Principle Insurance Company Limited

Annual Report and Financial Statements
for the year ended 31 December 2011

The Company's registration number is 6203350

Financial Statements - for the year ended 31 December 2011

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Directors and Advisers

Directors

M. A Langridge
A. K Quilter

Secretary

R&Q Secretaries Limited

Registered Office

110 Fenchurch Buildings
London
EC3M 5JT

Bankers

Lloyds TSB Bank plc
25 Gresham Street
London
EC2V 7HN

Auditors

Littlejohn LLP
Statutory Auditor
1 Westferry Circus
Canary Wharf
London
E14 4HD

Registered Number

6203350

Report of the Directors
For the year ended 31 December 2011

The Directors have pleasure in presenting their Report together with the audited Financial Statements for the year ended 31 December 2011

Principal Activities

Principle Insurance Company Limited ("the Company") is a Shariah compliant insurance company which ceased underwriting on 20 October 2009 As at 31 December the Company has no live policies and has made full provision to both run-off the insurance liabilities and cover the associated administrative expenses On 29 December 2011 the Company was sold by Principle Insurance Holdings Limited and purchased by Randall & Quilter Investment Holdings plc ("RQIH plc") The Company commenced trading in July 2008 and positioned itself as the first and only Financial Service Authority (FSA) regulated independent provider of Shariah-compliant insurance products in the UK

Review of the Business

The results for the year are set out in the Profit and Loss Account on page 9 The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2011 (2010 £nil).

With effect from 29 December 2011 administrative and management services are provided to the Company by R&Q Insurance Services Ltd, a fellow subsidiary undertaking of RQIH plc

Basis of preparation

Following the acquisition of the Company by RQIH plc the Companies Act allows for a new subsidiary to change the basis by which the Financial Statements are prepared Accordingly the Directors changed the basis of preparation to United Kingdom Generally Accepted Accounting Practice ("UK GAAP") There are no material differences between the basis of preparation under UK GAAP and International Financial Reporting Standards for the Company and therefore the 2010 financial information does not need to be restated

Directors

The names of the Directors at the date of this Report appear on page 1 and were appointed on 29 December 2011 The Directors who held office prior to the purchase by RQIH plc and resigned on the 29 December 2011 were as follows

Mr Abdulaziz Hamad Aljomaih
Mr Michael David Ross
Mr Imran Siddiqui
Mr Bradley Brandon-Cross
Mrs Susan Bradbury

Report of the Directors

For the year ended 31 December 2011 (continued)

Directors Indemnity Provisions

The Company provides an indemnity to its Directors in respect of liabilities which may attach to them in their capacity as directors of the Company These provisions, which are qualifying third-party indemnity provisions as defined by Section 234 of the Companies Act 2006, were in force throughout the year and are currently in force

Risk Management

The Company's activities expose it to a variety of financial and non financial risks The Directors are responsible for managing the Company's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk.

The main risks and uncertainties facing the Company are

Insurance Risk

The very nature of the Company's business exposes it to the possibility that claims will arise on business written. The risk attaching to insurance contracts is based on the fortuity that events will occur which will lead to a claim under the contract The main insurance risk which affects the Company is reserving, being the risk that the reserves established by the Company at the previous year-end prove to be inadequate In order to mitigate this risk, the Company uses a number of approaches, including actuarial techniques, to project gross and net premiums written and gross and net insurance liabilities.

Investment Risk

The primary market risk in the Company's investment portfolio is counterparty exposure The Company was in breach of its minimum solvency requirements as laid down in the FSA's solvency rules throughout the year This breach has been discussed with the FSA and reflects the absence of sufficient adequately rated banks with which to make Shariah Compliant Murabaha deposits in the UK. The FSA's rules restrict the amount of counterparty exposure which is admissible for solvency purposes and accordingly approximately £3 8 million of the company's deposits are inadmissible at 31 December 2011 (31 December 2010· £6.0m), thus giving rise to the technical breach The Company under new ownership will be seeking to improve diversification of counterparty exposure, whilst at the same time complying with the Company's core objectives of Shariah compliance The secondary market risk in the Company's investment portfolio is interest rate risk, namely the fair value sensitivity of a fixed-income security to changes in interest rates The Directors will manage interest rate risk through active investment portfolio management to ensure a prudent mix of fixed income investments with a varied maturity schedule

Currency Risk

The Company's assets and liabilities are all Sterling based and have no exposure to foreign currency fluctuations

