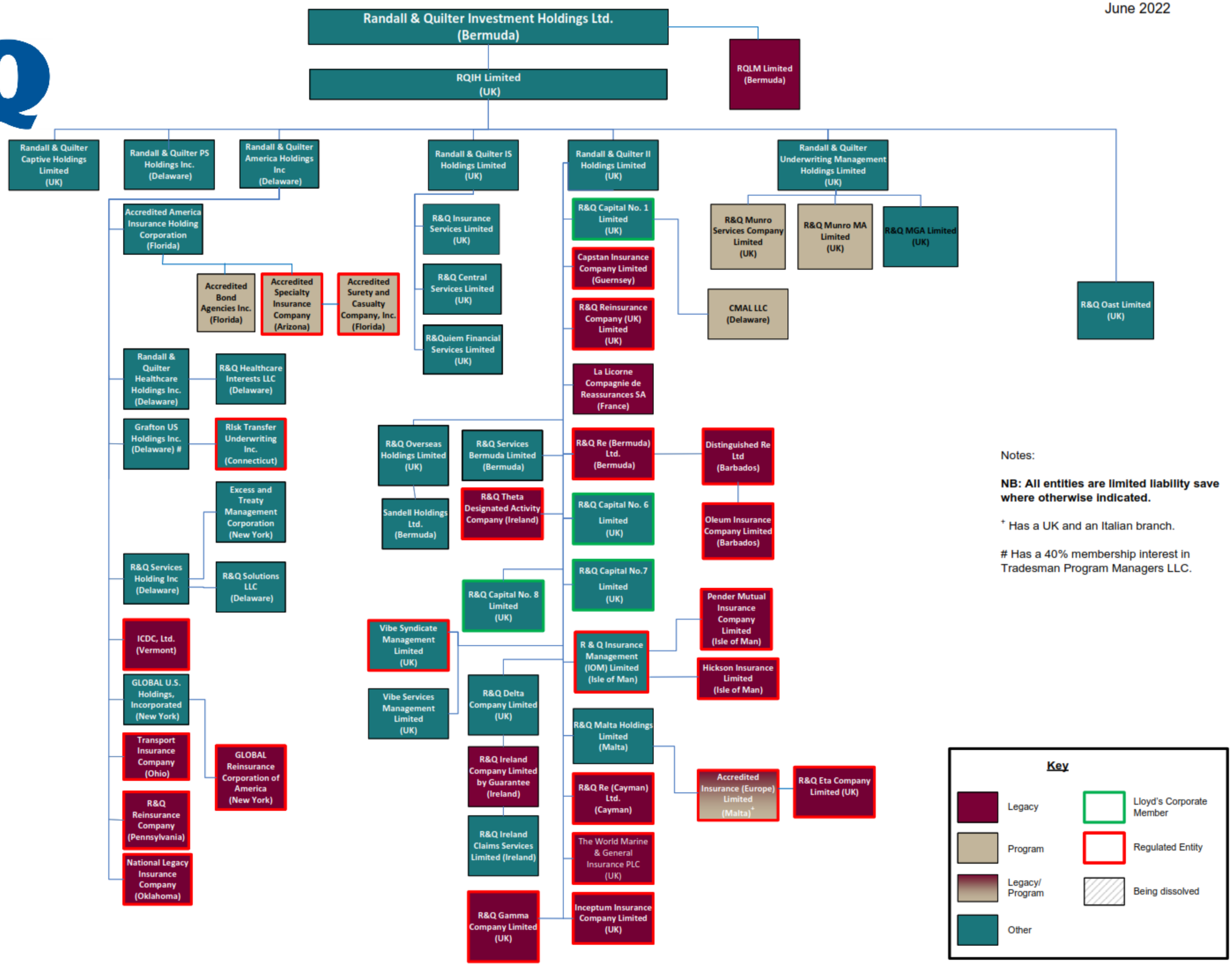
d. Ownership Details

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

e. Group Structure

The Group structure as at 6 June 2022 follows on the next page.

June 2022



Notes:

NB: All entities are limited liability save where otherwise indicated.

[+] Has a UK and an Italian branch.

\# Has a 40% membership interest in Tradesman Program Managers LLC.

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

During 2021, the Company continued to focus on its two distinct business segments – Legacy Insurance and Program Management.

