

Hampden Underwriting plc
ANNUAL REPORT AND FINANCIAL STATEMENTS 2011



Hampden Underwriting plc has been incorporated primarily to provide a limited liability direct investment into the Lloyd's insurance market in the UK



Highlights

- » Premium written during the period totalled £7.7m
- » Net loss of £387,000
- » Loss per share of 5.22p
- » Net assets decrease to £7.5m
- » Net assets per share of £1.01

Financial results

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---------------------------|--|--|
| Gross premium written | 7,715 | 7,887 |
| (Loss)/profit before tax | (604) | 128 |
| (Loss)/profit after tax | (387) | 132 |
| (Loss)/earnings per share | (5.22)p | 1.78p |

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Chairman's statement



Time now right for expansion.

Summary

- » Despite 2011 being the second worst year on record for catastrophe losses, our NAV per share remains over £1.
- » Time now right for expansion.
- » Intention to pay an interim dividend later in the year.

There have been many examples since corporate capital was first introduced into Lloyd's of companies whose ambition in the early years was too high and whose underwriting limit in comparison to its underlying assets was also too high. A substantial loss came along and the company was not even in a position to meet its solvency requirements to maintain its existing underwriting levels let alone take advantage of an improving underwriting climate by increasing its capacity. I am delighted to be able to say that we do not fall into that category.

The principal task in the formative years of an underwriting company has to be the safe custodianship of the company's assets, all the more so in a difficult underwriting climate. This has also been achieved.

Whilst it gives me no pleasure to be reporting a loss in 2011, that has to be looked at in the context of the year being the second worst on record for catastrophe losses. That said your Company was well placed to deal with the loss and remains well capitalised to take full advantage of the improved conditions that inevitably follow losses of such severity and indeed diversity. Our net asset value ("NAV") has fallen as a consequence but is still over £1 per share and if one looks at the value of our capacity using the most recent auction figures as opposed to the amortised value in the balance sheet, it is actually worth a further £1.1m, equivalent to approximately 15p a share. When compared to the Lloyd's quoted

sector as a whole, all companies bar one saw a greater fall in their net tangible assets as a result of the events of 2011 than we did.

We have got off to a good start and have done what we said we would do. However, we are far too small and that is one of the reasons why the good start is not reflected in our share price which remains subject to violent swings when shares are either bought or sold. As I said last year we need more shares in the hands of more shareholders. It was always our intention to endeavour to raise fresh capital to enable us to do more of what we are currently doing but only when the time was right. That time is now. We are involved in continuing discussions with our advisers about raising capital which will of course involve giving you, our existing shareholders, the opportunity to participate. We hope to be able to tell you more about these plans in the near future.

We remain committed to implementing the policy of paying steady and sustained dividends. The uncertainty I spoke of last year concerning the full implications of the 2011 losses that prevented us from initiating that policy are still being felt. In these circumstances, we still feel that it would be imprudent to declare a dividend at this stage but it is our intention to pay an interim dividend later in the year.

Sir Michael Oliver
Non-executive Chairman
22 May 2012

Lloyd's Adviser's report



Summary

- » The demand component is expected to continue to improve rates with A M Best projecting an increase of 3.8% in US insurance net written premium for 2012.
- » We continue to be more positive about US catastrophe exposed reinsurance with that market being boosted this year due to a change in a leading model for catastrophe losses.
- » In 2011 Lloyd's received 41% of its income from the US and Canada with Lloyd's having overtaken American International Group as the largest underwriter of US excess and surplus lines insurance business in 2010.
- » The combined ratio of Hampden Underwriting's portfolio for 2011 was 107.9%.
- » Despite catastrophic losses, net tangible assets reduced by only 2.5% in 2011.

2011 review and outlook for 2012

Total insured losses for the global insurance industry from natural catastrophes in 2011 totalled \$110bn, making 2011 the second most expensive year for the industry after 2005, when insured losses, according to Swiss Re Sigma, were \$123bn including over \$100bn from Hurricanes Katrina, Rita and Wilma. Most of the losses in 2011 came from the earthquake in Japan in March costing an estimated \$35bn and the New Zealand earthquake in February which, while technically an aftershock of the September 2010 event, cost \$12bn, becoming the country's most expensive disaster ever. Later in the year (between July and November 2011) an area in Thailand roughly equivalent to the size of Switzerland flooded, causing the highest insured loss from global fresh water floods, estimated at \$12bn.

Hurricane losses were moderate with Hurricane Irene being the first hurricane to make landfall in the US since Hurricane Ike in 2008, causing an estimated \$5.3bn of insured losses. Taken together, US insured losses in 2011 were the fifth highest on record, exceeding \$35bn with a series of spring tornado losses estimated at \$21.3bn, significantly above the 20 year inflation adjusted average of \$5.2bn between 1991 and 2010.

Catastrophe losses contributed to the US property/casualty insurance industry making an underwriting loss of \$36bn, representing the second largest annual underwriting loss ever, behind the \$52.3bn underwriting loss in 2001. Despite these underwriting losses, investment gains (income and realised capital gains) enabled an overall net profit after tax of \$19.2bn.



“Lloyd’s market position as one of the largest US catastrophe reinsurers and No.1 US excess and surplus lines insurer means that Lloyd’s is well placed to begin to take advantage of the rating environment provided it continues to improve.”

2011 review and outlook for 2012 continued

Industry capital remains strong for both insurers and reinsurers despite the catastrophe losses suffered in 2011. The policyholders’ surplus of the US property casualty industry, a proxy for underwriting capacity, boosted by unrealised capital gains declined by only 1.6% to \$550.3bn at year end 2011 compared with the record policyholders’ surplus of \$556.9bn at year end 2010. Aon Benfield Analytics estimated that reinsurers’ capital fell by only 3% during 2011 or \$15bn to \$455bn compared with the record global reinsurance capital available at year end 2010.

The insurance pricing cycle is a classic supply led cycle with demand usually playing a more limited role. Typically demand measured by premium has grown over the long term, being linked to growth in GDP and levels of insurance penetration. However, since 2007 insurance underwriting has been particularly affected by deficient demand during the great recession of 2007–2009 when US net written premiums fell by an aggregate 6.8%, the first three year

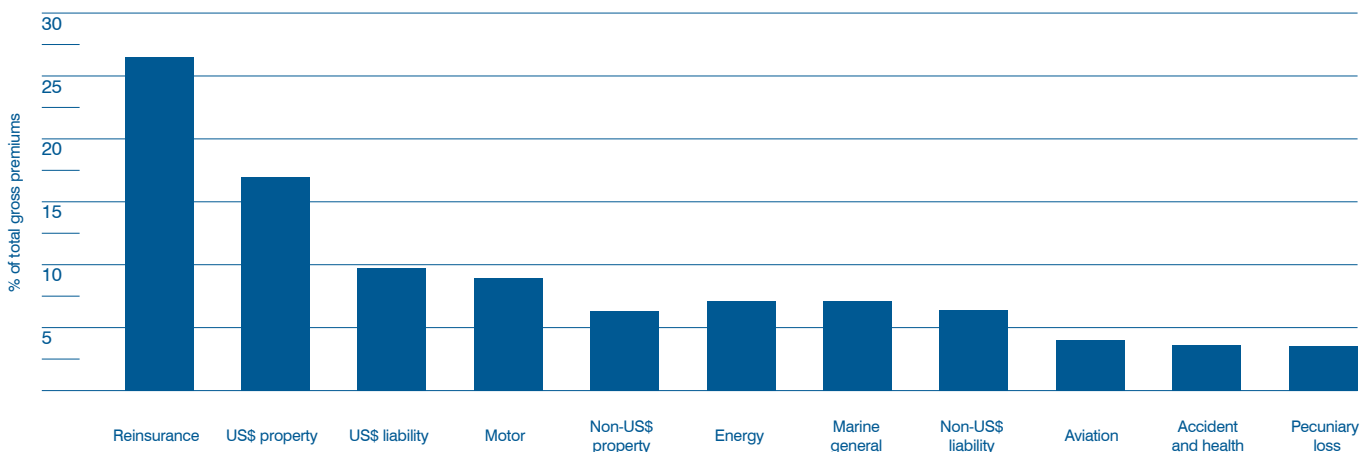
decline since 1930–1933. The 3.3% rise in net written premium growth in 2011 was driven in the main by rate rises rather than exposure growth with US GDP only increasing by 1.7% in 2011. US net written premium was 2.8% lower at year end 2011 than at the end of 2006. The demand component is expected to continue to recover with A M Best projecting an increase of 3.8% in net written premium for 2012, which will have a modest impact on the underwriting capacity required to write business.

The insurance and reinsurance marketplace is now beginning to show signs of a recovery in premium and rates but this is not yet broad, as we saw in 2001/2002. Our outlook is slowly becoming more positive, although we remain cautious overall due to the competition that remains evident in much of the non-catastrophe exposed classes.

Overall, the supply/demand characteristics still mean that we favour reinsurance underwriting where there is currently greater margin in an average loss year than in insurance underwriting. We continue to

Classes of business

Source: 2012 Syndicate Business Forecasts



The two largest classes of business remain reinsurance and US dollar property insurance with both classes seeing rate rises during 2012. Casualty and UK motor exposures provide diversification against the more volatile property catastrophe exposures.

be more positive about US catastrophe exposed reinsurance with that market being boosted this year due to a change in a leading model for catastrophe losses. Since the start of Q3 2011 a new model from the catastrophe loss modelling company, Risk Management Solutions (RMS 11.0), has begun to be implemented by both insurers and reinsurers with exposures to US windstorm and storm surge for exposed coastal areas. Revised loss protections have in some cases increased by 40% to 60%, requiring some insurers to buy increased cover and forcing reinsurance underwriters to increase rates or reduce the amount of capacity they provide.

Rate rises for US catastrophe reinsurance at 1 January 2012 increased by 8% according to reinsurance broker Guy Carpenter, although, taking account of reductions in 2010 and 2011, rates are still lower by 7.5% than they were in 2009. In territories with significant underwriting losses such as Japan, rate increases have been much more significant with Guy Carpenter reporting earthquake excess of loss cover rates now back at 1993/1994 levels with rate increases of between 35% and 125%.