Report of the Directors

For the year ended 31 December 2011 (continued)

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost The cash position of the Company is monitored on a regular basis to ensure that sufficient funds are available to meet liabilities as they fall due Funds required to meet immediate and short term needs are invested in short term deposits

Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due The main areas where the Company is exposed to credit risk are amounts due from reinsurers in respect of claims which may become due in the event of a large loss and cash and investment holdings

The Directors monitor the Company's exposure to a single counterparty and groups of connected counterparties. Reinsurance has been purchased to mitigate insurance risk This does not, however, discharge the Company's liability as a primary insurer If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder

The Directors are establishing investment guidelines that restrict the amount of the investment portfolio that can be placed with a single counterparty whilst maintaining Shariah compliance

Regulatory risk

The Company is authorised and regulated by the Financial Services Authority ("the FSA") Failure to comply with applicable regulations could result in a variety of sanctions The Directors have established a business ethos in which best practice is the required standard for all operations, both in the commercial interests of the business and to ensure regulatory compliance

Key Performance Indicators

The Directors consider the following to be the key performance indicators of the Company

	2011 £000	2010 £000	Change %
Total shareholder funds	5,880	5,272	+11 53%
Net outstanding claims	2,145	3,777	-43 21%
Cash and investments	7,833	10,105	-22 48%

Report of the Directors

For the year ended 31 December 2011 (continued)

Other Performance Indicators

Environmental matters

The Directors do not consider that the business of an insurance company has a material adverse impact upon the environment As a result the Directors do not manage the business by reference to any environmental performance indicators

Employees

The Company has no staff Administrative and management services are provided by a fellow Group subsidiary, R&Q Insurance Services Ltd

Directors' responsibilities for the Financial Statements

The Directors are responsible for preparing the report of the Directors and the Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Financial Statements for each financial year Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these Financial Statements, the Directors are required to.

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the company will continue in business,

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

For the year ended 31 December 2011 (continued)

Disclosure of Information to Auditors

The Directors holding office at the date of approval of this Report of the Directors confirm that

a) As far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and

b) They have taken all the steps they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

Following the purchase of The Company, Littlejohn LLP were appointed the office as auditors, replacing KPMG Audit PLC in compliance with the Companies Act 2006 with effect from 29 December 2011

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and Littlejohn LLP will therefore continue in office.

By Order of the Board

R&Q Secretaries Limited
Company Secretary
30th March 2012

Independent Auditors' Report to the Members of Principle Insurance Company Limited

We have audited the Financial Statements of Principle Insurance Company Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation in Movements in Shareholders Funds and the related notes on pages 13 to 23 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the Financial Statements, in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on Financial Statements

In our opinion the Financial Statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Independent Auditors' Report to the Members of Principle Insurance Company Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors' for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements

Matters on which we are required to report by exception

The Companies Act 2006 requires us to report to you if, in our opinion·

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the Financial Statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

We have nothing to report in respect of the above matters

Carmine Papa

Carmine Papa (Senior statutory auditor)
For and on behalf of Littlejohn LLP
Statutory auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

30 March 2012

Profit and Loss Account
For the year ended 31 December 2011

	notes	2011 £000	2010 £000
Technical Account – General Business			
Gross written Takaful contributions	2	-	(97)
Reinsurers' share of Gross written Takaful contributions		-	-
Net Takaful of reinsurance		-	(97)
Takaful claims paid		(1,575)	(3,728)
Reinsurers' share Takaful claims		-	-
Net Takaful claims paid		(1,575)	(3,728)
Change in the provision for Takaful claims - gross amount		1,632	(561)
- reinsurers' share		-	-
Net change in the provision for Takaful claims		1,632	(561)
Takaful claims incurred, net of reinsurance	3	57	(4,289)
Net change on other technical provisions		-	4,289
Net operating expenses	4	550	-
Balance on the technical account		607	(97)
Non-Technical Account			
Balance on the general business technical account		607	(97)
Investment income	5	1	15
Profit / (loss) on ordinary activities before tax		608	(82)
Tax on profit / (loss) on ordinary activities	8	-	-
Profit / (loss) for the financial year		608	(82)

All operations are classified as discontinued

The notes on pages 13 to 23 form part of these Financial Statements

Statement of Total Recognised Gains and Losses
For the year ended 31 December 2011

	2011 £000	2010 £000
Profit / (loss) for the financial year	608	(82)
Total recognised gain / (loss) for the year	608	(82)

Reconciliation of Movements in Shareholder Funds
For the year ended 31 December 2011

	2011 £000	2010 £000
Opening Shareholder Funds	5,272	5354
Total recognised gain / (loss) for the year	608	(82)
Closing Shareholder Funds	5,880	5,272

The notes on pages 13 to 23 form part of these Financial Statements.