Financial Summary for the Reporting Period
USD'Ms

	Program Management	Legacy Insurance	Other & Consol Adjs	Total
Underwriting income	(1.1)	58.5	-	57.4
Fee Income	56.1	-	-	56.1
Investment income	2.7	19.3	2.8	24.8
Gross operating income	57.7	77.8	2.8	138.3
Pre-tax operating profit	20.6	(5.7)	(35.9)	(21.0)
Profit before tax	0.0	(124.7)	(37.3)	(162.0)
Segmental assets	1,039.6	4,113.3	14.8	5,167.7
Segment liabilities	864.1	3,292.2	614.9	4,771.2

Geographical summary

	UK	North America	Europe
Gross assets[1]	1,579.3	2,315.1	1,273.3
Gross liabilities[1]	1,047.3	2,576.0	1,147.9
Revenue from external customers[1]	7.9	59.6	41.3

[1] Excludes consolidation adjustments

Overview of R&Q Group

2021 was a significant year for R&Q as we outlined a Five-Year Strategy that will see R&Q transform into a fee-based, capital lighter business. Critically we believe this strategy will, over time, deliver higher- quality and more predictable profits in both Legacy Insurance and Program Management while also enabling us to better leverage our leading underwriting and origination capabilities to scale into the opportunities we have identified for both businesses.

2021 saw R&Q take major strides in delivering against this strategy, including the launch of Gibson Re as a legacy sidecar reinsurer to R&Q and ongoing momentum in Program Management with growth in Gross Written Premium (GWP) now expected to be ahead of the targets we outlined last year.

When setting out our Five-Year Strategy we highlighted there would be a temporary reduction in near-term profits as a result of repositioning our Legacy Insurance business away from upfront 'Day-One' Underwriting Income to annual recurring Fee Income. Typically, a significant proportion of our Legacy Insurance acquisitions are closed in the fourth quarter. The successful launch of Gibson Re in September meant a meaningful percentage of Underwriting Income was shared with Gibson Re, our reinsurance sidecar, which reduced R&Q's retained portion of that income in exchange for contracted future fee-stream. As a consequence, our Pre-Tax Operating Profit (PTOP) fell to a loss of $21.0 million.

However, this number does not capture the contracted fee-stream we will receive from managing legacy insurance reserves for Gibson Re for multiple years. At the end of 2021 we had $417 million of Reserves Under Management (RUM) from four Legacy Insurance transactions. On an annualised basis, this represents $17.7 million of recurring Fee Income, however this Fee Income is not included in 2021 PTOP since these transactions were completed at year-end 2021. It is important to note two further benefits from Gibson Re. In order to complete these four deals, our prior funding model would have required us to raise approximately $100 million of additional capital and assume 100% of the risk on these transactions. Gibson Re enables R&Q to continue the growth of our Legacy Insurance business while we transition to become a manager of legacy reserves, sharing risk and alleviating the constraints that a just-in-time capital funding model has historically placed on R&Q.

Group results

Our Group result reflects a year of evolution towards our future state, with underlying progress in both of our businesses, Program Management and Legacy Insurance.

Our KPIs measure the economics of the business and adjust IFRS results to include fully written Program Fee Revenue and exclude non-cash intangibles created from acquisitions in Legacy Insurance, net realised and unrealised investment gains on fixed income assets, foreign currency translation reserves and non-core expenses. While our underlying businesses performed well in 2021, our Group operating results were negatively impacted by reserve development and a non-cash impairment of a structured reinsurance contract that was previously held as an asset.

Pre-Tax Operating loss was $21.0 million primarily due to adverse reserve development of $29 million. Tangible Net Asset Value was $359.6 million, a 24% decrease compared to year-end 2020, primarily as a result of an ~$90 million non-cash charge due to the impairment of the structured reinsurance asset. On a fully diluted basis, our Operating Loss Per Share was 7.5 cents and our Tangible Net Asset Value Per Share was 130.7 cents.

The IFRS Loss After Tax was $127.4 million during the year and Net Asset Value was $396.5 million, a 25% decrease compared to year-end 2020. On a fully diluted basis, our Loss Per Share was 46.9 cents and our Net Asset Value Per Share was 144.0 cents.

One of our objectives is to grow the relative contribution of Fee Income to total Gross Operating Income. Our Fee Income was $56.1 million, a 133% increase compared to 2020 and represented 41% of Gross Operating Income before Fixed Operating Expenses, an increase of 24 percentage points compared to 2020.

Program Management

Our Program Management business continued to grow rapidly in 2021. The Group had 69 active programs, an increase of 21 programs compared to 2020 and Gross Written Premium was $1.0 billion, a 92% increase compared to 2020. Our results are demonstrating the benefits of scale as we earned a Pre-Tax Operating Profit of $20.6 million, a 506% increase compared to 2020, representing a 35.7% margin on Gross Operating Income, an increase of 21.4 percentage points compared to 2020.

