

Registered Number: 07382921

R&Q Capital No 1 Limited

Directors' Report and Financial Statements for the
Year ended 31 December 2012

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R&Q Capital No 1 Limited

Directors

**T A Booth
H N A Colthurst
A K Quilter
K E Randall**

Company Secretary

R&Q Secretaries Limited

Registered Office

**110 Fenchurch Street
London
EC3M 5JT**

Auditors

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

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Report together with the Financial Statements for the year ended 31 December 2012

Results and Dividends

The results for the year are set out on pages 10 and 11 of the financial statements

Activity

The Company acts as a corporate underwriting member at Lloyd's. The Company commenced underwriting with effect from 1 January 2011. During the year in question, the Company participated on three syndicates, Syndicates 102, 1897 and 3330, which are managed by R&Q Managing Agency Limited a fellow subsidiary of Randall & Quilter Investment Holdings plc. On 1 January 2012, Syndicate 3330 accepted the RITC of Syndicate 3330 for the 2007 year of account into its 2012 year of account.

The Company has entered into a quota share reinsurance arrangement with R&Q Re (Bermuda) Limited, a fellow subsidiary undertaking incorporated in Bermuda, totalling 70% on Syndicates 102 and 1897 and 50% on Syndicate 3330 of the Company's 2012 year of account participation on the above syndicates.

Business Review

Results

The Financial Statements incorporate the annual accounting result of the syndicates on which the Company participates.

The annual accounting technical result for the year is a profit of £5,858,640 (period ended 31 December 2011 – profit £635,693). The continued successful running-off of Syndicates 102 and 3330 has contributed significantly to the Company's profit for the year.

Future Developments

The Company continues to write insurance business in the Lloyd's insurance market as a corporate underwriting member of Lloyd's. The capacity being underwritten on the 2013 year of account is £23.3m (2012 year of account - £8.0m) an increase of £15.3m compared to the 2012 year of account. For the 2013 year of account the Company has two syndicate participations on Syndicates 1897 and 1991. Details of the Company's syndicate participations are given in Note 20 to the Financial Statements.

Key Performance Indicators

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

	2012	2011
Capacity (youngest underwriting year)	£8,000,000	£5,700,000
Gross premium written as a % of capacity	85.3%	31.0%
Funds at Lloyd's (FAL) as a % of capacity	69%	96.6%
Annual Accounting Result	£5,858,640	£635,693

REPORT OF THE DIRECTORS

Other Performance Indicators

As a result of the nature of this Company as a Lloyd's Corporate Member the majority of its activities are carried out by the Syndicates in which it participates. The company is not involved directly in the management of the Syndicate's activities, including employment of Syndicate staff, as these are the responsibility of the Managing Agent, R&Q Managing Agency Limited. The Managing Agent also has responsibility for the environmental activities of each Syndicate, although by their nature insurers do not produce significant environmental emissions. As a result, the Directors of the Company do not consider it appropriate to monitor and report any performance indicators in relation to staff or environmental matters.

Risk Management

As a corporate member of Lloyd's the majority of the risks to this company's future cash flows arise from its participation in the results of Lloyd's syndicates. As detailed below, these risks are mostly managed by the Managing Agent of the syndicate. This company's role in managing this risk is limited to selection of syndicate participations and monitoring performance of the syndicates.

Syndicate risks

The trading activities of a syndicate expose it to a variety of financial and non-financial risks. The Managing Agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. For the purposes of setting capital requirements for the 2013 year of account Lloyd's introduced the Lloyd's Capital Return ("LCR") which replaced the Individual Capital Assessment ("ICA"). Each Managing Agent prepares a LCR for the syndicate, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are typically reflected in the LCR, and typically the majority of the total assessed value of the risks concerned is attributable to Insurance Risk.

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on the pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risks arise from the risk that a reinsurer fails to meet their share of a claim. The management of the syndicate's funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's and the Prudential Regulatory Authority provide additional controls over the syndicate's management of risks.

The company manages the risks faced by the syndicates on which it participates by monitoring the performance of the syndicates it supports. This process commences in advance of committing to support a syndicate for the following year, with a review of the business plan prepared for each syndicate by the Managing Agent. In addition quarterly reports and annual accounts together with any other information made available by the Managing Agent are monitored and if necessary enquired into.

REPORT OF THE DIRECTORS

Reinsurance risk

The company has entered into a quota share reinsurance arrangements with another Group company to support its underwriting capacity. The Directors believe that the risk of failure of this reinsurance arrangement is low.