Balance Sheet
As at 31 December 2011
Company registration number 6203350

	Notes	2011 £000	2010 £000
Assets			
Investments			
Subsidiary undertakings	9	-	1,200
Islamic deposits	10	7,394	9,175
		7,394	10,375
Reinsurers' share of technical provisions			
Takaful Claims outstanding		-	-
Debtors			
Debtors arising out of Takaful operations	11	192	-
Other debtors		-	-
		192	-
Other assets			
Cash at bank and in hand		439	930
		439	930
Prepayments and accrued income			
Accrued interest		-	39
		-	39
Total assets		8,025	11,344

The notes on pages 13 to 23 form part of these Financial Statements

Balance Sheet
As at 31 December 2011
Company registration number 6203350

	Notes	2011 £000	2010 £000
Liabilities			
Capital and reserves			
Called up share capital	12	**30,500**	30,500
Reserves	13	**(24,620)**	(25,228)
Total shareholder funds		**5,880**	5,272
Technical provisions			
Takaful Claims outstanding	3	**2,145**	3,777
Provisions			
Run-off costs	14	**-**	1,632
Creditors – amounts falling due within one year			
Arising out of Takaful operations		**-**	636
Other creditors including taxation and social security		**-**	27
		2,145	663
Accruals and deferred income		**-**	-
Total liabilities		**8,025**	11,344

Approved by the Board of Directors on 30th March 2012

M. A. Langridge

M A Langridge
Director

The notes on pages 13 to 23 form part of these Financial Statements

Notes to the Financial Statements
For the year ended 31 December 2011

1. **Principal accounting policies**

a) Basis of preparation

As outlined in the report of the Directors, the Financial Statements have been prepared in accordance with applicable United Kingdom accounting standards under the historical cost accounting rules as modified by the revaluation of investments The policies broadly follow the recommendations of the Statement of Recommended Practice on accounting for Insurance business on insurance accounting, adapted as necessary to reflect the Shariah compliant nature of its activities and the operation of the Takaful fund

The Directors have assessed the position of the Company and the run off is being conducted in an orderly manner and the company has adequate resources to meet its insurance and other liabilities as they fall due for payment Therefore the Directors have reasonable expectation that the company will be able to continue in operational existence for the foreseeable future

Under Financial Reporting Standard No 1 (revised) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated cash flow statement

The significant accounting policies adopted are described below

b) Basis of accounting for underwriting activities

Takaful business is accounted for on an annual basis

c) Takaful contributions

Under the annual basis of accounting Takaful contributions are based on the value of contracts entered into during the year which incept during the year and are stated gross of commission payable to intermediaries and exclusive of taxes and duties levied on premiums

The reinsurers share of Takaful contributions are accounted for in the same accounting period as the contributions for the related inward business

Notes to the Financial Statements
For the year ended 31 December 2011 (continued)

1. Principal accounting policies (continued)

d) Claims incurred

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in provisions for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation recoveries

Outwards reinsurance recoveries are accounted for in the same accounting period as the related claims

e) Claims outstanding and significant uncertainty

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company The Company takes all reasonable steps to ensure that it has appropriate information regarding its exposure to claims In calculating the cost of unpaid claims, the Company uses a variety of estimation techniques judged to be appropriate to the various types of exposures on the book.

Adjustments to the amounts of provisions are reflected in the Financial Statements for the year in which the adjustments are made

The provision for outstanding claims is not discounted

The uncertainties 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 from that presently estimated Having regard to the significant uncertainty and in the light of the information presently available, in the opinion of the Directors the provision for outstanding claims is fairly stated

f) Reinsurance recoveries

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries An assessment is made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies

Notes to the Financial Statements
For the year ended 31 December 2011 (continued)

1. Principal accounting policies (continued)

g) Run off administration costs

Provision is made for all estimated run off administration costs, including claims handling costs, to the extent that they exceed the estimated future investment return.