The primary driver of Pre-Tax Operating Profit is our Fee Income, which represents Program Fee Revenue from written premium ceded to reinsurers and our 40% minority stake in Tradesman Program Managers, which increased from 35% in Q2 2021. Fee Income was $56.1 million, a 133% increase compared to 2020, which included $11.1 million from our minority stake in Tradesman Program Managers. The Program Fee averaged 4.7%, an increase of 0.2 percentage points compared to 2020, and we expect Fee Income to generally grow in line with Gross Written Premium. Underwriting Income represents our ~7% retention of Program Insurance risk. Our Underwriting Loss was $1.1 million primarily due to the purchase of reinsurance to minimise earnings volatility. We expect Underwriting Income to be roughly break-even as we purchase less reinsurance consistent with our risk appetite, as well as diversify our business away from programs that consume such coverage. Our Investment Income was $2.7 million, a slight increase compared to 2020. Finally, Fixed Operating Expenses increased 83% compared to 2020 due to the expansion of our staff and a higher allocation of corporate expenses.

Based on our success in growing GWP to over $1 billion in 2021, we believe we will achieve our previously announced target of $1.75 billion of premium in 2022 rather than in 2023.

Legacy Insurance

The formation and launch of Gibson Re last September was a landmark moment for Legacy Insurance, underpinning its transformation into what will become primarily a recurring fee-based business.

Gibson Re is a Bermuda-domiciled collateralised reinsurer with ~$300 million of third-party capital. The capital capacity provided by Gibson Re will allow R&Q to support ~$2 billion of Gross Acquired Reserves. Gibson Re will reinsure 80% of R&Q's qualifying Legacy transactions for three years, with R&Q retaining 20%, which will promote alignment of interests. R&Q receives annual recurring fees of 4.25% of RUM for at least six years, plus potential performance fees.

Our Legacy Insurance business continued to grow, concluding 15 transactions with Gross Reserves Acquired of $735 million, an increase of 15% compared to 2020. 2021 was the first year of utilising our sidecar, where we reinsured 80% of the reserves from four transactions to Gibson Re. At year-end 2021, we had Reserves Under Management of $417 million, which will provide annual recurring Fee Income of 4.25% or $17.7 million beginning in 2022. Our Pre-Tax Operating Loss was $5.7 million due the impact of reinsuring upfront Underwriting Income to Gibson Re as well as adverse reserve development.

Currently, the primary driver of our Pre-Tax Operating Profit is our Underwriting Income, which represents tangible day one gains on retained transactions originated during the year as well as claims management of retained transactions closed in prior years. Underwriting Income was $58.5 million, a 44% decrease compared to 2020 due to ceding Underwriting Income to Gibson Re and $29 million of adverse reserve development, primarily in our Lloyd's business. In the future, we expect Fee Income to be the primary driver of Pre-Tax Operating Profit as we grow Reserves Under Management. Our Investment Income was $19.3m, a 15% increase compared to 2020 driven by acquired assets on transactions. Finally, our Fixed Operating Expenses grew 17% compared to 2020 primarily due to higher corporate allocations.

Corporate and other

Our Corporate and Other segment includes unallocated operating expenses and finance costs. Unallocated operating expenses were $16.0 million, a 25% decrease compared to 2020 primarily driven by higher allocations to the two business segments. Interest expense was $22.7 million, an 89% increase compared to 2020 due to the issuance of $125 million of subordinated debt in H2 2020.

Cash and investments

Our Cash and Investments at year-end 2021, excluding funds withheld, was $1.8 billion. We produced a book yield, which excludes net realised and unrealised gains on fixed income assets, of 1.4%, a decrease of 20 bps compared to 2020 due to higher weightings toward non-US dollar assets acquired in Legacy transactions.

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, 97% were rated investment grade. After cash, which comprised 14% of our portfolio, our largest allocations were to corporate bonds (43%), government and municipal securities (24%), asset-backed securities (17%) and equities (3%). We have extended duration in our portfolio to both better match our expected liability cashflows and to capture additional investment return as the yield curve has steepened; our BSCR interest rate duration was 4.52 years at year-end 2021 compared to 2.71 years at year-end 2020.

During 2021, financial markets witnessed an increase in interest rates globally, with much of the increase occurring in the 4^{th} quarter of the year. As a result, our investment portfolio experienced unrealised net investment losses of $18.4 million which are included in our IFRS results.

Capital and liquidity framework

Our Group Solvency ratio is 140%, a decrease of 48 percentage points compared to year-end 2020. Our adjusted debt to capital, which provides for partial equity credit on our subordinated debt, was 37%, an increase of 9 percentage points compared to year end 2020, and above our target of 35% primarily due to the non-cash, pre-tax charge of ~$90 million. We have received pre-emptive waivers of certain financial covenants from our lenders until the Group's capital raise is complete in July 2022, which is subject to shareholder approval.

Enhancing transparency

As part of this strategy, we have defined a clear set of KPIs which capture the earnings potential of a capital-light R&Q and will enable our stakeholders to clearly assess our progress. These KPIs are:

- At a Group we focus on Fee Income and PTOP
- In Program Management we focus on GWP, Fee Income and PTOP and the corresponding Operating Margin
- In Legacy Insurance we focus on RUM, Fee Income and PTOP and the corresponding Operating Margin

These KPIs reflect the performance of Program Management and Legacy Insurance as primarily fee-generating businesses, while also capturing their ability to effectively grow and deliver operating leverage. Furthermore, we have articulated a capital/liquidity framework, introduced a robust internal reserve committee, enhanced our risk framework and optimised our investment portfolio based on appropriate asset-liability management.