Investment and currency risks

The other significant risks faced by the company are with regard to the investment of the available funds within its own custody encompassing investment, liquidity, currency and interest rate risk. The main liquidity risk would arise if a syndicate had inadequate liquid resources for a large claim and sought funds from the company to meet the claim. In order to minimise investment, credit and liquidity risk the company's funds are invested in readily realisable money market deposits.

Regulatory risks

The company is subject to continuing approval by Lloyd's to be a member of a Lloyd's syndicate. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to membership of Lloyd's. Capital requirements to support the proposed amount of syndicate capacity for future years are subject to the requirements of Lloyd's. A variety of factors are taken into account by Lloyd's in setting these requirements including market conditions and syndicate performance. Although the process is intended to be fair and reasonable the requirements can fluctuate from one year to the next, which may constrain the volume of underwriting the company is able to support.

Operational risks

As there are relatively few transactions actually undertaken by the company there are only limited systems and staffing requirements of the company and therefore operational risks are not considered to be significant. Close involvement of all directors in the company's key decision making and the fact that the majority of the company's operations are conducted by syndicates provides control over any remaining operational risks.

Directors

The Directors of the Company in office during the period were as follows

T A Booth

H N A Colthurst (Appointed 1 June 2012)

A K Quilter

K E Randall (Appointed 20 December 2012)

REPORT OF THE DIRECTORS

Disclosure of Information to the Auditors

In the case of each of the persons who are Directors at the time this report is approved, the following applies:

- (a) So far as the Directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- (b) They have taken all the steps that they ought to have taken as a Director 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

PKF Littlejohn LLP has signified its willingness to continue in office as auditor

By Order of the Board



R&Q Secretaries Limited
Company Secretary

3 SEPTEMBER 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Report of the Directors and 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 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 judgements 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

INDEPENDENT AUDITORS REPORT

Independent Auditor's report to the shareholders of R&Q Capital No.1 Limited

We have audited the Financial Statements of R&Q Capital No 1 Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Accounting Policies and the related notes. 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 shareholders, 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 shareholders 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 shareholders 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 Statement of Directors' Responsibilities, the Company's 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

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 Report of the Directors 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 2012 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

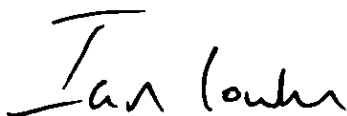
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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



Ian Cowan (Senior statutory auditor)
For and on behalf of PKF Littlejohn LLP
Statutory auditor

6 September 2013

1 Westferry Circus
Canary Wharf
London E14 4HD

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2012
TECHNICAL ACCOUNT

	Note	Year ended 31 December 2012		Period ended 31 December 2011	
		£	£	£	£
Gross Premiums Written					
Continuing operations	1	4,851,132		1,766,115	
Discontinued operations		-		-	
		<u>4,851,132</u>		<u>1,766,115</u>	
Outward reinsurance premiums		<u>(6,282,603)</u>		<u>(1,451,472)</u>	
Net Premiums Written		<u>(1,431,471)</u>		<u>314,643</u>	
Change in the Provision for unearned					
Gross provision		(1,583,221)		(870,529)	
Reinsurer's share		<u>-</u>		<u>-</u>	
Earned Premiums, Net of Reinsurance		(3,014,692)		(555,886)	
Allocated Investment Return Transferred from the Non-Technical Account		829,706		67,392	
Claims Paid					
Gross amount		(5,550,625)		(2,416,118)	
Reinsurers' share		<u>1,253,509</u>		<u>712,368</u>	
Net claims paid		<u>(4,297,116)</u>		<u>(1,703,750)</u>	
Change in the Provision for Claims					
Gross amount		15,231,138		5,194,945	
Reinsurers' share		<u>(936,997)</u>		<u>(1,656,680)</u>	
Change in the net provision for claims		<u>14,294,141</u>		<u>3,538,265</u>	
Claims Incurred, Net of Reinsurance		9,997,025		1,834,515	
Net operating expenses	3	(1,953,399)		(710,328)	
Balance on the Technical Account		<u><u>5,858,640</u></u>		<u><u>635,693</u></u>	

The Accounting Policies and Notes on pages 15 to 28 form part of these Financial Statements