In 2011 Lloyd's received 41% of its income from the US and Canada with Lloyd's having overtaken American International Group as the largest underwriter of US excess and surplus lines ("E&S") insurance business in 2010. As the market leader in E&S business by premium volume Lloyd's is expected to benefit from a hardening market leading to business migrating back to the E&S market from the US admitted market.

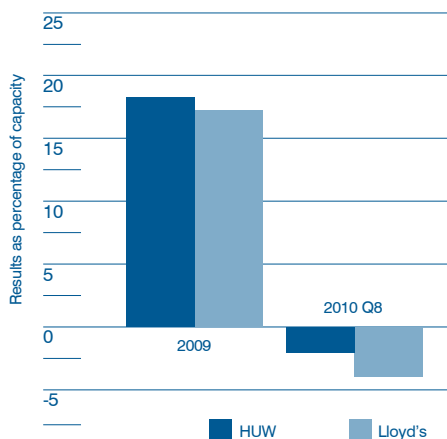
We are currently seeing the start of a hardening market in the US for the commercial property and casualty business, with the Council of Insurance Agents and Brokers quarterly commercial P/C market index survey showing an increase for the first quarter of 2012 of 4.4% following a 2.7% increase in the last quarter of 2011. These increases mark the beginning of a reversal in the trend following 30 quarters of rate declines. The opportunity for Lloyd's to take advantage of a hard market when it arrives can be gauged from the fact that in the last hard market between 2000 and 2003, E&S income in the US increased from \$12bn to over \$30bn in a four year period.

The investment component of an insurer's operating result in principle should be a powerful force for underwriting discipline. The New York based Insurance Information Institute estimates that a 100% combined ratio, i.e. breakeven underwriting result before investments, would have generated a 5.5% return on equity in 2009/2010 compared with 10% in 2005 and 16% in 1979 when interest rates were so much higher. The recovery in asset markets since 2009 accompanied by further declines in interest rates and credit spreads have benefited insurers' profit and loss accounts with realised gains as well as balance sheets with unrealised gains. However, these may be one-off gains as maturing bonds and new premium are being invested at much lower yields and importantly locking in these low yields for the duration of the bond.

This long-term loss of investment yield will have a particular impact on casualty underwriting where premiums can be held for a "tail" of five to eight years before a claim is paid. Most lines of casualty,

Lloyd's Adviser's report continued

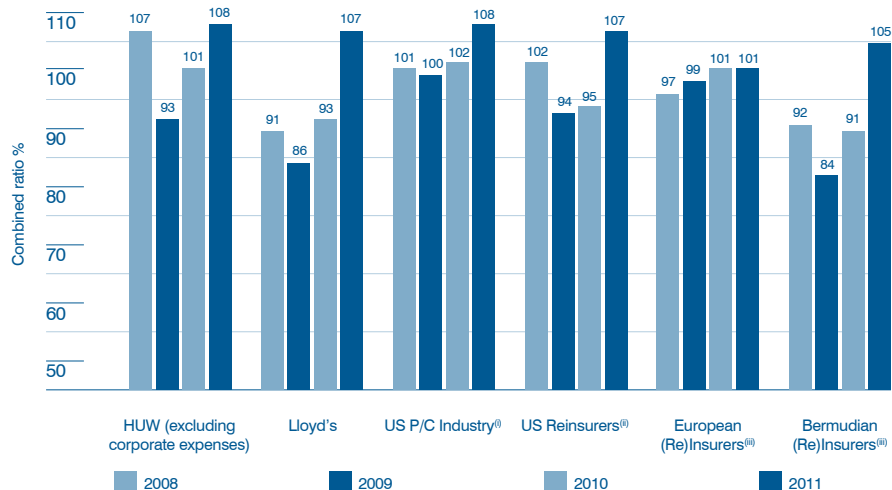
2009 account results and 2010 account estimate results



2009 results are as at 36 months
2010 estimated result derived from mid-point of 2011 Q4 syndicate estimates

All results are after standard personal expenses but before members' agents' charges

Combined ratio comparative performance with peer groups



Sources: Lloyds 2011 Analyst Presentation; i) Insurance Information Institute (estimate – 2011); ii) Reinsurance Association of America; iii) Company data (eight European companies, 17 Bermudian companies)

2011 review and outlook for 2012 continued

both in the US and non-US, other than loss affected business, remain competitive with rates stable overall. The reason for this is that in particular the 2004 through to 2007 accident years have continued to run off well, showing reserve releases, although recent research from Moody's indicates that the more recent accident years from 2009 and 2010 may have small deficiencies in reserves. So far, the predominant influence has been reserve releases, although going forward this is expected to abate over the next two years and contribute to the transition we are seeing from a soft market to a hardening market.

Overall, the market is "turning the corner" with signs of a broadening out of rate increases from business with loss experience and US catastrophe reinsurance to direct classes, particularly for US business. Disappointingly, casualty remains soft and we do not envisage this changing over the next 12 months.

The economy is likely to continue to have an influence during 2012. If the US economy continues its recovery exposure growth will improve and we would expect rates to continue to harden. Lloyd's is well placed to take advantage given its market position as one of the largest US catastrophe reinsurers and the No.1 US excess and surplus lines insurer measured by premium volume.

However, a further US recession could lead again to curtailed demand and the potential for recession sensitive claims as well as slowing the rate of recovery in the sectors where rates are rising. The continuing impact of the sovereign debt crisis in peripheral Europe is something which has the potential to impact both the asset (investments) and liability (claims) sides of the balance sheet. Lloyd's is well prepared having carried out stress tests on the potential impact of any euro sovereign debt write downs and restructurings.

Hampden Underwriting's 2011 results

The traditional method for comparing the performance of competing insurance business is an analysis of the combined ratio, which is the sum of net claims and expenses divided by net earned premiums. The combined ratio of Hampden Underwriting's portfolio for 2011 was 107.9% due in the main to catastrophe losses from property reinsurance as well as a continued disappointing performance by UK motor. This puts Hampden's Underwriting's performance in line with the average of its peers in Lloyd's as well as industry peer groups.

Syndicate profit distributions

Profit distributions from Hampden Underwriting's portfolio of syndicates continue to be made by reference to the traditional three year accounts. Using this measure of performance Hampden Underwriting's portfolio has outperformed Lloyd's on the 2009 account at 31 December 2011 and is estimated to outperform Lloyd's on the 2010 account.

Top 10 syndicate holdings

| Syndicate | Managing agent | 2012 Syndicate capacity £'000 | 2012 HCM portfolio capacity £'000 | 2012 HCM portfolio % of total | Largest class |
|-----------------|---------------------------------|--|--|--|-------------------------------|
| 2791 | Managing Agency Partners Ltd | 508,003.7 | 1,527.4 | 16.4 | Reinsurance |
| 510 | R. J. Kiln & Co. Ltd | 1,064,000.0 | 1,479.9 | 15.9 | US\$ property |
| 623 | Beazley Furlonge Ltd | 214,697.1 | 1,158.8 | 12.5 | US\$ Non-marine liability |
| 609 | Atrium Underwriters Ltd | 420,000.0 | 941.7 | 10.1 | Energy |
| 33 | Hiscox Syndicates Ltd | 949,995.6 | 734.2 | 7.9 | Reinsurance |
| 218 | Equity Syndicate Management Ltd | 437,624.0 | 566.9 | 6.1 | Motor |
| 958 | Omega Underwriting Agents Ltd | 279,999.7 | 434.9 | 4.7 | Reinsurance |
| 6111 | Catlin | 60,000.0 | 398.4 | 4.3 | Reinsurance |
| 386 | QBE Underwriting Ltd | 413,000.9 | 312.0 | 3.4 | Non-US\$ Non-marine liability |
| 557 | R. J. Kiln & Co. Ltd | 60,000.0 | 271.2 | 2.9 | Reinsurance |
| Subtotal | | | 7,825.3 | 84.1 | |
| Total | | | 9,307.0 | 100.0 | |

The top ten syndicates comprise 84.1% of the portfolio. Two new syndicates were joined for 2012, managed by the Catlin and Pembroke agencies.

The 2009 account result at 31 December 2011, before members' fees, was a profit of 18.27%, which is just over one percentage point above the Lloyd's market average result of 17.25%. The 2009 account benefited from good rates for property catastrophe reinsurance business coinciding with a year of low catastrophe losses and the absence of a large hurricane making landfall. Hampden Underwriting's portfolio benefited in particular from its participation on reinsurance business through special purpose reinsurance syndicates managed by managing agency partners, Hiscox and Amlin, which compensated for losses on two UK motor syndicates.

The 2010 account estimated result after eight quarters at Q4 2011 is a small loss at the mid-point of (2.04%) with Hampden Underwriting again outperforming the estimated loss of the Lloyd's market as a whole (3.95%). The majority of the insured losses on the 2010 account were due to catastrophe losses occurring in 2011.

Again, like 2009, no hurricanes made direct landfall in the US but insured catastrophe losses were 65% higher at \$43bn compared with 2009. At this stage of development most syndicates do not report any prior year releases, which provides potential for the estimated result to improve, before closure at the end of 2012.

At this early stage of development of the 2011 account a complete set of published estimates is not available until the end of May 2012. This account is expected to produce a modest loss in line with the 2010 account, with the largest loss expected to be due to the Thai floods.