Material Income & Expenses for the Reporting Period

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

Selected financial information	2021 $M	2020 $M
Gross written premiums	1,539.7	991.3
Written premiums ceded to reinsurers	(1,463.5)	(520.2)
Earned premiums net of reinsurance	**63.9**	**466.3**
Program fee income	31.8	18.5
Gross investment income	6.4	28.6
Other income	6.6	7.4
Total Income	**108.8**	**520.8**
Net incurred claims	(125.9)	(397.8)
Operating expenses	(165.9)	(143.4)
Results of operating activities before goodwill on bargain purchase	**(183.1)**	**(20.4)**
Goodwill on bargain purchase	49.7	84.2
Amortisation and impairment of intangible assets	(13.3)	(14.2)
Share of profit of associates	11.2	1.7
Results of operating activities	**(135.5)**	**51.3**
Finance costs	(26.5)	(12.6)
(Loss) / Profit from operations before income taxes	**(162.0)**	**38.7**
Tax credit/(charge)	34.6	(1.0)
(Loss) / Profit for the year	**(127.4)**	**37.7**

h. Any Other Material Information

As stated in section F, a key impact on the 2021 result was the ~$90 million charge for the impairment of the structured reinsurance receivable.

II. GOVERNANCE STRUCTURE

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

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

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

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

The Group System of Governance is based on several principles to achieve this. In particular sound and prudent management requiring:

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

a. Board

i. Board Structure roles, responsibilities and segregation of responsibilities.

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

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

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

The Board comprises four non-executive directors (Alastair Campbell, Jo Fox, Philip Barnes, and Eamonn Flanagan) and three executive directors (William Spiegel, Alan Quilter, and Tom Solomon). Ken Randall retired from R&Q on 31 March 2021 and William Spiegel succeeded to the position of Executive Chairman as envisaged on his appointment as Deputy Chairman in January 2020. As Chairman of the Board, William Spiegel leads the Board in the determination of its strategy and in achieving its objectives.

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

The Board Committees are:

Audit Committee

The Audit Committee is chaired by Jo Fox and its other members are Philip Barnes, Eamonn Flanagan and Alastair Campbell. The Audit Committee has primary responsibility for ensuring that the financial performance of the Group is properly measured and reported on. It receives and reviews reports from the Group's management and Auditor relating to the annual accounts and the accounting and internal control systems in use throughout the Group. It also advises the Board on the appointment of the Auditor, reviews their fees and discusses the nature, scope and results of the audit with the Auditor.

The Audit Committee meets at least four times a year and has unrestricted access to the Group's Auditor. The Executive Chairman, Chief Executive Officer and Chief Financial Officer attend the committee meetings by invitation.

Group Risk and Compliance Committee

The Risk and Compliance Committee is chaired by Philip Barnes and its other members are Jo Fox and the Chief Executive Officer. The Chief Risk Officer, the Group Head of Governance and the Head of Internal Audit also attend. The Risk and Compliance Committee has responsibility for overseeing the management of risk across the Group and maintaining the effectiveness of the Group's risk management framework, systems of internal control, risk policies and procedures and adherence to risk appetite.

The Committee meets at least quarterly and provides a report on its activity to the Board. The Executive Chairman and Chief Financial Officer attend the Committee's meetings by invitation.

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

Remuneration & Nominations Committee

The Remuneration & Nominations Committee (RemCo) is chaired by Alastair Campbell. Its other members are Philip Barnes, Eamonn Flanagan and Jo Fox. The RemCo reviews the performance of the executive directors and makes recommendations relating to their remuneration and terms of employment. RemCo also has responsibility for senior management succession planning. The Committee meets at least four times a year. The Executive Chairman and the Chief Human Resources Officer are routinely invited to attend although they do not take part in any discussion on their own benefits and remuneration.

The over-arching aim is to act in the best interests of the Company's shareholders and the Group's employees, clients and, where appropriate, other stakeholders with whom it deals such as policyholders, reinsurers and regulators, whilst having regard to the relevant legal and regulatory requirements and to guidance offered by the QCA Code.

Remuneration

The overall objective in relation to remuneration is to attract, retain and motivate executive management of the quality and experience required to run the Company successfully. This must be done without paying more than necessary, having regard to the interests of shareholders and other stakeholders, the risk appetite of the Company and its long-term strategic goals. Generally, a significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and sound risk management. Its other objectives are:

- to set the overall remuneration policy for the executive directors and senior management. "Remuneration" for this purpose includes salaries, bonuses, pension arrangements, compensation payments, incentive arrangements and all other means of rewarding employees of the Company
- to approve the total individual package of each executive director and the Executive Chairman, and of senior management, in all cases having regard to the international nature of the business and local practices and conditions, and pay and employment arrangements across the Group
- to review and approve any performance related pay or share incentive plans.