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2012
NON-TECHNICAL ACCOUNT

		Year ended 31 December	Period ended 31 December
	Note	2012 , £	2011 £
Balance on the Technical Account		5,858,640	635,693
Investment income	4	882,027	150,491
Unrealised gains on investments		18,995	14,956
Investment expenses and charges	5	(45,835)	(33,994)
Unrealised losses on investments		(22,881)	(63,555)
Allocated investment return transferred to the technical account		(829,706)	(67,392)
Other income		-	-
Other charges		<u>(13,911)</u>	<u>(35,207)</u>
Profit on Ordinary Activities before Taxation	6	5,847,329	600,992
Tax on profit on ordinary activities	7	<u>(1,350,696)</u>	<u>(145,000)</u>
Profit on Ordinary Activities after Taxation	13	<u>4,496,633</u>	<u>455,992</u>

All the amounts above relate to continuing operations

The Accounting Policies and Notes on pages 15 to 28 form part of these Financial Statements

BALANCE SHEET**As at 31 December 2012****Registered Number 07382921**

		2012		2011			
	Note	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Assets							
Investments							
Financial Investments	8	24,524,733	-	24,524,733	6,455,144	-	6,455,114
Deposits with ceding undertaking		-	-	-	42,776	-	42,776
		<u>24,524,733</u>	<u>-</u>	<u>24,524,733</u>	<u>6,497,890</u>	<u>-</u>	<u>6,497,890</u>
Reinsurers' share of technical provisions							
Provision for unearned Premiums		-	-	-	-	-	-
Claims outstanding		4,030,200	-	4,030,200	2,441,383	-	2,441,383
		<u>4,030,200</u>	<u>-</u>	<u>4,030,200</u>	<u>2,441,383</u>	<u>-</u>	<u>2,441,383</u>
Debtors							
Arising out of direct insurance Operations	9	2,614,860	-	2,614,860	1,300,959	-	1,300,959
Arising out of reinsurance Operations	9	754,972	-	754,972	217,433	-	217,433
Other debtors	10	1,836,723	326,369	2,163,092	1,289,435	75,271	1,364,706
		<u>5,206,555</u>	<u>326,369</u>	<u>5,532,924</u>	<u>2,807,827</u>	<u>75,271</u>	<u>2,883,098</u>
Other Assets							
Cash at bank and in hand	11	1,470,209	1,119	1,471,328	1,116,902	5,382,628	6,499,530
Other		2,418,812	-	2,418,812	429,633	-	429,633
		<u>3,889,021</u>	<u>1,119</u>	<u>3,890,140</u>	<u>1,546,535</u>	<u>5,382,628</u>	<u>6,929,163</u>
Prepayments and Accrued income							
Deferred acquisition costs		485,287	-	485,287	141,552	-	141,552
Other prepayments and accrued income		254,025	-	254,025	267,316	-	267,316
		<u>739,313</u>	<u>-</u>	<u>739,313</u>	<u>408,868</u>	<u>-</u>	<u>408,868</u>
Total Assets		<u>38,389,822</u>	<u>327,488</u>	<u>38,717,310</u>	<u>13,702,503</u>	<u>5,457,899</u>	<u>19,160,402</u>

The Accounting Policies and Notes on pages 15 to 28 form part of these Financial Statements

BALANCE SHEET**As at 31 December 2012****Registered Number 07382921**

		2012			2011		
	Note	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Liabilities and Shareholders' Funds							
Capital and Reserves							
Called up share capital	12	-	111,099	111,099	-	100,000	100,000
Share premium	14	-	88,901	88,901	-	-	-
Profit and Loss Account	13	6,494,333	(1,541,708)	4,952,625	635,693	(179,701)	455,992
Total Shareholders Funds	14	6,334,333	(1,341,708)	5,152,625	635,693	(79,701)	555,992
Technical provisions							
Provision for unearned premiums		2,401,423	-	2,401,423	886,386	-	886,386
Claims outstanding		20,772,356	-	20,772,356	9,248,280	-	9,248,280
		23,173,779	-	23,173,779	10,134,666	-	10,134,666
Provisions for Other Risks							
Deferred taxation	15	-	1,668,824	1,668,824	-	145,000	145,000
Deposit received from Reinsurers							
		-	-	-	-	-	-
Creditors							
Arising out of direct insurance operations	16	622,606	-	622,606	983,558	-	983,558
Arising out of reinsurance operations	16	7,076,232	-	7,076,232	1,433,037	-	1,433,037
Amounts owed to credit institutions		-	-	-	177,433	-	177,433
Other creditors including taxation and social security	17	745,513	372	745,885	122,951	5,379,000	5,501,951
		8,444,352	372	8,444,725	2,716,979	5,379,000	8,095,979
Accruals and Deferred income		277,359	-	277,359	215,165	13,600	228,765
Total Liabilities		38,389,822	327,488	38,717,310	13,702,503	5,457,899	19,160,402