Hampden Underwriting's capital position

Net tangible assets reduced by only 2.5% during 2011 to £6.43m despite the catastrophe losses suffered, which puts the Company in a strong financial position to develop the portfolio as

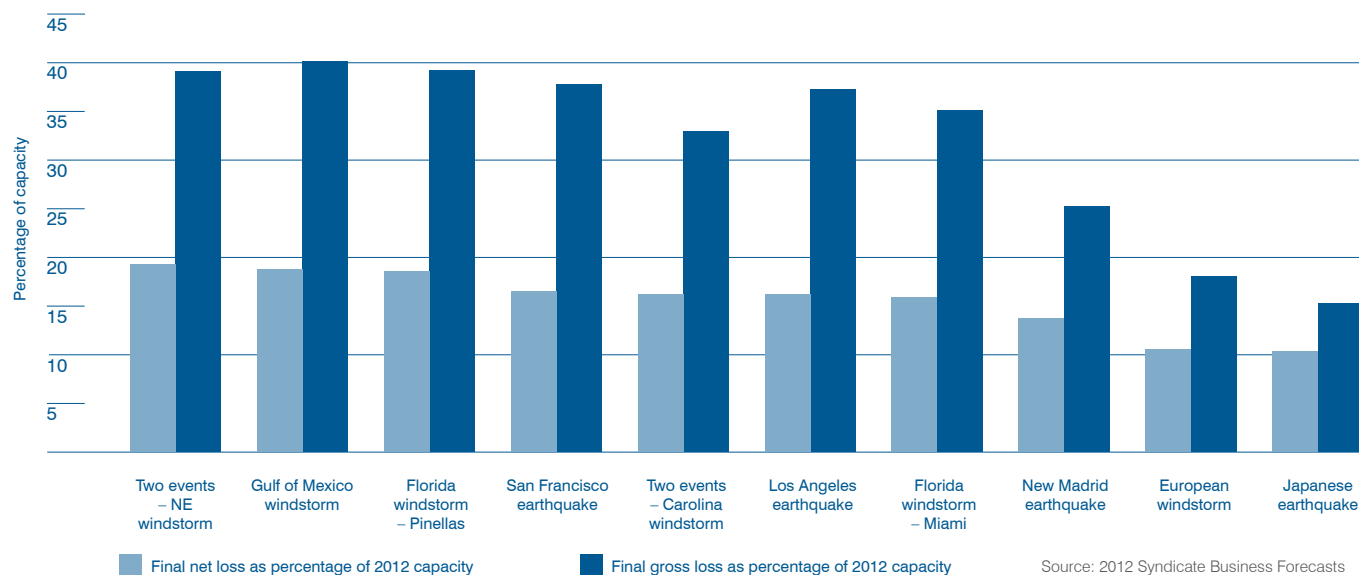
and when opportunities arise. Net tangible assets provide a significant capital surplus over the Lloyd's minimum capital requirement as at November 2011 which was just under £4m.

Hampden Underwriting's portfolio for 2012

Hampden's underwriting portfolio for 2012 continues to provide a good spread of business across managing agents and classes of business with motor and liability providing a balance to the catastrophe exposed reinsurance and property business, as well as contributing to lower capital requirements. 29.9% of the capacity is in the three syndicates rated "A" by Hampden Agencies, being Syndicates 386, 609 and 2791, with Syndicate 2791 being the largest holding at 16.4% of capacity.

Lloyd's Adviser's report continued

Realistic disaster scenarios



Risk management

The two major risks faced by insurers and reinsurers are deficient loss reserves and inadequate pricing, which, taken together, account for 40% of insurer impairments according to A M Best. The pricing cycle is easier to identify in real time. The reserving cycle is more difficult to identify in real time as typically reserving standards slip after a period of reserve releases and there is a lag before this is recognised. Hampden Agencies approaches the management of portfolio risk by diversifying across classes of business, syndicates and managing agents and importantly understanding the cycle management and reserving strategy of each syndicate as well as the rate environment.

We also assess the downside in the event of a major loss through monitoring the aggregate losses estimated by managing agents to realistic disaster scenarios. Risk is assessed in the context of potential return with catastrophe exposure being actively managed dependent on market conditions. With improved rating in reinsurance business for 2012 this class of business is likely to increase its share of gross premium. Hampden Underwriting's largest modelled exposures net of reinsurance on the basis of Lloyd's realistic disaster scenarios are similar for 2012 compared with 2011, with the largest remaining a two-event scenario incorporating two consecutive Atlantic seaboard windstorms in the north-east of America at 19.2% of capacity net of reinsurance.

The next highest is a Gulf of Mexico windstorm at 18.7% of capacity net. Realistic disaster scenario exposure as a percentage of capacity remains for all scenarios within the 20% net of reinsurance Hampden Agencies guideline.

Directors

Sir James Michael Yorrick Oliver, aged 70 (Non-executive Chairman)

Sir Michael Oliver is chairman of a specialised Central and Eastern European fund. He was previously a director, Investment Funds at Hill Samuel Asset Management and of Scottish Widows Investment Partnership Limited. He was a partner in stockbrokers Kitkat & Aitken for 20 years and subsequently managing director of Carr Kitkat & Aitken between 1990 and 1993.

John Andrew Leslie, aged 66 (Non-executive Director)

Andrew Leslie has 40 years' experience as an insurance broker. He started his career with Leslie & Godwin in 1967, where he held a number of senior positions, until he left to join Morgan Read and Coleman as a director. In 1991 he and three others effected a management buy out of the company which was then purchased by Arthur J. Gallagher (UK) Limited in 1996. Until recently he was a main board director of Arthur J. Gallagher (UK) Limited.

Jeremy Richard Holt Evans, aged 53 (Non-executive Director)

Jeremy Evans joined Minorities Underwriting Agencies in 1993, which was subsequently transferred to Aberdeen Underwriting Advisers Limited, with specific responsibility for its corporate capital plans, including the development of a conversion scheme for existing members. He is the managing director of Nomina plc as well as being a director of Hampden Capital plc.

Harold Michael Clunie Cunningham, aged 63 (Non-executive Director)

Michael Cunningham joined Neilson Hornby Crichton & Co in 1976, becoming a partner in 1981. In 1986, he became a director of Neilson Cobbold Limited, formerly Neilson Milnes Limited, which is now part of Rathbone Brothers. He has worked in the investment management business for over 20 years and formerly had responsibility for venture capital trusts and Rathbones Enterprise Investment Scheme portfolios and Inheritance Tax service, which have raised over £100m in total.

Report of the Directors

Year ended 31 December 2011

The Directors present their report and the audited Group Financial Statements for the year ended 31 December 2011.

Principal activities, review of the business and future developments

The Company's principal activity is to provide a limited liability investment for its shareholders in the Lloyd's insurance market.

A more detailed review of the business for the year and outlook for the future are included in the Chairman's Statement and the Lloyd's Adviser's Report.

Results and dividends

The Group result for the year ended 31 December 2011 is shown in the consolidated statement of comprehensive income. The Group loss for the year after taxation was £387,000 (2010: profit £132,000).

No dividend was paid in 2011 (2010: £nil).

Charitable and political donations

During the year, the Group made no political or charitable donations.

Directors and their interests

The Directors who served during the year, together with their beneficial interests in the Company's issued share capital, are shown below:

| Name | Number of ordinary shares shares of 10p each | |
|--------------------|---|---------------------|
| | 31 December 2011 | 31 December 2010 |
| Sir Michael Oliver | 19,000 | 19,000 |
| Andrew Leslie | 20,000 | 20,000 |
| Jeremy Evans | 51,002 | 51,002 |
| Michael Cunningham | 20,500 | 20,500 |

Under the Articles of Association one Director is required to retire from the Board by rotation at the forthcoming Annual General Meeting and offer themselves for re-election as a Director. Andrew Leslie therefore retires by rotation and offers himself for re-election as a Director.

Principal risks and uncertainties

The principal risks and uncertainties to the Group's future cash flows will arise from the Group's participation in the results of Lloyd's syndicates. These risks and uncertainties are mostly managed by the syndicate managing agents. The Group's role in managing these risks and uncertainties, in conjunction with Hampden Agencies Limited, is limited to a selection of syndicate participations and monitoring the performance of the syndicates.

Further information on risks management is disclosed in Note 3 to the Financial Statements.

Corporate, social and environmental responsibility

The Group aims to meet the expectations of its shareholders and other stakeholders in recognising, measuring and managing the impacts of its business activities. The majority of the Group's business activities are carried out by the syndicates in which activities, including employment of syndicate staff, are the responsibility of the syndicate managing agents. Each managing agent also has responsibility for the environmental activities of each syndicate although, by their nature, syndicates do not produce significant environmental emissions.

| Key performance indicators | 2011 | 2010 |
|---|------------|----------|
| Operating (loss)/profit before tax | £(604,000) | £128,000 |
| (Loss)/profit attributable to equity shareholders | £(387,000) | £132,000 |
| (Loss)/earnings per share | (5.22)p | 1.78p |
| Return on equity | (5.2)% | 1.7% |

Other performance indicators

For the reasons described above, the Board of Directors does not consider it appropriate to monitor or report any performance indicators in relation to corporate, social or environmental matters.

Employees

The Group has no employees.

Policy and practice on the payment of creditors

It is the Group's policy to:

- » agree the terms of payment at the commencement of business with suppliers;
- » ensure that suppliers are aware of the terms of payment; and
- » pay in accordance with contractual and other legal obligations.

The number of days' purchases outstanding at 31 December 2011 is nil (2010: nil).

Substantial shareholdings

The substantial shareholders shown below were as at 1 May 2012.

| | Number of shares | % holdings |
|-----------------------------------|------------------|------------|
| Adam & Company (Nominees) Limited | 1,020,500 | 13.77% |
| Hampden Capital plc | 1,014,560 | 13.69% |
| ROY Nominees Limited | 717,500 | 9.68% |
| Pershing Limited | 230,250 | 3.11% |

Disclosure of information to auditors

The Directors who held office at the date of approval of the Report of the Directors confirm that, so far as they are individually aware, there is no relevant audit information of which the auditors are unaware; and each Director has taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors and the Annual Report

Littlejohn LLP have signified their willingness to continue in office as auditors.

A resolution to reappoint Littlejohn LLP as auditors will be put to the members at the next Annual General Meeting to be convened at which the Annual Report will be laid before the members for consideration.

Approved by the Board of Directors and signed on behalf of the Board on 22 May 2012.