Investment Committee

The Investment Committee purpose is to determine, implement and review an investment strategy to deliver the Group's agreed investment objectives. The Investment Committee was established in May 2021 as a reflection of the increased scale and importance of the Group's investment portfolios to the business model. The Committee's key purpose is to determine, implement and review an investment strategy to deliver the Group's agreed investment objectives.

The Investment Committee is chaired by Eamonn Flanagan and its other members are Philip Barnes and the Executive Chairman, William Spiegel. The Chief Financial Officer, Chief Executive Officer, Chief Risk Officer and the head of investments within the finance function, may also attend by invitation. The Committee will meet at least four times a year.

Whilst historically, the Group Capital & Investment Committee had been used to approve transactions and investments, following its disbandment in April 2021, a new Transaction Advisory Group (TAG) has been established. It carries out a stewardship role, providing advice on transactions to help to ensure that such transactions are consistent with the business strategy of legacy and program management. It is not empowered to make decisions and acts in an advisory capacity only.

b. Fitness and Proprietary Requirements

i. Fit and Proper Process

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

- Are professionally competent and capable to carry out their responsibilities and have demonstrated this through their experience and training
- Undertake and pass an assessment of honesty based on relevant evidence regarding character, personal behaviour and business conduct including any criminal, financial, supervisory aspects regardless of jurisdiction.

Such assessments of fitness and propriety are documented for all levels of staff and identify circumstances where re-assessment may be required.

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

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

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

For each new regulated role, the company determines the particular skill sets and expertise required, and then assesses how these requirements are met through a gap analysis against the attributes of the individual candidates. A view is then be taken on the overall suitability of the candidate and, to the extent there are perceived shortfalls, the suitability and timing of available training.

The continuing suitability of individuals for Director, key function (Risk Management, Internal Audit, Actuarial and Compliance), and Senior Management roles is assessed annually after initial appointment in relation to the regulated entities, and periodically otherwise. Any training needs are identified and addressed as part of this process.

Director Bios are included in Appendix 1.

c. Risk Management and Solvency Self-Assessment

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

Overall Responsibility for Risk Management

The Board and senior management continue to appreciate that the ongoing success of the Group depends in its collective understanding and management of the Group's known risks and exposures.

The Board has responsibility for ensuring that the Group has an appropriate and proportional approach to risk management across the Group, and that this approach is both generic to the Group's activities and aligned with the overall corporate strategy. The risks facing the Group continue to evolve and increase or decrease in potential impact and probability of crystallisation over time. The Group continues to be entrepreneurial and innovative, in spite of, and in many respects because of, the challenges of the past two years. The pandemic has tested the rigour of the Group's risk management framework and control environment and both have continued to respond well.

Risk Management Framework and Risk Management Function

The Group has a mature risk management framework and risk function headed by the Chief Risk Officer. The Group Risk Function is responsible for designing, overseeing, implementing, and improving the risk management framework. It works closely with the Board and senior management, meeting regularly with them to monitor existing identified risks and uncertainties, identify new and emerging risks and to ensure that there are appropriate processes and procedures in place to monitor these risks. It is also responsible for monitoring that the business meets regulatory expectations around enterprise risk management and reporting of risk to the Board and the Group Risk and Compliance Committee.

The management of risk and uncertainty is ongoing and iterative and the following overarching process is adopted.

The Group's risk management framework and reporting mechanisms have adapted and will continue to adapt to address the Group's evolving strategic objectives.

Group Risk and Compliance Committee

The Group Risk Committee (formerly Group Risk Committee) is a formally constituted Committee of the Board. A report from the Group Risk and Compliance Committee Chair on its changing roles and responsibilities, operation, areas of focus during 2021, discharging of responsibilities, self-evaluation and plans for 2022 appears in the Group's Annual Report.

Risk Appetite

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

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

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

The risk appetite framework, which is set at both the Group level and for each of the key business units, is reviewed annually and/ or when there are material changes to the overall risk profile of the Group and or its business units.

Risk Governance

Risk governance within the Group continues to adopt a three lines of defence model at both Group and business unit/entity level.

Own Risk and Solvency Assessments and Equivalents

The own risk and solvency assessment (ORSA) or equivalent is defined as; 'The entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short- and long-term risks a firm faces or may face and to determine the own funds necessary to ensure that overall solvency needs are met at all times.' The report produced as part of this process can be described as the 'shop window' of the business planning, capital setting and risk assessment process.