Approved by the Board on 3 September 2013

HNA Colthurst

The Accounting Policies and Notes on pages 15 to 28 form part of these Financial Statements

BALANCE SHEET**As at 31 December 2012****Registered Number 07382921**

		2012			2011		
	Note	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Liabilities and Shareholders' Funds							
Capital and Reserves							
Called up share capital	12	-	111,099	111,099	-	100,000	100,000
Share premium	14	-	88,901	88,901	-	-	-
Profit and Loss Account	13	6,494,333	(1,541,708)	4,952,625	635,693	(179,701)	455,992
Total Shareholders Funds	14	6,334,333	(1,341,708)	5,152,625	635,693	(79,701)	555,992
Technical provisions							
Provision for unearned premiums		2,401,423	-	2,401,423	886,386	-	886,386
Claims outstanding		20,772,356	-	20,772,356	9,248,280	-	9,248,280
		23,173,779	-	23,173,779	10,134,666	-	10,134,666
Provisions for Other Risks							
Deferred taxation	15	-	1,668,824	1,668,824	-	145,000	145,000
Deposit received from Reinsurers							
		-	-	-	-	-	-
Creditors							
Arising out of direct insurance operations	16	622,606	-	622,606	983,558	-	983,558
Arising out of reinsurance operations	16	7,076,232	-	7,076,232	1,433,037	-	1,433,037
Amounts owed to credit institutions		-	-	-	177,433	-	177,433
Other creditors including taxation and social security	17	745,513	372	745,885	122,951	5,379,000	5,501,951
		8,444,352	372	8,444,725	2,716,979	5,379,000	8,095,979
Accruals and Deferred income							
		277,359	-	277,359	215,165	13,600	228,765
Total Liabilities							
		38,389,822	327,488	38,717,310	13,702,503	5,457,899	19,160,402

Approved by the Board on 3 September 2013

AK Quilter

The Accounting Policies and Notes on pages 15 to 28 form part of these Financial Statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	Year ended 31.12.2012 £	Period ended 31.12.2011 £
Profit for the Financial Year		4,496,633	455,992
Exchange gains and losses		-	-
Total Recognised Gains and Losses Relating to the Year	14	<u>4,496,633</u>	<u>455,992</u>

The Accounting Policies and Notes on pages 15 to 28 form part of these Financial Statements

ACCOUNTING POLICIES

Basis of Preparation

The Financial Statements are prepared under the historical cost basis of accounting modified to include the revaluation of investments and comply with applicable Accounting Standards

The Company participates in insurance business as an underwriting member of various Syndicates at Lloyd's

The Financial Statements have been prepared in accordance with Section 396(3) of the Companies Act 2006, Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005, as amended in December 2006, except that exchange differences arising on syndicate assets and liabilities are dealt with in the Technical Account as all of these differences arise from technical account transactions

Accounting information in respect of the Syndicate participations has been provided by the Syndicate's managing agent and has been reported upon by the Syndicate auditors

Going Concern

The Company participates as an underwriting member at Lloyd's on the 2011 and 2012 years of account that remain open at the balance sheet date, and has continued this participation on the 2013 year of account. The Company's underwriting is supported by Funds at Lloyd's totalling £10,998,000 provided by other Group companies. The Company has net assets at the balance sheet date of £5,153,000 (2011 - £556,000). The Directors have a reasonable expectation that the Company has adequate resources to meet its underwriting and other operational obligations for the foreseeable future. Accordingly they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements

Basis of Accounting

The Financial Statements are prepared using the annual basis of accounting. Under the annual basis of accounting a result is determined at the end of each accounting period reflecting the profit or loss from providing insurance coverage during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods

Amounts reported in the general business technical account relate to movements in the period in respect of all relevant years of account of the Syndicates on which the Company participates

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the Syndicates' managing agents. Accordingly, these assets and liabilities have been shown separately in the balance sheet as "Syndicate Participation". In addition the quota share premium payable to R&Q Re (Bermuda) Limited, as shown in note 16, is also included in the "Syndicate Participation" column. Other assets and liabilities are shown as "Corporate". The syndicate assets are held subject to trust deeds for the benefit of the Syndicates' insurance creditors

ACCOUNTING POLICIES

General Business

The information included in these Financial Statements in respect of the Syndicates has been supplied by the Managing Agent based upon the various accounting policies they have adopted. The following describes the policies they have generally adopted.