Jeremy Evans

Non-executive Director

Corporate governance statement

Year ended 31 December 2011

The Directors recognise the importance of sound corporate governance and will, insofar as is practicable given the Company's size, its business and the constitution of the Board, comply with the main provisions of the UK Corporate Governance Code and associated guidance.

Board

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions. The Company holds Board meetings at least four times each financial year and at other times as and when required.

Committees

The Audit Committee of the Company, comprising Michael Cunningham and Andrew Leslie (both Non-executive Directors), is chaired by Andrew Leslie. The Audit Committee is responsible for ensuring that the Group's financial performance is properly monitored, controlled and reported. It also meets the auditors and reviews reports from the auditors relating to the accounting and internal control systems. The Audit Committee meets once a year with the auditors.

The Company has not established a Remuneration Committee since it does not have any employees or Executive Directors.

The Company has adopted a model code for Directors' dealings which is appropriate for an AIM quoted company. The Directors will comply with Rule 21 of the AIM Rules relating to Directors' dealings.

Board and committee meeting attendance

| Director | Board | | Audit Committee | |
|------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Possible number of meetings | Number of meetings attended | Possible number of meetings | Number of meetings attended |
| Sir Michael Oliver | 5 | 4 | — | — |
| Andrew Leslie | 5 | 5 | 2 | 2 |
| Jeremy Evans | 5 | 5 | — | — |
| Michael Cunningham | 5 | 5 | 2 | 2 |
| Average attendance (%) | | 95% | | 100% |

Subsidiary Board and committees

Jeremy Evans and Nomina plc are directors of Hampden Corporate Member Limited, Nameco (No. 365) Limited, Nameco (No. 605) Limited and Nameco (No. 321) Limited.

Jeremy Evans:

| | |
|----------------------------------|---------------------------|
| Hampden Corporate Member Limited | appointed 31 May 2006 |
| Nameco (No. 365) Limited | appointed 1 November 2001 |
| Nameco (No. 605) Limited | appointed 1 November 2001 |
| Nameco (No. 321) Limited | appointed 1 November 2001 |

Nomina plc:

| | |
|----------------------------------|-----------------------------|
| Hampden Corporate Member Limited | appointed 31 May 2006 |
| Nameco (No. 365) Limited | appointed 22 September 1999 |
| Nameco (No. 605) Limited | appointed 25 September 2001 |
| Nameco (No. 321) Limited | appointed 22 September 1999 |

Conflict management

Jeremy Evans was a director of Hampden Agencies Limited until December 2007 and remains a director of Nomina plc as well as of the Company. Michael Oliver was a director and Jeremy Evans is a director of Hampden Capital plc, which owns 100% of Hampden Agencies Limited's issued equity share capital and 99% of Nomina plc's issued equity share capital. The Articles of Association of the Company provide that neither Director will vote in respect of arrangements relating to Hampden Agencies Limited's appointment as the Group's members' agent or to Nomina plc's appointment as provider of administrative and support services or any other arrangements or contracts where Hampden Agencies Limited or Nomina plc has an interest.

Statement of Directors' responsibilities

Year ended 31 December 2011

The Directors are responsible for preparing the Directors' Report 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 Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. 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 Group and Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- » select suitable accounting policies and then apply them consistently; and
- » make judgements and accounting estimates that are reasonable and prudent.

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 Group and 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 Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

Independent auditor's report

to the members of Hampden Underwriting plc

Year ended 31 December 2011

We have audited the Financial Statements of Hampden Underwriting plc for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, the Consolidated and Parent Company Statements of Changes in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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 auditor

As explained more fully in the Statement of Directors' Responsibilities, 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 Group's and the Parent 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 Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- » the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- » the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- » the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report 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

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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- » the Parent Company 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.

Carmine Papa (Senior statutory auditor)

For and on behalf of Littlejohn LLP

Statutory auditor

22 May 2012

1 Westferry Circus

Canary Wharf

London E14 4HD

Consolidated statement of comprehensive income

Year ended 31 December 2011

| | Note | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|------|--|--|
| Gross premium written | | 7,715 | 7,887 |
| Reinsurance premium ceded | | (1,445) | (1,436) |
| Net premiums written | | 6,270 | 6,451 |
| Change in unearned gross premium provision | | 238 | 462 |
| Change in unearned reinsurance premium provision | | (17) | (122) |
| | 5 | 221 | 340 |
| Net earned premium | | 6,491 | 6,791 |
| Net investment income | 6 | 247 | 368 |
| Other underwriting income | | — | 4 |
| Other income | | 22 | 116 |
| | | 269 | 488 |
| Revenue | | 6,760 | 7,279 |
| Gross claims paid | | (4,726) | (4,582) |
| Reinsurance share of gross claims paid | | 842 | 729 |
| Claims paid, net of reinsurance | | (3,884) | (3,853) |
| Change in provision for gross claims | | (1,115) | (398) |
| Reinsurance share of change in provision for gross claims | | 486 | 58 |
| Net change in provision for claims | 5 | (629) | (340) |
| Net insurance claims and loss adjustment expenses | | (4,513) | (4,193) |
| Expenses incurred in insurance activities | | (2,277) | (2,425) |
| Other operating expenses | | (574) | (533) |
| Operating expenses | | (2,851) | (2,958) |
| Operating (loss)/profit before tax | 7 | (604) | 128 |
| Income tax credit | 8 | 217 | 4 |
| (Loss)/profit and total comprehensive income attributable to equity shareholders | 17 | (387) | 132 |
| (Loss)/earnings per share attributable to equity shareholders | | | |
| Basic and diluted | 9 | (5.22)p | 1.78p |

The (loss)/profit attributable to equity shareholders and (loss)/earnings per share set out above are in respect of continuing operations.

The accounting policies and notes are an integral part of these Financial Statements.

Consolidated statement of financial position

At 31 December 2011

| | Note | 31 December 2011 £'000 | 31 December 2010 £'000 |
|--|------|------------------------------|------------------------------|
| Assets | | | |
| Intangible assets | 11 | 1,052 | 1,274 |
| Deferred income tax assets | 12 | — | 12 |
| Reinsurance share of insurance liabilities: | | | |
| – reinsurers' share of outstanding claims | 5 | 3,044 | 2,592 |
| – reinsurers' share of unearned premiums | 5 | 409 | 425 |
| Other receivables, including insurance receivables | 13 | 6,628 | 6,039 |
| Prepayments and accrued income | | 842 | 901 |
| Financial assets at fair value | 14 | 13,675 | 13,841 |
| Cash and cash equivalents | | 3,020 | 3,320 |
| Total assets | | 28,670 | 28,404 |
| Liabilities | | | |
| Insurance liabilities: | | | |
| – claims outstanding | 5 | 14,234 | 13,104 |
| – unearned premiums | 5 | 3,137 | 3,377 |
| Deferred income tax liabilities | 12 | 415 | 655 |
| Other payables, including insurance payables | 15 | 2,911 | 2,819 |
| Accruals and deferred income | | 488 | 577 |
| Total liabilities | | 21,185 | 20,532 |
| Shareholders' equity | | | |
| Share capital | 16 | 741 | 741 |
| Share premium | 16 | 6,261 | 6,261 |
| Retained earnings | 17 | 483 | 870 |
| Total shareholders' equity | | 7,485 | 7,872 |
| Total liabilities and shareholders' equity | | 28,670 | 28,404 |

The accounting policies and notes are an integral part of these Financial Statements.

Approved and authorised for issue by the Board of Directors on 22 May 2012.

Jeremy Evans

Non-executive Director

Parent Company statement of financial position

At 31 December 2011

Company number 05892671

| | Note | 31 December 2011 £'000 | 31 December 2010 £'000 |
|---|------|------------------------------|------------------------------|
| Assets | | | |
| Other receivables | 13 | 4,418 | 4,896 |
| Financial assets at fair value | 14 | 1,035 | 1,035 |
| Cash and cash equivalents | | 2,463 | 968 |
| Total assets | | 7,916 | 6,899 |
| Liabilities | | | |
| Other payables | 15 | 57 | 92 |
| Current income tax liabilities | | — | — |
| Total liabilities | | 57 | 92 |
| Shareholders' equity | | | |
| Share capital | 16 | 741 | 741 |
| Share premium | 16 | 6,261 | 6,261 |
| Retained earnings | 17 | 857 | (195) |
| Total shareholders' equity | | 7,859 | 6,807 |
| Total liabilities and shareholders' equity | | 7,916 | 6,899 |

The accounting policies and notes are an integral part of these Financial Statements.

Approved and authorised for issue by the Board of Directors on 22 May 2012.

Jeremy Evans

Non-executive Director

Consolidated statement of cash flows

Year ended 31 December 2011

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|--|--|
| Cash flows from operating activities | | |
| Results of operating activities | (604) | 128 |
| Interest received | (4) | (31) |
| Investment income | (275) | (315) |
| Recognition of negative goodwill | — | (116) |
| Profit on sale of intangible assets | 11 | — |
| Amortisation of intangible assets | 270 | 246 |
| Change in fair value of investments | (5) | (21) |
| Changes in working capital: | | |
| – increase in other receivables | (530) | (1,157) |
| – increase in other payables | 3 | 955 |
| – net increase in technical provisions | 454 | 4,691 |
| Net cash (outflow)/inflow from operating activities | (680) | 4,380 |
| Cash flows from investing activities | | |
| Interest received | 4 | 31 |
| Income tax (paid)/receipt | (16) | 68 |
| Investment income | 275 | 315 |
| Purchase of intangible assets | (49) | (26) |
| Purchase of financial assets at fair value | 166 | (3,400) |
| Acquisition of subsidiary, net of cash acquired | — | (159) |
| Net cash inflow/(outflow) from investing activities | 380 | (3,171) |
| Net (decrease)/increase in cash and cash equivalents | (300) | 1,209 |
| Cash and cash equivalents at beginning of year | 3,320 | 2,111 |
| Cash and cash equivalents at end of year | 3,020 | 3,320 |

The accounting policies and notes are an integral part of these Financial Statements.