The uncertainty inherent in the process of estimating the period of run off and any payout pattern over that period, the anticipated run off administration costs to be incurred over that period and the level of investment return to be made 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 from that previously estimated.

h) Foreign exchange

The Company's assets and liabilities are all denominated in Sterling and subsequently do not give rise to currency fluctuations or exchange gains and losses

i) Islamic investments

Islamic treasury deposit account placements are based on the accepted Islamic financial principles of Commodity Murabaha and agency Wakala These are common Islamic finance principles that had been approved by the Shariah Supervisory Committee as acceptable structures used within accounts to generate Shariah compliant income

Transactions are recognised upon placement of funds with counterparties offering such accounts once agreement has been signed, income is recognised on an accruals basis This is a change to the accounting policy from the previous period, however the amounts are not material and the comparatives have not been restated

j) Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost, less any provision for impairment of value

k) Other financial investments

Other financial investments are stated at market value

Notes to the Financial Statements
For the year ended 31 December 2011 (continued)

1. Principal accounting policies (continued)

l) Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current law and practice

Timing differences arise from the inclusion of items of income and expenditure in taxation computation periods different from those in which they are included in Financial Statements Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities have not been discounted

2. Segmental information

Analysis of gross premiums written, profit before taxation and net assets:

The following sets out an analysis by class of business written

	2011			2010		
	Gross premium written £000	Profit (Loss) before tax £000	Net assets £000	Gross Premium written £000	Profit (Loss) Before Tax £000	Net assets £000
Direct	-	608	5,880	(97)	(82)	5,272
Reinsurance	-	-	-	-	-	-
Total	-	608	5,880	(97)	(82)	5,272

All premiums resulted from contracts of insurance located in the United Kingdom.

Notes to the Financial Statements
For the year ended 31 December 2011 (continued)

2. Segmental Information (continued)

Analysis of gross premiums written, gross claims incurred, gross operating expenses and the reinsurance balance·

2011	Gross premium written	Gross Premium earned	Gross Claims Incurred & URR	Gross operating expenses	Reinsurance Balance
	£000	£000	£000	£000	£000
Direct insurance:					
Motor	-	-	(77)	(550)	-
Household	-	-	20	-	-
Legal	-	-	-	-	-
	-	-	(57)	(550)	-
Reinsurance	-	-	-	-	-
	-	-	(57)	(550)	-

2010	Gross premium written	Gross Premium Earned	Gross Claims Incurred & URR	Gross Operating expenses	Reinsurance Balance
	£000	£000	£000	£000	£000
Direct insurance:					
Motor	(97)	(97)	-	-	-
Household	-	-	-	-	-
Legal	-	-	-	-	-
	(97)	(97)	-	-	-
Reinsurance	-	-	-	-	-
	(97)	(97)	-	-	-

Notes to the Financial Statements
For the year ended 31 December 2011 (continued)

3. Claims incurred

2011	Gross £000	Reinsurance £000	Net £000
Outstanding claims provision brought forward at 1 January	3,777	-	3,777
Claims payments during the year in respect of those provisions	1,575	-	1,575
Outstanding claims provision carried forward at 31 December	2,145	-	2,145
Claims incurred	(57)	-	(57)

2010	Gross £000	Reinsurance £000	Net £000
Outstanding claims and URR provision brought forward at 1 January	7,505	-	7,505
Claims payments during the year in respect of those provisions	3,728	-	3,728
Outstanding claims provision carried forward at 31 December	3,777	-	3,777
Claims incurred	-	-	-

4. Net operating expenses

	2011 £000	2010 £000
Administration expenses	(1,082)	(3,997)
Release of Run-off provision	1,632	3,997
Administrative expenses	550	-

Notes to the Financial Statements
For the year ended 31 December 2011 (continued)

4. Net operating expenses (continued)

Administration expenses include	2011 £000	2010 £000
Operating lease rental	32	182
The audit of the Company's statutory accounts	25	30
Other services pursuant to legislation	5	58

5. Investment income

	2011 £000	2010 £000
Income from Islamic deposits attributable to shareholders	1	15
Investment expenses	-	-
	1	15

6. Directors' remuneration

	2011 £000	2010 £000
Emoluments	440	429
Company pension contributions to money purchase schemes	47	47
Sums paid to third parties for Directors' services	13	13
	500	489

Retirement benefits accrued for two Director under a money purchase pension scheme, both resigned from office on 29th December 2011

Highest-Paid Director

Emoluments	227	303
Company pension contributions to money purchase schemes	32	43
	259	346

Notes to the Financial Statements
For the year ended 31 December 2011 (continued)

7. Staff costs

	2011 £000	2010 £000
Wages and salaries	461	1,024
Social security costs	58	110
Contract staff	9	169
	528	1,303