I Premiums

Premiums written comprise the total premiums receivable in respect of business inception during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the syndicates on which the Company participates, less an allowance for cancellations. All premiums are shown gross of commission payable to intermediaries and exclude taxes and duties levied on them.

II Unearned Premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis having regard where appropriate, to the incidence of risk. The specific basis adopted by each syndicate is determined by the relevant managing agent.

III Deferred Acquisition Costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

IV Reinsurance Premiums

Reinsurance premium costs are allocated by the Managing Agent of each syndicate to reflect the protection arranged in respect of the business written and earned.

V. Claims Incurred and Reinsurers' Share

Claims incurred comprise claims and settlement expenses (both internal and external) occurring in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and settlement expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by each syndicate's in-house reserving team and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to each syndicate's reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Each syndicate uses a number of statistical techniques to assist in making these estimates.

ACCOUNTING POLICIES

V Claims Incurred and Reinsurers' Share (continued)

Accordingly the two most critical assumptions made by each syndicates managing agent as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used including pricing models for recent business are reasonable indicators of the likely level of ultimate claims to be incurred

The level of uncertainty with regard to the estimations within these provisions generally decreases with time since the underlying contracts were exposed to new risks. In addition the nature of short tail claims such as property where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long tail risks such as some liability business where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The provisions for gross claims and related reinsurance recoveries have been assessed on the basis of the information currently available to the directors of each syndicate's managing agent. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly

VI. Unexpired Risks Provision

Provisions for unexpired risks are made where the costs of outstanding claims, related expenses and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the balance sheet date. 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. The provision is made on a syndicate by syndicate basis by the relevant managing agent

VII Closed Years of Account

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated cost of claims incurred but not reported at that date, and an estimate of future claims handling costs. Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The company has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current period, and no further provision is made for any potential variation in the ultimate liability of that year of account

ACCOUNTING POLICIES

VIII Run-off Years of Account

Where an underwriting year of account is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

IX Net Operating Expenses (including Acquisition Costs)

Net operating expenses include acquisition costs, profit and loss on exchange and other amounts incurred by the syndicates on which the Company participates.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the Balance Sheet date.

X. Distribution of Profits and Collection of Losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

XI Investments

Investments are stated at current value, including accrued interest at the Balance Sheet date.

XII Investment Return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

Realised and unrealised gains and losses are measured by reference to the original cost of the investment if purchased in the year, or if held at the beginning of the year by reference to the current value at that date.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting the underwriting business.

XIII Basis of currency translation

Syndicates maintain separate funds in Pounds Sterling, United States dollars, Canadian dollars and Euros.

Income and expenditure in US dollars, Canadian dollars and Euros is translated at the average rate of exchange for the year. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities are translated into sterling at the rates of exchange at the Balance Sheet date.

ACCOUNTING POLICIES

XIII Basis of currency translation (continued)

All differences arising on the translation of foreign currency amounts in syndicates are included in the technical account within net operating expenses irrespective of their treatment by the underlying syndicates. The underlying syndicates have adopted different accounting policies including the non-retranslation of non-monetary items by some and retractions to year end values within the Statement of Recognised Gains and Losses by others.

XIV Debtors/Creditors arising from insurance/reinsurance operations

The amounts shown in the balance sheet include the totals of all the Syndicates outstanding debit and credit transactions as processed by the Lloyd's central facility; no account has been taken of any offsets which may be applicable in calculating the net amounts due between the Syndicates and each of their counterparty insureds, reinsurers or intermediaries as appropriate.

Taxation

The company is taxed on its results including its share of underwriting results declared by the syndicates and these are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results included in these financial statements are only declared for tax purposes in the calendar year following the normal closure of the year of account. No provision is made for corporation tax in relation to open years of account. However, full provision is made for deferred tax on underwriting results not subject to current corporation tax.

The taxable results of the syndicates at a syndicate level are calculated by the managing agent and computations submitted to HM Revenue & Customs (HMRC). Any adjustments that may be necessary to the tax provisions established by the Company, as a result of any HMRC enquiry into these computations, will be reflected in the financial statements of subsequent periods.

Deferred Taxation

Deferred tax is provided in full on timing differences which 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 tax rates and law.

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.