Internal Control System

The Group's internal control system comprises the following key elements:

- Documented governance arrangements continue to evolve along with the overall business strategy
- Strategic planning process setting priorities for the forthcoming planning horizon, reviewed by the Board periodically to ensure the Group is focusing on its core strengths
- Detailed planning/budgeting process subject to detailed and ongoing oversight and scrutiny delivering forecasts/targets for Board review and approval
- Management information systems, including corporate reporting on financial/operating performance
- A defined risk appetite framework governing management, control and oversight of key risks and issues
- Overall Group capital adequacy planning conducted biannually
- Compliance arrangements throughout the Group
- Internal audit function providing third line assurance to the Board via the Audit Committee following a risk-based, approved annual Audit Plan, on the effectiveness of the Group's internal controls in respect of key risks identified
- Risk management function as described above.

The Board considers that the controls in place during 2021 were and continue to be relevant, proportional, and appropriate for the needs of the Group, and in addition are sufficiently flexible to evolve with the changing needs of the business.

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

The scope of the Group Risk Committee in late 2021, to encompass compliance has recognised heightened regulatory scrutiny and the requirement for the appropriate level of governance and oversight in this regard.

Emerging Risks

The Group and subsidiary Boards of Directors consider, and continue to consider, the probability and impact of emerging risks which may impact the organisation in the future. There is a multi-discipline Group level Emerging Risks Focus Group which is tasked with monitoring emerging risks and reporting its findings to the

Group Risk and Compliance Committee and relevant company committee via the regular CRO reports. This process is now well embedded.

The Emerging Risk Focus Group met most recently in February 2022 to review the emerging risks heatmap and to revisit climate change risks to allocate actions, owners and timescales.

The prevailing threat of a Russia/Ukraine conflict and the current pandemic landscape have both underpinned the movements in the emerging risks profile, recognising that many of these risks are interdependent.

The top emerging risks are now as follows;-

- ***Changing expectations of the workplace*** –Candidate demand and costs are both high and supply is not keeping pace. Although this is being seen in all areas, it is particularly prevalent in the major cities.

- ***Developing Cyber*** –Given continued increase in global cyber activity and the prevailing Russia/Ukraine conflict which is likely to increase the incidence of cyber-attacks on the West. Emerging cyber will form the next focus group deep dive.

- ***Increased regulatory scrutiny*** - Given the Group's business model of growth in both program and legacy and the use of Gibson Re.

- ***Political Uncertainty (Government interference)*** – This has moved up in light of the potential Russia/Ukraine conflict.

Other key emerging risks;-

- ***Civil Instability***–fear of civil unrest due to lockdowns and restrictions has not materialised to the extent originally envisaged.

- ***Interruption to Infrastructure*** –with the threat of potential disruptions caused by cyber-attacks.

- ***Pandemic*** –as the management of the pandemic migrates to business as usual.

- ***Event driven litigation –*** *at this juncture, the consensus was that anticipated legislative impacts would not be 'rapid'.*

- ***New and emerging technology –*** *has been moved to 'medium' from 'slow' given the Group's strategy to embrace and increase automation of processes.*

The focus group considered the specific risks identified from a workshop held to consider the requirements of the Task Force on Climate-related Financial Disclosures ("TCFD") and the UK Financial Conduct Authority Supervisory Statement SS3/19.

Owners for each of these risks were identified and a stress and scenario testing workshop is planned for early 2022

to develop a suite of scenarios for Solvency II and other regulatory reporting

COVID 19 and Risk Management

At the time of writing (June 2022) and since the last report (June 2021), the Group has gradually opened its offices as the pandemic has abated. Many of the Group's employees have now returned to work albeit flexibly with some time spent working remotely.

As anticipated, the pandemic has had minimal impact on the Group's business. While the initial phase of the pandemic saw some short term delay in completing transactions, onboarding new programs and on investment performance, the Group and its various counterparties learned to adapt to the circumstances. The impact of the pandemic on the wider insurance industry is creating considerable future opportunity for the Group.

The Group's underlying legacy portfolios have very limited exposure to unexpired risk and its program management portfolios are largely reinsured with highly rated counterparties. The investment portfolio is of relatively short duration and in highly rated investments.

There have been no material breaches of the Group's risk appetite arising from the pandemic and none are expected.

d. Internal controls

i. Description of internal control system

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

ii. Compliance function

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

e. Internal Audit

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

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

f. Actuarial Function

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

The key actuarial services provided include:

- Assessment of Technical Provisions for accounting purposes, regulatory and internal purposes as required
- Pricing support to the Underwriters
- Monitoring and reporting the performance of Syndicates and group owned and managed companies
- Support for the assumption or acquisition of loss portfolio transfers, Lloyd's Syndicates, insurance companies or captives
- Commutation pricing support

g. Outsourcing

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

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

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

h. Other Material Information

The notable change since our last report is the retirement of Ken Randall as a Director and Executive Chairman of the Company. Ken Randall retired from R&Q on 31 March 2021 and William Spiegel succeeded to the position of Executive Chairman, as envisaged on his appointment as Deputy Chairman in January 2020.