Parent Company statement of cash flows

Year ended 31 December 2011

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|--|--|
| Cash flows from operating activities | | |
| Results of operating activities | 989 | (257) |
| Interest received | (2) | (3) |
| Changes in working capital: | — | — |
| – decrease in other receivables | 68 | 73 |
| – (decrease)/increase in other payables | (35) | 60 |
| Net cash inflow/(outflow) from operating activities | 1,020 | (127) |
| Cash flows from investing activities | | |
| Interest received | 2 | 3 |
| Purchase of financial assets at fair value | — | (379) |
| Amounts owed by subsidiary undertaking | 473 | (99) |
| Net cash inflow/(outflow) from investing activities | 475 | (475) |
| Net increase/(decrease) in cash and cash equivalents | 1,495 | (602) |
| Cash and cash equivalents at beginning of year | 968 | 1,570 |
| Cash and cash equivalents at end of year | 2,463 | 968 |

The accounting policies and notes are an integral part of these Financial Statements.

Statements of changes in shareholders' equity

Year ended 31 December 2011

| | Attributable to owners of the parent | | | | |
|--|--------------------------------------|--------------------------------------|---------------------------|-------------------------------|----------------|
| | Ordinary share capital £'000 | Preference share capital £'000 | Share premium £'000 | Retained earnings £'000 | Total £'000 |
| Consolidated | | | | | |
| At 1 January 2010 | 741 | — | 6,261 | 738 | 7,740 |
| Profit and total comprehensive income for the year | — | — | — | 132 | 132 |
| At 31 December 2010 | 741 | — | 6,261 | 870 | 7,872 |
| At 1 January 2011 | 741 | — | 6,261 | 870 | 7,872 |
| Loss and total comprehensive income for the year | — | — | — | (387) | (387) |
| At 31 December 2011 | 741 | — | 6,261 | 483 | 7,485 |
| Company | | | | | |
| At 1 January 2010 | 741 | — | 6,261 | (8) | 6,994 |
| Loss and total comprehensive income for the year | — | — | — | (187) | (187) |
| At 31 December 2010 | 741 | — | 6,261 | (195) | 6,807 |
| At 1 January 2011 | 741 | — | 6,261 | (195) | 6,807 |
| Profit and total comprehensive income for the year | — | — | — | 1,052 | 1,052 |
| At 31 December 2011 | 741 | — | 6,261 | 857 | 7,859 |

The accounting policies and notes are an integral part of these Financial Statements.

Notes to the financial statements

Year ended 31 December 2011

1. General information

The Company is a public limited company that is listed on the Alternative Investment Market ("AIM") and incorporated and domiciled in the UK.

2. Accounting policies

The principal accounting policies adopted in the preparation of the Group and Parent Company Financial Statements ("the Financial Statements") are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") endorsed by the European Union ("EU"), IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Financial Statements have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss. A summary of the more important Group accounting policies is set out below.

The preparation of Financial Statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

The Group participates in insurance business through its Lloyd's corporate member subsidiaries. Accounting information in respect of syndicate participations is provided by the syndicate managing agents and is reported upon by the syndicate auditors.

Going concern

The Group and Company have net assets at the end of the reporting period of £7,485,000 and £7,859,000 respectively.

The Company's subsidiaries participate as underwriting members at Lloyd's on the 2009, 2010 and 2011 accounts and they continued this participation since the year end on the 2012 year of account. This underwriting is supported by Funds at Lloyd's totalling £4,079,000 (2010: £3,473,000).

The Directors have a reasonable expectation that the Group and the Company have adequate resources to meet their 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.

International Financial Reporting Standards

The following standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011. The adoption of these standards does not have a material impact on the Group's Financial Statements.

- » IFRS 7 (amended) "Financial Instruments: Disclosures". The amendments require an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments.
- » IAS 1 (amended) "Presentation of Financial Statements". IAS 1 is amended to clarify that reconciliation from opening to closing balances is required to be presented in the statement of changes in equity for each component of equity. IAS 1 is also amended to allow the analysis of the individual other comprehensive income line items by component of equity to be presented in the notes.
- » IAS 32 (amended) "Financial Instruments: Presentation". The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.
- » IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments". IFRIC 19 deals with measurement of equity instruments issued in a debt for equity swap. It addresses the accounting for such a transaction by the debtor only.
- » IFRIC 14 (amended) "Prepayment of a Minimum Funding Requirement". The amendment to IFRIC 14 removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement ("MFR"). The amendment results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.
- » ISA 24 (amended) "Related Party Disclosures" simplifies the disclosure requirements for government related entities and clarifies the definition of a related party.

Notes to the financial statements continued

Year ended 31 December 2011

2. Accounting policies continued

International Financial Reporting Standards continued

In addition, the following is a list of standards that are in issue but are not effective in 2011, or have not yet been adopted in the EU, together with the effective date of application to the Group:

- » IAS 12 (amendment) "Deferred Tax: Recovery of Underlying Assets" (effective 1 January 2012)
- » IAS 1 (amendment) "Presentation of Items of Other Comprehensive Income" (effective 1 July 2012)
- » IFRS 9 "Financial Instruments" (effective 1 January 2015)
- » IFRS 10 "Consolidated Financial Statements" (effective 1 January 2015)
- » IFRS 11 "Joint Arrangements" (effective 1 January 2013)
- » IFRS 12 "Disclosure of Interests in Other Entities" (effective 1 January 2013)
- » IFRS 13 "Fair Value Measurement" (effective 1 January 2013)
- » IAS 19 (amendment) "Defined Benefit Plans" (effective 1 January 2013)
- » IAS 32 (amendment) "Offsetting Financial Assets and Financial Liabilities" (effective 1 January 2014)
- » IFRS 7 (amendment) "Offsetting Financial Assets and Liabilities" (effective 1 January 2013)
- » IAS 27 "Separate Financial Statements" (effective 1 January 2013)
- » IAS 28 "Investments in Associates and Joint Ventures" (effective 1 January 2013)
- » IFRS 1 (amendment) "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters" (effective 1 July 2011)
- » IFRS 1 (amendment) "Government Loans" (effective 1 January 2013)
- » IFRS 7 (amendment) "Disclosures – Transfers of Financial Assets" (effective 1 July 2011)
- » IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective 1 January 2013)

The Directors do not anticipate that the adoption of these standards will have a material impact on the Financial Statements.

Consolidation

The Financial Statements incorporate the Financial Statements of Hampden Underwriting plc, Hampden Corporate Member Limited, Nameco (No. 365) Limited, Nameco (No. 605) Limited and Nameco (No. 321) Limited for the year ended 31 December 2011.

The Financial Statements of Hampden Corporate Member Limited, Nameco (No. 365) Limited, Nameco (No. 605) Limited and Nameco (No. 321) Limited are prepared for the year ended 31 December 2011. Consolidation adjustments are made to convert the subsidiary Financial Statements prepared under UK GAAP to IFRS so as to remove any different accounting policies that may exist.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

No statement of comprehensive income is presented for Hampden Underwriting plc as permitted by Section 408 of the Companies Act 2006. The profit after tax for the year of the Parent Company was £1,052,000 (2010: loss £187,000).

Underwriting

Premiums

Premiums written comprise the total premiums receivable in respect of business incepted 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 Group participates, less an allowance for cancellations. All premiums are shown gross of commission payable to intermediaries and exclude taxes and duties levied on them.

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 end of the reporting period, 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.

Deferred acquisition costs

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

2. Accounting policies continued

Underwriting continued

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.

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, in certain cases, 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.

Accordingly the two most critical assumptions made by each syndicate's 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.

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 end of the reporting period. The provision for unexpired risks is calculated separately by reference to classes of business that 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.

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 Group will include 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.

Notes to the financial statements continued

Year ended 31 December 2011

2. Accounting policies continued

Underwriting continued

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.

Net operating expenses (including acquisition costs)

Net operating costs include acquisition costs, profit and loss on exchange and other amounts incurred by the syndicates on which the Group 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 end of the reporting period.

Foreign currency translation

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Statements are presented in thousands of pounds sterling, which is the Group's functional and presentational currency.

Foreign currency transactions and non-monetary assets and liabilities, including deferred acquisition costs and unearned premiums, are translated into the functional currency using monthly average rates of exchange prevailing at the time of the transaction as a proxy for the transactional rates. The translation difference arising on non-monetary asset items is recognised in profit or loss.

Monetary items are translated at period-end rates; any exchange differences arising from the change in rates of exchange are recognised in profit or loss.

Investments

Investments in marketable securities are stated at their bid-market value at the end of the reporting period. The Group values its financial assets at fair value through profit or loss.

Purchases and sales of investments are recognised on the trade date, which is the date the Group commits to purchase or sell the assets.

Intangible assets

Intangible assets, which represents costs incurred in the Corporation of Lloyd's auctions in order to acquire rights to participate on syndicates' years of account, are stated at cost, less any provision for impairment, and amortised on a straight line basis over the useful economic life, which is estimated to be seven years. No amortisation is charged until underwriting commences in respect of the purchased syndicate participation. The amortisation charge is included within operating expenses in profit or loss.

Investment in subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

In the Company's Financial Statements, investments in subsidiary undertakings are stated at cost and are reviewed for impairment annually or when events or changes in circumstances indicate the carrying value to be impaired.

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss. Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank.

Investment income

Interest receivable from cash and short-term deposits and interest payable are accrued to the end of the period.

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to years of account proportionately to the funds contributed by the year of account. Investment income and investment gains and losses relating to syndicate investments and cash are taken to the technical account.

2. Accounting policies continued

Underwriting continued

Other operating expenses

All expenses are accounted for on an accruals basis.

Fair value estimation

The fair values of short-term deposits are assumed to approximate to their book values. The fair values of the Group's debt securities have been based on quoted market prices for these instruments.

Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Jeremy Evans.

3. Risk management

The majority of the risks to the Group's future cash flows arise from each subsidiary's participation in the results of Lloyd's syndicates. As detailed below, these risks are mostly managed by the managing agents of the syndicates. The Company's role in managing this risk, in conjunction with its subsidiaries and members' agent, is limited to selection of syndicate participations and monitoring performance of the syndicates.