Cash Flow Statement

The company has taken advantage of the exemption under Financial Reporting Standard 1 (Revised), "Cash Flow Statements", from preparing a cash flow statement on the grounds that R&Q Capital No 1 Limited is a subsidiary undertaking, where 90% or more of the voting rights are controlled by Randall and Quilter Investment Holdings plc, and it is included within the publicly available consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Class of Business

	Gross premiums written £	Gross premiums earned £	Gross claims incurred £	Net operating expenses £	Reinsurance balance £	Total £
2012						
Accident and health	411,144	411,144	1,420,481	(85,546)	104,647	1,850,726
Motor (third party liability)	-	-	-	-	-	-
Motor (other classes)	34	34	349,968	(23,900)	123,104	449,206
Marine and aviation	2,890,379	1,821,148	387,953	(776,742)	(637,981)	794,378
Transport	87,025	67,145	714,663	(153,606)	(129,652)	498,550
Energy	1,320,320	826,210	(123,927)	(379,764)	212,029	534,548
Fire and other damage to property	46,200	46,200	3,960,717	(235,797)	682,497	4,453,617
Third party liability	3,708	3,708	2,974,166	(151,550)	(503,404)	2,322,920
Pecuniary Loss	(3,173)	(3,173)	1,079,573	(101,724)	(65,060)	909,616
Total Direct	4,755,637	3,172,416	10,763,594	(1,908,629)	(213,820)	11,813,561
Reinsurance Balance	95,495	95,495	(1,083,081)	(44,771)	(5,752,270)	(6,784,627)
Total	4,851,132	3,267,911	9,680,513	(1,953,400)	(5,966,090)	5,028,934
	Gross premiums written £	Gross premiums earned £	Gross claims incurred £	Net operating expenses £	Reinsurance balance £	Total £
2011						
Accident and health	7,325	7,325	111,846	(5,330)	(20,731)	93,109
Motor (third party liability)	-	-	134	(8)	-	126
Motor (other classes)	6	18	(3,402)	(231)	-	(3,615)
Marine and aviation	1,138,368	644,871	611,476	(414,154)	120,888	963,080
Transport	97,275	51,228	(27,374)	(26,137)	(9,833)	(12,117)
Energy	699,209	368,225	(172,948)	(165,125)	(73,303)	(43,150)
Fire and other damage to property	32,184	32,184	13,754	(126)	(8,498)	37,314
Third party liability	12,420	12,420	1,222,164	(17,699)	(1,020,724)	196,161
Pecuniary Loss	(2,206)	(2,206)	(333,840)	(29,950)	(100,891)	(466,887)
Total Direct	1,984,581	1,114,065	1,421,810	(658,760)	(1,113,091)	764,023
Reinsurance Balance	(218,466)	(218,479)	1,357,017	(51,568)	(1,282,692)	(195,722)
Total	1,766,115	895,586	2,778,827	(710,328)	(2,395,784)	568,301

NOTES TO THE FINANCIAL STATEMENTS**2 Geographical Analysis**

	Year ended 31 December 2012 £	Period ended 31 December 2011 £
Direct Gross Premium Written in:		
United Kingdom	4,755,637	1,984,581
Other EU Member States	-	-
Rest of the World	-	-
	4,755,637	1,984,581

3 Net Operating Expenses

Acquisition costs	922,876	320,924
Change in deferred acquisition costs	(356,643)	(138,831)
Administrative expenses	1,302,479	578,229
Loss/(Profit) on exchange	84,688	(49,994)
	1,953,399	710,328

4 Investment Income

Income from investments	858,660	147,584
Realised gains on investments	20,766	2,402
Bank deposit interest	2,600	505
	882,027	150,491

5 Investment Expenses and Charges

Investment management expenses	9,023	7,542
Losses on the realisation of investments	36,812	26,452
	45,835	33,994

6 Profit on Ordinary Activities before Taxation

This is stated after charging/(crediting)

Directors' remuneration	-	-
Auditors' remuneration - audit of the Financial Statements	12,000	15,000
Exchange (gain) or loss – Non-Technical Account	-	-

The Company has no employees. Directors costs are borne by a fellow group undertaking and no re-charges are made to the Company.