III. RISK PROFILE

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

Principal Risks and Uncertainties

The Group's Principal risks and uncertainties are described in detail in the 2021 Annual Report and accounts. For each principal risk, the title, a brief description of each risks and key mitigating actions are described. Whilst certain emerging risks may have the potential to affect more than one operating entity, local evaluation will rightly tend to be based more upon the specific entity than on that of the wider Group. Rather than creating an industry, the process of reviewing entity analysis and wider market analysis is centralized.

b. Risk Mitigation in the Organization

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

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

c. Material Risk Concentrations

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

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

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

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

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

IV. SOLVENCY VALUATION

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

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

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

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

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

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

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

The best estimate for the premium provision is calculated by using the unearned premium reserve on a IFRS basis, adjusting for bound but not incepted business as at 31st December 2021 and applying expected future loss ratios, expense ratios and appropriate claims pay-out patterns to derive cash flows which are then discounted.

At 31 December 2021, the total Technical Provisions amounted to $1,169.1m comprising the following (reported in $'000s):

- Best Estimate Loss and Loss Expense Provision $1,062.3m
- Best Estimate Premium Provision $13.6m
- Risk Margin $104.4m

c. Recoverables from Reinsurance Contracts

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

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

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

Similar to the valuation principles for assets, the Company's liabilities follow the valuations principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" which values liabilities at a fair value basis. All other liabilities (with the exception of Notes Payable and Derivative Instruments) are valued on an IFRS basis and settlements not expected to be settled within a year, are discounted using the prescribed discount rates provided by the Bermuda Monetary Authority as at 31st December 2021. Notes Payable are valued on an IFRS basis. In the absence of an active market, prices are based on observable market inputs.

e. Any Other Material Information

No additional material information to report.

V. CAPITAL MANAGEMENT

a. Eligible capital

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

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

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

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

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

		$000s
Tier 1 Capital	Share Capital	7,471
	Contributed Surplus	288,254
	Statutory economic surplus	10,966
Total Tier 1 Capital		**306,691**
Tier 2 Capital	Subordinated Loan Notes	125,000
Tier 3 Capital	Senior Floating Rate Notes	70,000
Total Eligible Capital		**501,691**

The Company's Tier 1 Capital, consists of share capital, contributed surplus, and statutory surplus. The Company's Tier 2 Capital consists of subordinated loan notes, while Tier 3 represents senior floating rate notes.

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

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

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

	MSM	ECR
Tier 1	306,691	306,691
Tier 2	76,673	125,000
Tier 3	-	70,000
Eligible Capital	**383,364**	**501,691**

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

There are no transitional arrangements for Eligible Capital

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

None.

vi. Identification of Ancillary Capital Instruments Approved by the Authority

None

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

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

b. Regulatory capital requirements

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

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

Requirement	$'000
Minimum Margin of Solvency	$133,226
Enhanced Capital Requirement	$358,137
Target capital level (unaudited)	$429,765
Actual statutory capital and surplus	$501,691

The Transitional Enhanced Capital Requirement ratio of 140% is significantly in excess of the minimum requirement of 100% and above the Target Capital level of 120%.

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

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

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

There was no non-compliance in 2021.

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

The Insurance Group was in compliance in 2021.

c. Approved Internal Capital Model

The company does not use an internal capital model.

vi. Subsequent Events

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

Appendix 1 – Directors Bios

William Spiegel
Director & Executive Chairman

Date appointed to Board
Executive Chairman from April 2021
Deputy Executive Chairman from January 2020 to March 2021

Skills and experience:
» 30 years' financial services experience, principally insurance and insurance services
» Growing small to medium sized insurance companies in the US, UK, and Bermuda
» Extensive public and private company Board experience

William Spiegel joined R&Q from the US private equity group, Pine Brook Partners, which he co-founded in 2006 and where he was managing partner. Prior to this William was with the Cypress Group from its inception, managing its financial services and healthcare investing activities. Before joining the Cypress Group, William worked in the Merchant Banking Group at Lehman Brothers.

Alan Quilter
Director & Chief Executive Officer

Date appointed to Board
Chief Executive Officer from January 2020
Joint Chief Executive Officer from June 2007 to January 2020
R&Q Group Director since 1992

Skills and experience:
» Chartered Accountant
» Member of the Chartered Insurance Institute (CII) and The Association of Corporate Treasurers
» Co-founder of the Randall & Quilter Group
» 50 years' experience in the London insurance market

Alan has been a driving force in the development of R&Q, including its admission to AIM in 2007. Alan has worked in the London insurance market since 1969. Between 1980 and 1987, he headed the Market Financial Services Group at Lloyd's before becoming Managing Director of a specialist investment management company focused on investment markets in the UK. Alan joined Ken Randall as Chief Financial Officer of the Eastgate Group, the predecessor company to the Randall & Quilter Group in 1992.