Syndicate risks

The syndicate's activities 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. Each year, the managing agent prepares an Individual Capital Assessment ("ICA") 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 ICA 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 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 Financial Services Authority provides additional controls over the syndicate's management of risks.

The Group manages the risks faced by the syndicates on which its subsidiaries participate by monitoring the performance of the syndicates it supports. This 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 its 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. If the Group considers that the risks being run by the syndicate are excessive it will seek confirmation from the managing agent that adequate management of the risk is in place and if considered appropriate will withdraw support from the next year of account.

Investment and currency risks

The other significant risks faced by the Group are with regard to the investment of funds within its own custody. The elements of these risks are investment risk, liquidity risk, currency risk and interest rate risk. To mitigate this, the surplus Group funds are deposited with highly rated banks and fund managers. The main liquidity risk would arise if a syndicate had inadequate liquid resources for a large claim and sought funds from the Group to meet the claim. In order to minimise investment, credit and liquidity risk the Group's funds are invested in readily realisable short-term deposits. The Group does not use derivative instruments to manage risk and, as such, no hedge accounting is applied.

Notes to the financial statements continued

Year ended 31 December 2011

3. Risk management continued

Regulatory risks

The Company's subsidiaries are subject to continuing approval by Lloyd's and the Financial Services Authority 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. The 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 and, 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's subsidiary is able to support.

The Company is subject to the AIM Rules. Compliance with the AIM Rules is monitored by the Board.

Operational risks

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

4. Segmental information

The Group has three segments that represent the primary way in which the Group is managed:

- » syndicate participation;
- » investment management; and
- » other corporate activities.

| Year ended 31 December 2011 | Syndicate participation £'000 | Investment management £'000 | Other corporate activities £'000 | Total £'000 |
|---|----------------------------------|--------------------------------|-------------------------------------|----------------|
| Net earned premium | 6,491 | — | — | 6,491 |
| Net investment income | 245 | 2 | — | 247 |
| Other underwriting income | — | — | — | — |
| Other income | 22 | — | — | 22 |
| Net insurance claims and loss adjustment expenses | (4,513) | — | — | (4,513) |
| Expenses incurred in insurance activities | (2,277) | — | — | (2,277) |
| Amortisation of syndicate capacity | — | — | (158) | (158) |
| Other operating expenses | (192) | — | (224) | (416) |
| Results of operating activities | (224) | 2 | (382) | (604) |

| Year ended 31 December 2010 | Syndicate participation £'000 | Investment management £'000 | Other corporate activities £'000 | Total £'000 |
|---|----------------------------------|--------------------------------|-------------------------------------|----------------|
| Net earned premium | 6,791 | — | — | 6,791 |
| Net investment income | 365 | 3 | — | 368 |
| Other underwriting income | 4 | — | — | 4 |
| Other income | — | — | 116 | 116 |
| Net insurance claims and loss adjustment expenses | (4,193) | — | — | (4,193) |
| Expenses incurred in insurance activities | (2,425) | — | — | (2,425) |
| Amortisation of syndicate capacity | — | — | (158) | (158) |
| Other operating expenses | (156) | — | (219) | (375) |
| Results of operating activities | 386 | 3 | (261) | 128 |

The Group does not have any geographical segments as it considers all of its activities to arise from trading within the UK.

No major customers exceed 10% of revenue.

5. Insurance liabilities and reinsurance balances

Movement in claims outstanding

| | Gross £'000 | Reinsurance £'000 | Net £'000 |
|--|----------------|----------------------|---------------|
| At 1 January 2010 | 7,301 | 1,581 | 5,720 |
| Increase in reserves arising from acquisition of subsidiary undertakings | 1,361 | 258 | 1,103 |
| Movement of reserves | 398 | 58 | 340 |
| Other movements | 4,044 | 695 | 3,349 |
| At 31 December 2010 | 13,104 | 2,592 | 10,512 |
| At 1 January 2011 | 13,104 | 2,592 | 10,512 |
| Movement of reserves | 1,115 | 486 | 629 |
| Other movements | 15 | (34) | 49 |
| At 31 December 2011 | 14,234 | 3,044 | 11,190 |

Movement in unearned premium

| | Gross £'000 | Reinsurance £'000 | Net £'000 |
|--|----------------|----------------------|--------------|
| At 1 January 2010 | 3,402 | 349 | 3,053 |
| Increase in reserves arising from acquisition of subsidiary undertakings | 379 | 41 | 338 |
| Movement of reserves | (462) | (122) | (340) |
| Other movements | 58 | 157 | (99) |
| At 31 December 2010 | 3,377 | 425 | 2,952 |
| At 1 January 2011 | 3,377 | 425 | 2,952 |
| Movement of reserves | (238) | (17) | (221) |
| Other movements | (2) | 1 | (3) |
| At 31 December 2011 | 3,137 | 409 | 2,728 |

Included within other movements are the 2008 and prior years' claims reserves reinsured into the 2009 year of account and currency exchange differences.

Assumptions, changes in assumptions and sensitivity

As described in Note 3 the majority of the risks to the Group's future cash flows arise from its subsidiary's participation in the results of Lloyd's syndicates and are mostly managed by the managing agents of the syndicates. The Group's role in managing these risks, in conjunction with its subsidiary's members' agent, is limited to a selection of syndicate participations and monitoring the performance of the syndicates and their managing agents.

The amounts carried by the Group arising from insurance contracts are calculated by the managing agents of the syndicates and derived from accounting information provided by the managing agents and reported upon by the syndicate auditors.

The key assumptions underlying the amounts carried by the Group arising from insurance contracts are:

- » the claims reserves calculated by the managing agents are accurate;
- » the potential deterioration of run-off year results has been fully provided for by the managing agents; and
- » the funds at Lloyd's ratio will not change.

There have been no changes in assumptions in 2011.

The amounts carried by the Group arising from insurance contracts are sensitive to various factors as follows:

- » a 10% increase/decrease in the managing agents' calculation of gross claims reserves will decrease/increase the Group's pre-tax profits by £1,423,000 (2010: £1,310,000);
- » a 10% increase/decrease in the managing agents' calculation of net claims reserves will decrease/increase the Group's pre-tax profits by £1,119,000 (2010: £1,051,000); and
- » a 10% increase/decrease in the run-off year net claims reserves will decrease/increase the Group's pre-tax profits by £14,000 (2010: £2,000).

The 10% movement has been selected to give an indication of the possible variations in the assumptions used.

Notes to the financial statements continued

Year ended 31 December 2011

5. Insurance liabilities and reinsurance balances continued

Analysis of gross and net claims development

The tables below provide information about historical gross and net claims development.

2011

Gross claims as % of gross earned premium

| Year of account | 2009 | 2010 | 2011 |
|-----------------|-------|-------|-------|
| 12 months | 48.7% | 64.3% | 71.9% |
| 24 months | 53.1% | 76.4% | — |
| 36 months | 46.9% | — | — |

Net claims as a % of net earned premium

| Year of account | 2009 | 2010 | 2011 |
|-----------------|-------|-------|-------|
| 12 months | 53.2% | 68.5% | 76.3% |
| 24 months | 56.2% | 74.3% | — |
| 36 months | 49.0% | — | — |

2010

Gross claims as % of gross earned premium

| Year of account | 2008 | 2009 | 2010 |
|-----------------|-------|-------|-------|
| 12 months | 75.8% | 48.7% | 64.3% |
| 24 months | 66.7% | 53.1% | — |
| 36 months | 67.5% | — | — |

Net claims as a % of net earned premium

| Year of account | 2008 | 2009 | 2010 |
|-----------------|-------|-------|-------|
| 12 months | 74.3% | 53.2% | 68.5% |
| 24 months | 65.8% | 56.2% | — |
| 36 months | 63.5% | — | — |

6. Net investment income

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|--|--|
| Investment income | 275 | 315 |
| Realised gains on financial assets at fair value through profit or loss | 74 | 137 |
| Unrealised gains on financial assets at fair value through profit or loss | 5 | 21 |
| Investment management expenses | (111) | (136) |
| Bank interest | 4 | 31 |
| Net investment income | 247 | 368 |

7. Operating (loss)/profit before tax

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|--|--|--|
| Operating (loss)/profit before tax is stated after charging: | | |
| Directors' remuneration | 65 | 65 |
| Amortisation of intangible assets | 270 | 246 |
| Auditors' remuneration: | | |
| – audit of the Parent Company and Group Financial Statements | 25 | 24 |
| – audit of subsidiary company Financial Statements | 8 | 3 |
| – services relating to taxation | — | 5 |
| – other services pursuant to legislation | — | 15 |
| – other services | — | 9 |

The Group has no employees.

7. Operating (loss)/profit before tax continued

| | Year ended 31 December 2011 £ | Year ended 31 December 2010 £ |
|-------------------------|--|--|
| Directors' remuneration | | |
| Sir Michael Oliver | 20,000 | 20,000 |
| Andrew Leslie | 15,000 | 15,000 |
| Jeremy Evans | 15,000 | 15,000 |
| Michael Cunningham | 15,000 | 15,000 |
| Total | 65,000 | 65,000 |

Directors' remuneration comprises only Directors' fees. The Directors derive no other benefits, pension contributions or incentives from the Group. At 31 December 2011 no share options were held by the Directors (2010: nil).

The Company has not established a Remuneration Committee since it does not have any employees or Executive Directors.

8. Income tax credit

(a) Analysis of tax credit in the year

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|--|--|--|
| Current tax: | | |
| – current year | — | 22 |
| – prior year | (20) | (68) |
| – foreign tax paid | 31 | 7 |
| | 11 | (39) |
| Deferred tax: | | |
| – current year | (211) | (35) |
| – prior year | (17) | 70 |
| | (228) | 35 |
| Tax on (loss)/profit on ordinary activities | (217) | (4) |

(b) Factors affecting the tax credit for the year

Tax for the year is lower than (2010: lower than) the standard rate of corporation tax in the UK of 26.5% (2010: 28%).