NOTES TO THE FINANCIAL STATEMENTS**7 Taxation**

	Year ended 31 December 2012 £	Period ended 31 December 2011 £
Analysis of Charge in the year		
Current tax		
UK corporation tax on profit of the year	-	-
Adjustments in respect of prior years group relief	(173,128)	-
Double taxation relief	-	-
Foreign tax	-	-
Total current tax	(173,128)	-
Deferred tax		
Origination and reversal of timing differences	1,535,424	145,000
Effects of change in tax rate on opening liability	(11,600)	-
	1,350,696	145,000
Factors affecting tax charge for the year		
The tax assessed for the period is different to the standard rate of corporation tax in the UK. The differences are explained below		
Profit on ordinary activities before tax	5,847,329	600,992
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011 - 26.5%)	1,432,595	159,263
Effects of		
Timing difference on underwriting profits	(1,435,366)	(168,459)
Expenses not deductible for tax purposes	37	-
Trading losses carried forward	2,734	9,196
Adjustments in respect of prior years	(173,128)	-
Current tax charge for the year	(173,128)	-
Factors that may affect future tax charges		

The company has trading losses of £290,037 (2011 - £34,701) available for carry forward against future profits, which if utilised, should significantly reduce tax payments in subsequent years

The results of the Company's participation on the 2011 and 2012 years of account will not be assessed to tax until the year ended 31 December 2013 and 2014 respectively being the year after the calendar year result of the normal date of closure of each year of account. In addition, tax only Claims Equalisation Reserves (CER) may further affect the timing of the taxation of underwriting profits. At 31 December 2012 the Company had a CER of £Nil (period ended 31 December 2011 - £Nil) which will be subject to UK corporation tax as it is released in future years

NOTES TO THE FINANCIAL STATEMENTS

8 Investments

Other Financial Investments - Syndicate

	Year ended 31 December 2012		Period ended 31 December 2011	
	Market value £	Cost £	Market value £	Cost £
Shares and other variable yield securities and units in unit trusts	2,247,812	2,247,811	403,122	403,122
Debt securities and other fixed income securities	3,081,160	3,091,181	6,051,992	6,093,297
Participation in investment pools	19,097,321	19,097,321	-	-
Other	98,440	98,440	-	-
	<u>24,524,733</u>	<u>24,534,753</u>	<u>6,455,114</u>	<u>6,496,418</u>
Listed investments included within the above	<u>24,524,733</u>	<u>24,534,753</u>	<u>6,455,114</u>	<u>6,496,418</u>

9 Debtors arising out of Direct Insurance and Reinsurance Operations

	Year ended 31 December 2012			Period ended 31 December 2011		
	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Direct insurance operations						
Policyholders	-	-	-	-	-	-
Intermediaries	2,614,860	-	2,614,860	1,300,959	-	1,300,959
	<u>2,614,860</u>	<u>-</u>	<u>2,614,860</u>	<u>1,300,959</u>	<u>-</u>	<u>1,300,959</u>
Reinsurance operations	754,972	-	754,972	217,433	-	217,433
	<u>754,972</u>	<u>-</u>	<u>754,972</u>	<u>217,433</u>	<u>-</u>	<u>217,433</u>

NOTES TO THE FINANCIAL STATEMENTS

10 Other Debtors

	Year ended 31 December 2012			Period ended 31 December 2011		
	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Amounts due from group undertakings	-	326,369	326,369	-	75,271	75,271
Other	1,836,723	-	1,836,723	1,289,435	-	1,289,435
	1,836,723	326,369	2,163,092	1,289,435	75,271	1,364,706

11 Cash at Bank and in Hand

	Year ended 31 December 2012			Period ended 31 December 2011		
	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Lloyd's deposit	-	-	-	-	5,379,000	5,379,000
Cash at bank	1,470,209	1,119	1,471,328	1,116,902	3,628	1,120,530
	1,470,209	1,119	1,471,328	1,116,902	5,382,628	6,499,530

The Lloyd's deposit represents monies deposited with the Corporation of Lloyd's (Lloyd's) to support the Company's underwriting activities as described in the Accounting Policies

NOTES TO THE FINANCIAL STATEMENTS

12 Called-up Share Capital

	2012	2011
	Allotted, called-up and fully paid	
	£	£
Ordinary shares of £1 each	100,000	100,000
A shares of £1 each	5,544	-
B shares of £1 each	5,555	-
	<u>111,099</u>	<u>100,000</u>

During the year the Company issued 5,544 A shares of £1 each for a total consideration of £50,005 and 5,555 B share of £1 each for a total consideration of £49,995 giving rise to a share premium amount of £88,901

13 Profit and Loss Account

	Year ended 31 December 2012			Period ended 31 December 2011		
	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
At 1 January 2012	635,693	(179,701)	455,992	-	-	-
Profit for the financial period	5,858,640	(1,362,007)	4,496,633	635,693	(179,701)	455,992
Retained profit carried forward	<u>6,494,333</u>	<u>(1,541,708)</u>	<u>4,952,625</u>	<u>635,693</u>	<u>(179,701)</u>	<u>455,992</u>