The average Number of Employees (including executive Directors) during the year was 4 (2010 8) At 31 December 2011 the Company had no employees Management services are provided to the Company by R&Q Insurance Services Ltd and the services of Directors by R&Q Consultants Ltd and R&Q Insurance Services Ltd, fellow subsidiaries of RQIH plc The staff costs contained in the accounts represents the Principle Insurance Company Limited staff costs prior to the purchase of the Company on the 29 December 2011

8. Tax on profit on ordinary activities

(a) Analysis of the tax charge/(credit) in the year

No provision has been made in the Financial Statements for corporation tax on the assessable profits for taxation purposes as they have been set off against losses from previous years

(b) Factors affecting the tax charge/(credit) in the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 26 49% (2010 28%). The differences are explained below.

	2011 £000	2010 £000
Profit/(Loss) on ordinary activities before tax	608	(82)
Profit/(Loss) on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 26 49% (2010 28%)	161	(23)
Effects of:		
Items not deductible for tax purposes	7	-
Losses brought forward utilised in the year	(168)	-
Unutilised tax losses	-	23
Current tax charge for the year	-	-

The Directors estimate that tax losses of approximately £11 4m (2010 - £17 0m) are available to be carried forward to be set against future taxable profits of the Company No deferred tax asset has been recognised in respect of these losses and due to the uncertainty of future profits.

Notes to the Financial Statements
For the year ended 31 December 2011 (continued)

9. Investment in subsidiary undertakings

	2011	2010
	£000	£000
	-	1,200

In 2011 the Company transferred their investment in preference shares in Principle Marketing Services Limited, a subsidiary undertaking of Principle Holdings to another Principle Group Company in accordance with the sale and purchase agreement with RQIH plc

10. Islamic deposits

	Current value		Historical cost	
	2011	2010	2011	2010
	£000	£000	£000	£000
Islamic treasury deposits	7,394	9,175	7,394	9,175

Islamic treasury deposit placements are based on the accepted Islamic financing principles of Commodity Murabaha and agency Wakala These are common Islamic finance principles that have been approved by the Shariah Supervisory Committee as acceptable structures used within accounts to generate Shariah compliant income

11. Debtors arising out of Takaful insurance operations

	2011	2010
	£000	£000
Debt due from claims handling intermediaries	192	-

12. Share capital

	2011	2010
	£000	£000
Called up, allotted and fully paid		
30,500,002 Ordinary shares of £1	30,500	30,500

Notes to the Financial Statements
For the year ended 31 December 2011 (continued)

13. Shareholders reserves

	2011 £000	2010 £000
Balance at 1 January	(25,228)	(25,146)
Retained Profit/(Loss) for year	608	(82)
Balance at 31 December	(24,620)	(25,228)

14. Provision for run-off administration costs

	2011 £000	2010 £000
Balance at 1 January	1,632	5,628
Movement during year	(1,632)	(3,996)
Balance at 31 December	-	1,632

As stated in Note 1 g, provision for run off administration costs is made to the extent that they exceed the estimated future investment return The Directors estimate that the gross provision required is £0 9m (2010 £1 7m), this figure has been offset by estimated future investment return over the remainder of the run-off amounting to £1 1m (2010 £0 1m) Following the acquisition of the Company by RQIH plc significant synergies are generated which enable the running costs to be significantly reduced and hence the provision to be released

15. Ultimate parent company and controlling party

The Company's immediate parent company is Randall and Quilter II Holdings Ltd and ultimate parent undertaking is Randall & Quilter Investment Holdings plc, which is registered in England and Wales The Financial Statements of the ultimate parent undertaking can be obtained from 110 Fenchurch Street, London, EC3M 5JT The Directors are of the opinion that there is no ultimate controlling party.

Notes to the Financial Statements
For the year ended 31 December 2011 (continued)

16. Transactions with related parties

Advantage has been taken of the exemption provided under FRS8 from disclosing details of transactions with RQIH plc & its wholly owned subsidiary undertakings There are no other related party transactions to disclose

As noted in the Report of the Directors, the Company was purchased by RQIH plc from Principle Insurance Holdings Limited (PIHL)

At 31 December 2010 the Company held a redeemable preference shares in a subsidiary of PIHL (refer note 9). In addition at 31 December 2010, an amount was due from PIHL of £1,013 and an amount of £231,709 was owed to a subsidiary of PIHL. All these balances were transferred from PICL before acquisition by RQIH plc