Tom Solomon
Director & Chief Financial Officer

Date appointed to Board

Chief Financial Officer from 2020

Skills and experience:

» A qualified actuary with an MBA from Columbia University
» Extensive actuarial, investment banking and insurance experience

Tom joined R&Q from Bank of America, where he was Managing Director, Head of Americas insurance investment banking. Prior to this, Tom spent 13 years in the investment banking division and financial institutions group at Citigroup, where he rose to become Managing Director.
Tom started his career in 1992 as a Consultant Actuary with PricewaterhouseCoopers.

Philip Barnes
Non-Executive Director

Date appointed to Board

Non-Executive Director from 2013

Skills and experience:

» Chartered Accountant
» Board level experience with several Bermuda insurance and reinsurance companies
» Extensive finance and insurance experience

Philip has served on the Board of R&Q since 2013 and will be retiring at the 2023 AGM. Philip is Currently President of the representative office of the Jardine Matheson Group of Companies in Bermuda and was previously a Non-Executive Director of Hiscox Insurance Company (Bermuda) Ltd. During his 25-year career with Aon, Philip rose to become Managing Director. He oversaw the growth and development of Aon’s Bermuda office into the leading manager of captives and reinsurance companies on the island. Philip’s training is in finance, and he has served on various industry and Government advisory committees over the years during his 36-year career.

Key external appointments:

President of Jardine Matheson International Services Limited.

Alastair Campbell
Non-Executive Director

Date appointed to Board

Non-Executive Director from 2014
Senior Independent Director from 2019

Skills and experience:
» 50 years' experience in the insurance industry
» Chartered Accountant
» Wide-ranging Board advisory experience, investigation work and acquisitions and disposals

Alastair Campbell qualified as a Chartered Accountant in 1968 then worked with PKF Littlejohn LLP, becoming a Partner in 1970. Between 1984 and 1998 he acted as Senior Partner and Chairman of the firm. During his 40 years as a Partner, he acted for a wide range of commercial entities, mainly in the service sector. Throughout his career he has been involved in the London Insurance Market. Following his retirement from the firm in 2010, he has worked as an Independent Consultant and expert witness on accounting projects.

Joanne (Jo) Fox
Non-Executive Director

Date appointed to Board
Non-Executive Director from 2019

Skills and experience:
» Chartered Accountant
» Extensive Board level experience with regulated insurance businesses
» Corporate Governance, General Insurance and Solvency II

Jo is a seasoned Non-Executive Director within the insurance sector and has sat on the boards of several global risk carriers and intermediaries operating within Lloyd's and the London market. Jo was Chair and Non-Executive Director of R&Q Managing Agency Limited until it was acquired by Coverys in 2017. Prior to this, Jo held senior finance positions with RoyScot Trust, Liberty Risk Services and International Insurance Company of Hannover. She chaired the International Underwriting Association's Solvency Working Group from 2014 to 2016.

Key external appointments:
Non-Executive Director of AmTrust Europe Limited and Non-Executive Director of Argo Managing Agency Limited.

Eamonn Flanagan
Non-Executive Director

Date appointed to Board
Non-Executive Director from 2020

Skills and experience:
» Qualified actuary
» FTSE Board experience
» Analysing the business and financial models of insurance companies

Eamonn is Non-Executive Director of a number of listed financial services companies.
He co-founded Shore Capital Markets in 2003, an independent securities business, where he was a Director and top-rated Analyst, receiving a number of awards in the London insurance market and from the fund management industry. Prior to this, Eamonn was a Director and then Head of European Insurance at a leading investment bank. He is a Fellow of the Institute of Actuaries and the Institute of Directors.

Key external appointments:
Non-Executive Director of AJ Bell PLC and Non-Executive Director of Chesnara PLC.

Appendix 2

2022 Website Announcements

Date	Website Announcement
11 January, 2022	R&Q commences trading on OTCQX market in the United States
12 January, 2022	R&Q Accredited announces 5-year program deal with First Underwriting
1 April, 2022	Recommended Acquisition of Randall & Quilter Investment Holdings Ltd by Brickell PC Insurance Holdings LLC
27 April, 2022	Publication and posting of Circular
20 May, 2022	Adjournment of Special General Meeting
24 May, 2022	R&Q Accredited Europe announces six-year deal with UK Insurtech Policy Expert
25 May, 2022	Further information in relation to proposed Acquisition and New Equity Funding
25 May, 2022	Proposed $100 million Placing and Open Offer of up to $8 million
30 May, 2022	Q1 2022 Program Management Update
13 June, 2022	Results for the year ended 31 December 2021
13 June, 2022	Proposed Placing and Open Offer
14 June, 2022	Update on Fundraise and Legal Settlement
14 June, 2022	Equity Placing Results