14 Reconciliation of Movements in Shareholders' Funds

	Year ended 31 December 2012 £	Period ended 31 December 2011 £
Opening shareholders' funds	555,992	1
Issue of shares	11,099	99,999
Share premium	88,901	-
Profit for the financial period	<u>4,496,633</u>	<u>455,992</u>
Closing shareholders' funds	<u>5,152,625</u>	<u>555,992</u>

NOTES TO THE FINANCIAL STATEMENTS

15 Deferred Taxation

	Year Ended 31 December 2012 £	Period ended 31 December 2011 £
Opening balance	145,000	-
Profit and loss account charge	1,523,824	145,000
Closing balance	1,668,824	145,000
Analysis of Provision for Deferred Taxation		
Timing differences arising from the taxation of underwriting results	1,735,532	153,000
Tax losses carried forward	(66,709)	(8,000)
Closing balance	1,668,824	145,000
Deferred tax has been calculated at a rate of 23% (2011 – 25%)		

16. Creditors arising out of Direct Insurance and Reinsurance Operations

	Year ended 31 December 2012			Period ended 31 December 2011		
	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Direct insurance operations						
Falling due within one year	622,606	-	622,606	983,558	-	983,558
Due after one year	-	-	-	-	-	-
	622,606	-	622,606	983,558	-	983,558
Reinsurance operations						
Falling due within one year						
Other	1,174,814	-	1,174,814	378,835	-	378,835
Amounts due to group Companies	5,901,418	-	5,901,418	1,051,459	-	1,051,459
Due after one year	-	-	-	2,743	-	2,743
	7,076,232	-	7,076,232	1,433,037	-	1,433,037

The amounts due to group Companies represent the quota share premium payable to R&Q Re (Bermuda) Limited under various quota share arrangements.

NOTES TO THE FINANCIAL STATEMENTS

17 Creditors

	Year ended 31 December 2012			Period ended 31 December 2011		
	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Other creditors	745,513	373	745,885	122,951	-	122,951
Amount due to group Undertakings	-	-	-	-	5,379,000	5,379,000
	745,513	373	745,885	122,951	5,379,000	5,501,951

18 Related Parties

In addition to the quota share premium payable to R&Q Re (Bermuda) Limited disclosed in Note 16, is £326,369 (2011 £75,271) due from Randall & Quilter Group Companies (see Note 10) £172,931 (2011 £Nil) is due from various Group Companies in respect of Group Relief. The remaining £153,438 (2011 £75,271) is due from Randall & Quilter II Holdings Limited.

Mr H N A Colthurst, a Director of the Company, was issued with 5,544 £1 A ordinary shares and 5,555 £1 B ordinary shares for a total consideration of £100,000.

There are no other related party transactions.

19 Funds at Lloyd's

The Company's Lloyd's underwriting is supported by funds at Lloyd's of £10,998,000 (2011 £126,000) held in the name of R&Q Re (Bermuda) Limited and Randall & Quilter Investment Holdings plc.

The Company has entered into a Lloyd's Deposit Trust Deed which gives the Corporation the right to apply these monies in settlement of any claims arising from the participation on the syndicates. These monies can only be released from the provision of this Deed with Lloyd's express permission and only in circumstances where the amounts are either replaced by an equivalent asset, or after the expiration of the Company's liabilities in respect of its underwriting.

NOTES TO THE FINANCIAL STATEMENTS

20 Syndicate Participation

Syndicate No.	Managing Agent	Allocated capacity per underwriting year		
		2013 £'000	2012 £'000	2011 £'000
102	R&Q Managing Agency Limited	-	-	700
1897	R&Q Managing Agency Limited	5,833	5,000	5,000
3330	R&Q Managing Agency Limited	-	3,000	-
1991	R&Q Managing Agency Limited	17,500	-	-
		23,333	8,000	5,700

21 Ultimate Group Undertaking and Ultimate Controlling Party

The immediate parent undertaking is Randall & Quilter II Holdings Limited, a company registered in England and Wales

Group financial statements are prepared by the ultimate parent undertaking, Randall & Quilter Investment Holdings plc, a company registered in England and Wales, and can be obtained from 110 Fenchurch Street, London, EC3M 5JT

The Directors are of the opinion that there is no ultimate controlling party