The differences are explained below:

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|--|--|--|
| (Loss)/profit on ordinary activities before tax | (604) | 128 |
| (Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28%) | (160) | 36 |
| Prior year adjustments | (20) | 2 |
| Change in deferred tax rate | (46) | (3) |
| Permanent disallowances | 30 | 8 |
| Negative goodwill not subject to tax | — | (32) |
| Relief for foreign taxation | 31 | (14) |
| Other | (52) | (1) |
| Tax credit for the year | (217) | (4) |

The results of the Group's participation on the 2009, 2010 and 2011 years of account and the calendar year movement on 2008 and prior run-offs will not be assessed to tax until the year ended 2012, 2013 and 2014 respectively, being the year after the calendar year result of each year or the normal date of closure of each year of account. Full provision is made as part of the deferred tax provisions for underwriting profit/losses not yet subject to corporation tax.

Notes to the financial statements continued

Year ended 31 December 2011

9. (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The Group has no dilutive potential ordinary shares.

Earnings per share has been calculated in accordance with IAS 33.

Reconciliation of the (loss)/earnings and weighted average number of shares used in the calculation is set out below:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|-----------------------------------|-----------------------------------|
| (Loss)/profit for the period | £(387,000) | £132,000 |
| Weighted average number of shares in issue | 7,413,376 | 7,413,376 |
| Basic and diluted (loss)/earnings per share | (5.22)p | 1.78p |

10. Dividends

No equity dividends were proposed, declared or paid in the year (2010: £nil).

11. Intangible assets

| | Syndicate capacity £'000 |
|--------------------------------------|--------------------------------|
| Cost | |
| At 1 January 2010 | 1,649 |
| Additions | 26 |
| Acquired with subsidiary undertaking | 304 |
| At 31 December 2010 | 1,979 |
| At 1 January 2011 | 1,979 |
| Additions | 49 |
| Disposals | (1) |
| At 31 December 2011 | 2,027 |
| Amortisation | |
| At 1 January 2010 | 433 |
| Charge for the year | 246 |
| Acquired with subsidiary undertaking | 26 |
| At 31 December 2010 | 705 |
| At 1 January 2011 | 705 |
| Charge for the year | 270 |
| At 31 December 2011 | 975 |
| Net book value | |
| As at 31 December 2010 | 1,274 |
| As at 31 December 2011 | 1,052 |

12. Deferred income tax

Deferred income tax is calculated in full on temporary differences using a tax rate of 25% (2010: 28%). The movement on the deferred tax account is shown below:

| | Group | | Company | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| | 2011 £'000 | 2010 £'000 | 2011 £'000 | 2010 £'000 |
| At 1 January | 643 | 491 | — | — |
| Acquisition of subsidiary undertaking | — | 117 | — | — |
| Prior period adjustment | (17) | 70 | — | — |
| Charge for the year | (211) | (35) | — | — |
| At 31 December | 415 | 643 | — | — |

12. Deferred income tax continued

The movements in deferred income tax assets and liabilities during the year are shown below:

| Deferred income tax assets | Unutilised losses £'000 | Timing differences on underwriting results £'000 | Total £'000 |
|----------------------------|----------------------------|---|----------------|
| At 1 January 2010 | (12) | — | (12) |
| Credit for the year | — | — | — |
| At 31 December 2010 | (12) | — | (12) |
| At 1 January 2011 | (12) | — | (12) |
| Charge for the year | 12 | — | 12 |
| At 31 December 2011 | — | — | — |

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

| Deferred income tax liabilities | Valuation of capacity £'000 | Timing differences on underwriting results £'000 | Total £'000 |
|---------------------------------------|--------------------------------|---|----------------|
| At 1 January 2010 | 121 | 382 | 503 |
| Prior period adjustment | — | 70 | 70 |
| Acquisition of subsidiary undertaking | 74 | 43 | 117 |
| Credit for the year | (28) | (7) | (35) |
| At 31 December 2010 | 167 | 488 | 655 |
| At 1 January 2011 | 167 | 488 | 655 |
| Prior period adjustment | — | (17) | (17) |
| Credit for the year | (40) | (183) | (223) |
| At 31 December 2011 | 127 | 288 | 415 |

All deferred tax assets and liabilities are due for settlement after 12 months.

13. Other receivables

| | 31 December 2011 £'000 | 31 December 2010 £'000 |
|--|------------------------------|------------------------------|
| Group | | |
| Arising out of direct insurance operations | 1,773 | 1,876 |
| Arising out of reinsurance operations | 2,131 | 2,268 |
| Other debtors | 2,724 | 1,895 |
| | 6,628 | 6,039 |
| | | |
| | | |
| Company | | |
| Amounts owed by subsidiary undertakings | 4,397 | 4,871 |
| Prepayments | 21 | 25 |
| | 4,418 | 4,896 |

All other receivables are due within one year.

The Company has no analysis on other receivables held directly by the syndicates on the Group's behalf (see Note 20). None of the Group's other receivables are past their due date and are classified as fully performing.

Notes to the financial statements continued

Year ended 31 December 2011

14. Financial assets at fair value through profit or loss

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The Group has no level 3 investments.

As at 31 December 2011, the Group held the following financial assets carried at fair value on the statement of financial position:

Assets measured at fair value

| Group | 2011 £000 | Level 1 £000 | Level 2 £000 |
|---|---------------|-----------------|-----------------|
| Shares and other variable yield securities | 1,071 | 1,071 | — |
| Debt securities and other fixed income securities | 7,821 | 7,821 | — |
| Participation in investment pools | 484 | 484 | — |
| Loans guaranteed by mortgage | 81 | — | 81 |
| Holdings in collective investment schemes | 80 | — | 80 |
| Deposits with credit institutions | 43 | — | 43 |
| Funds held at Lloyd's | 4,090 | 4,090 | — |
| Other | 5 | — | 5 |
| Total – market value | 13,675 | 13,466 | 209 |

| Group | 2010 £000 | Level 1 £000 | Level 2 £000 |
|---|---------------|-----------------|-----------------|
| Shares and other variable yield securities | 1,149 | 1,149 | — |
| Debt securities and other fixed income securities | 8,502 | 8,502 | — |
| Participation in investment pools | 504 | 504 | — |
| Loans guaranteed by mortgage | 77 | — | 77 |
| Holdings in collective investment schemes | 76 | — | 76 |
| Deposits with credit institutions | 55 | — | 55 |
| Funds held at Lloyd's | 3,473 | 3,473 | — |
| Other | 5 | — | 5 |
| Total – market value | 13,841 | 13,628 | 213 |

Funds at Lloyd's represents assets deposited with the Corporation of Lloyd's (Lloyd's) to support the Group's underwriting activities as described in the Accounting Policies. The Group 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 Group's liabilities in respect of its underwriting.

The Directors consider any credit risk or liquidity risk not to be material.

| Company | 31 December 2011 £'000 | 31 December 2010 £'000 |
|---------------------------------------|------------------------------|------------------------------|
| Investment in subsidiary undertakings | 1,035 | 1,035 |
| Total – cost | 1,035 | 1,035 |

The Company owns 100% of the share capital of Hampden Corporate Member Limited, Nameco (No. 321) Limited, Nameco (No. 365) Limited and Nameco (No. 605) Limited, all of which trade as Lloyds' of London corporate vehicles and are incorporated in England and Wales.

15. Other payables

| Group | 31 December 2011 £'000 | 31 December 2010 £'000 |
|--|------------------------------|------------------------------|
| Arising out of direct insurance operations | 483 | 469 |
| Arising out of reinsurance operations | 1,022 | 1,162 |
| Other creditors | 1,406 | 1,188 |
| | 2,911 | 2,819 |

15. Other payables continued

| Company | 31 December 2011 £'000 | 31 December 2010 £'000 |
|------------------------------|------------------------------|------------------------------|
| Other creditors | — | 2 |
| Accruals and deferred income | 57 | 90 |
| | 57 | 92 |

All other payables are due within one year.

16. Share capital and share premium

| Authorised | Ordinary share capital £'000 | Preference share capital £'000 | Total £'000 |
|---|---------------------------------------|---|----------------|
| 29,500,000 ordinary shares of 10p each and 100,000 preference shares of 50p each at 1 January 2011 | 2,950 | 50 | 3,000 |
| 29,500,000 ordinary shares of 10p each and 100,000 preference shares of 50p each at 31 December 2011 | 2,950 | 50 | 3,000 |
| Allotted, called up and fully paid | Ordinary share capital £'000 | Share premium £'000 | Total £'000 |
| 7,413,376 ordinary shares of 10p each and share premium at 1 January 2011 | 741 | 6,261 | 7,002 |
| 7,413,376 ordinary shares of 10p each and share premium at 31 December 2011 | 741 | 6,261 | 7,002 |

17. Retained earnings

| Group | 2011 £'000 | 2010 £'000 |
|---|---------------|---------------|
| At 1 January | 870 | 738 |
| (Loss)/profit attributable to equity shareholders | (387) | 132 |
| At 31 December | 483 | 870 |
| Company | 2011 £'000 | 2010 £'000 |
| At 1 January | (195) | (8) |
| Profit/(loss) attributable to equity shareholders | 1,052 | (187) |
| At 31 December | 857 | (195) |

18. Related party transactions

Hampden Underwriting plc has provided inter-company loans to Hampden Corporate Member Limited, Nameco (No. 365) Limited and Nameco (No. 605) Limited and Nameco (No. 321) Limited, all 100% subsidiaries of the Company. Interest is charged on the loans at base rate plus 0.125%. The loans are repayable on three months' notice provided it does not jeopardise the ability of Hampden Corporate Member Limited, Nameco (No. 365) Limited and Nameco (No. 605) Limited to meet their liabilities as they fall due. The amounts outstanding as at 31 December are set out below:

| Company | 31 December 2011 £'000 | 31 December 2010 £'000 |
|--|------------------------------|------------------------------|
| Balances due from Group companies at the period end: | | |
| Hampden Corporate Member Limited | 2,637 | 3,704 |
| Nameco (No. 365) Limited | 345 | 134 |
| Nameco (No. 605) Limited | 1,097 | 1,021 |
| Nameco (No. 321) Limited | 318 | 12 |
| Total | 4,397 | 4,871 |

Hampden Corporate Member Limited, Nameco (No. 365) Limited, Nameco (No. 605) Limited and Nameco (No. 321) Limited ("Corporate Members") are 100% subsidiaries of the Company and have entered into a management agreement with Nomina plc. Jeremy Richard Holt Evans, a Director of Hampden Underwriting plc and the Corporate Members, is also a director of Nomina plc. Under the agreement, Nomina plc provides management and administration, financial tax and accounting services to the Group for an annual fee of £2,750 (2010: £2,625) per Corporate Member.

Notes to the financial statements continued

Year ended 31 December 2011

18. Related party transactions continued

The Corporate Members are 100% subsidiaries of the Company and have entered into a member's agent agreement with Hampden Agencies Limited. Jeremy Richard Holt Evans, a Director of Hampden Underwriting plc and the Corporate Members, and Sir James Michael Yorrick Oliver, a Director of Hampden Underwriting plc, are also Directors of Hampden Capital plc which controls Hampden Agencies Limited. Under the agreement the Corporate Members will pay Hampden Agencies Limited a fee based on a fixed amount, which will vary depending upon the number of syndicates the Corporate Member underwrites on a bespoke basis, and a variable amount depending on the level of underwriting through the members' agent pooling arrangements. In addition, the Corporate Members will pay profit commission on a sliding scale from 1% of the net profit up to a maximum of 10%. The total fees payable for 2011 are set out below:

| Company | 31 December 2011 £'000 | 31 December 2010 £'000 |
|----------------------------------|------------------------------|------------------------------|
| Hampden Corporate Member Limited | 41 | 17 |
| Nameco (No. 365) Limited | 10 | 9 |
| Nameco (No. 605) Limited | 11 | 43 |
| Nameco (No. 321) Limited | 14 | 19 |
| Total | 76 | 88 |

Hampden Underwriting plc has entered into a company secretarial agreement with Hampden Legal plc. Under the agreement, Hampden Legal plc provides company secretarial services to the Group for an annual fee of £38,000. During the year, company secretarial fees of £35,000 (2010: £35,000) were charged to Hampden Underwriting plc. Hampden Holdings Limited has a controlling interest in both Hampden Legal plc and Hampden Capital plc.

19. Syndicate participations

The syndicates and members' agent pooling arrangements ("MAPA") in which the Company's subsidiaries participate as corporate members of Lloyd's are as follows:

| Syndicate or MAPA number | Managing or members' agent | Allocated capacity per year of account | | | |
|-----------------------------|--------------------------------------|--|------------------|------------------|------------------|
| | | 2009 £ | 2010 £ | 2011 £ | 2012 £ |
| 33 | Hiscox Syndicates Limited | 103,551 | 138,067 | 124,261 | 131,164 |
| 218 | Equity Syndicates Management Limited | 111,716 | 220,092 | 220,092 | 198,084 |
| 386 | QBE Underwriting Limited | 25,113 | 26,968 | 26,968 | 30,515 |
| 510 | RJ Kiln & Co. Limited | 117,860 | 172,025 | 172,115 | 203,247 |
| 557 | RJ Kiln & Co. Limited | 185,000 | 205,000 | 102,868 | 102,868 |
| 570 | Atrium Underwriters Limited | 49,241 | 56,931 | 56,931 | — |
| 609 | Atrium Underwriters Limited | 41,718 | 57,431 | 57,431 | 114,362 |
| 623 | Beazley Furlonge Limited | 126,912 | 190,841 | 190,841 | 190,841 |
| 727 | S.A. Meacock & Company Limited | 40,000 | 43,348 | 43,348 | 43,348 |
| 807 | RJ Kiln & Co. Limited | 33,748 | 39,225 | 39,225 | — |
| 958 | Omega Underwriting Agency Limited | 105,500 | 118,428 | 118,428 | 118,428 |
| 1200 | Argo Managing Agency Limited | 110,592 | 118,915 | 118,915 | 118,915 |
| 2121 | Argenta Syndicate Management Limited | 404,441 | 100,000 | 114,286 | 114,286 |
| 2791 | Managing Agency Partners Limited | 115,128 | 309,577 | 309,577 | 309,577 |
| 4040 | HCC Underwriting Agency Limited | 40,000 | — | — | — |
| 6103 | Managing Agency Partners Limited | 302,831 | 235,000 | 100,000 | 100,000 |
| 6104 | Hiscox Syndicates Limited | 200,000 | 225,000 | 100,000 | 100,000 |
| 6105 | Ark Syndicate Management Limited | — | — | 87,549 | 87,549 |
| 6106 | Amlin Underwriting Limited | 104,334 | 175,000 | 125,000 | 125,000 |
| 6107 | Beazley Furlonge Limited | — | 15,000 | 15,000 | 15,000 |
| 6110 | Pembroke Managing Agency Limited | — | — | — | 225,768 |
| 6111 | Catlin Underwriting Agencies Limited | — | — | — | 180,616 |
| 7200 | Members' Agents Pooling Arrangement | 194,532 | 245,510 | 237,465 | 244,223 |
| 7201 | Members' Agents Pooling Arrangement | 1,028,781 | 1,278,679 | 1,240,921 | 1,260,967 |
| 7202 | Members' Agents Pooling Arrangement | 373,051 | 458,226 | 435,315 | 443,745 |
| 7203 | Members' Agents Pooling Arrangement | 35,673 | 44,301 | 42,873 | 43,509 |
| 7208 | Members' Agents Pooling Arrangement | 4,416,400 | 5,086,907 | 4,627,865 | — |
| 7211 | Members' Agents Pooling Arrangement | — | — | — | 4,751,602 |
| 7217 | Members' Agents Pooling Arrangement | 59,320 | 70,235 | 53,477 | 53,477 |
| Total | | 8,325,442 | 9,630,706 | 8,760,751 | 9,307,091 |

20. Group-owned net assets

The Group statement of financial position includes the following assets and liabilities held by the syndicates on which the Group participates. These assets are subject to trust deeds for the benefit of the relevant syndicates' insurance creditors. The table below shows the split of the statement of financial position between Group and syndicate assets and liabilities.

| | 31 December 2011 | | | 31 December 2010 | | |
|---|------------------|--------------------|----------------|------------------|--------------------|----------------|
| | Group £'000 | Syndicate £'000 | Total £'000 | Group £'000 | Syndicate £'000 | Total £'000 |
| Assets | | | | | | |
| Intangible assets | 1,052 | — | 1,052 | 1,274 | — | 1,274 |
| Deferred income tax assets | — | — | — | 12 | — | 12 |
| Reinsurance share of insurance liabilities: | — | — | — | — | — | — |
| – reinsurers' share of outstanding claims | — | 3,044 | 3,044 | — | 2,592 | 2,592 |
| – reinsurers' share of unearned premiums | — | 409 | 409 | — | 425 | 425 |
| Other receivables, including insurance receivables | 421 | 6,207 | 6,628 | 17 | 6,022 | 6,039 |
| Prepayments and accrued income | 41 | 801 | 842 | 45 | 856 | 901 |
| Financial assets at fair value | 4,090 | 9,585 | 13,675 | 3,473 | 10,368 | 13,841 |
| Cash and cash equivalents | 2,483 | 537 | 3,020 | 2,892 | 428 | 3,320 |
| Total assets | 8,087 | 20,583 | 28,670 | 7,713 | 20,691 | 28,404 |
| Liabilities | | | | | | |
| Insurance liabilities: | | | | | | |
| – claims outstanding | — | 14,234 | 14,234 | — | 13,104 | 13,104 |
| – unearned premiums | — | 3,137 | 3,137 | — | 3,377 | 3,377 |
| Deferred income tax liabilities | 415 | — | 415 | 655 | — | 655 |
| Other payables, including insurance payables | 126 | 2,785 | 2,911 | 67 | 2,752 | 2,819 |
| Accruals and deferred income | 862 | (374) | 488 | 781 | (204) | 577 |
| Total liabilities | 1,403 | 19,782 | 21,185 | 1,503 | 19,029 | 20,532 |
| Shareholders' equity | | | | | | |
| Share capital | 741 | — | 741 | 741 | — | 741 |
| Share premium | 6,261 | — | 6,261 | 6,261 | — | 6,261 |
| Retained earnings | (318) | 801 | 483 | (792) | 1,662 | 870 |
| Total shareholders' equity | 6,684 | 801 | 7,485 | 6,210 | 1,662 | 7,872 |
| Total liabilities and shareholders' equity | 8,087 | 20,583 | 28,670 | 7,713 | 20,691 | 28,404 |

21. Ultimate controlling party

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

Registered officers and advisers

Directors

Sir James Michael Yorrick Oliver (Non-executive Chairman)
John Andrew Leslie (Non-executive Director)
Jeremy Richard Holt Evans (Non-executive Director)
Harold Michael Clunie Cunningham (Non-executive Director)

Company secretary

Hampden Legal plc

Hampden House
Great Hampden
Great Missenden
Buckinghamshire HP16 9RD

Company number

05892671

Registered office

Hampden House
Great Hampden
Great Missenden
Buckinghamshire HP16 9RD

Statutory auditors

Littlejohn LLP

1 Westferry Circus
Canary Wharf
London E14 4HD

Solicitors

Jones Day

21 Tudor Street
London EC4Y 0DJ

Bankers

Coutts & Co

440 Strand
London WC2R 0QS

Nominated adviser and broker

Smith & Williamson Corporate Finance Limited

25 Moorgate
London EC2R 6AY

Lloyd's members agent

Hampden Agencies Limited

85 Gracechurch Street
London EC3V 0AA

Registrars

Capita Registrars

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU





Hampden Underwriting plc
Hampden House
Great Hampden
Great Missenden
Buckinghamshire HP16 9RD
United Kingdom