Hampden

Hampden Underwriting plc

Annual Report and Financial Statements 2012

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

Highlights in brief

- » Premium written during the period totalled £9.1m
- » Net profit of £763,000
- » Earnings per share 9.92p
- » Net assets increase to £9.1m
- » Net assets per share of £1.07

Financial results in brief

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Gross premium written	9,141	7,715
Profit/(loss) before tax	854	(604)
Profit/(loss) after tax	763	(387)
Earnings/(loss) per share	9.92p	(5.22)p

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Chairman's statement

During the year the Board was pleased to welcome Nigel Hanbury in the role of Chief Executive. Nigel brings a wealth of experience in underwriting at Lloyd's and we now look forward to a period of increased activity.

The profit after tax of £763k for the year ended 31 December 2012 compares with a loss after taxation of £387k for 2011. This result includes a net credit of £487k in respect of goodwill arising on the three acquisitions made in the year. Excluding this the profit after tax for the year of £276k still shows a marked improvement on 2011.

The 2010 underwriting year of account closed at 31 December 2012 with a profit of £459k, compared to a profit of £831k for the 2009 year of account at 31 December 2011. This represents a profit of 2.55% on capacity (Lloyd's overall market result was 2.49%) compared to a profit of 18.27% for the 2009 account which was a percentage point above the Lloyd's market average result for 2009.

Net assets have increased to 107p per share and when the unamortised value of capacity is added back it shows a value of 119p.

In last year's report I mentioned that the time was now right for expansion. This we have done with a 35% increase in underwriting between the 2012 and 2013 underwriting years of account. This growth has been achieved through the acquisition of three Namecos at what we believe to be acceptable prices in a market that continues to offer profitable opportunities. This brings the total number of Namecos under 100% ownership to seven.

A by product of purchasing Namecos is not only to enable increased underwriting in 2013 but also to increase exposure to their open years of 2010 (now closed), 2011 and 2012, which are at varying degrees of maturity at the time of purchase. Of course a price is paid for these open years but the company benefits from any improvements between the acquisition date and closure. The total amount of premium limit purchased last year over the three open years is in excess of £13m.

Furthermore all of the underwriting vehicles own significant funds at Lloyd's. Following a beauty parade of various asset managers this cash has now been invested through two fund managers: the Trojan Fund, managed by Troy and the Ruffer Total Return, and Absolute Return Funds, managed by Ruffer. The Trojan Fund's investment objective is to achieve growth in capital and income in real terms over the long term through substantially investing in UK and overseas equities and fixed interest securities but it has the ability/is authorized to invest in all asset classes. The Ruffer funds aim to preserve capital and achieve low volatility with positive returns from an actively managed portfolio of different asset classes, including equities bonds and currencies. The investment of these assets gives the shareholder the ability to obtain an investment return as well as a return from taking underwriting risk. Over many years this double use of assets has been one of the attractions of investing at Lloyd's. The total amount of the investments in these funds at HUW plc and its subsidiaries, at the time of going to press is approximately £8.1m or about 95p per share. There are additional cash amounts yet to be invested or earmarked for day to day cash requirements amounting to 7p per share.

Plans continue to develop and we look forward to informing shareholders as and when they reach fruition. However, we are pleased our Lloyd's adviser is seeing clear signs of an improvement in property and casualty insurance rates, which is offsetting, to some degree, the new competition from the capital markets which is competing for reinsurance business such as through the issuance of Catastrophe Bonds and other structures which is likely to have an adverse effect on reinsurance rates for the June and July renewals.

Finally, in last year's report we mentioned the possibility of paying a dividend. The Board has concluded that in the current climate our resources are better deployed within our core business. However, we have agreed to buy back some of our shares each year where the board feels it is prudent to do so.

Sir Michael Oliver
Non-executive Chairman
28 May 2013

Summary

» **Capital remains strong for both insurers and reinsurers.**

» **Demand measured by premium has grown over the long term, being linked to growth in GDP and levels of insurance penetration.**

» **The demand component has been boosted by a combination of increasing premium rates and a recovering US economy contributing to organic growth.**

» **The combined ratio of Hampden Underwriting's portfolio for 2012 was 93% which compares favourably with industry peer groups.**

» **Hampden Underwriting's portfolio for 2013 continues to provide a good spread of business across managing agents and classes of business with motor and liability providing a balance to catastrophe exposed business.**

2012 review and outlook for 2013

Total insured losses for the global insurance industry from natural catastrophes in 2012 totalled $71bn, with man-made disasters costing an additional $6bn. Overall insured losses were still above the average of recent years but at $77bn declined significantly from the total of $126bn in 2011. Most of the losses in 2012 arose from Hurricane Sandy, which made landfall in Atlantic City, New Jersey on 29 October 2012. The Insurance Information Institute estimates that insurance companies will pay $18.8bn in claims from Sandy, making it the third costliest storm in US history, after Hurricane Katrina in 2005 ($48.7bn) and Hurricane Andrew in 1992 ($25.6bn).

In contrast to 2011, which was affected by international losses, principally in Japan, New Zealand and Thailand, 2012 was much more benign with the largest non-US insured loss being the earthquakes in Italy costing $1.6bn in May 2012 and the January 2012 capsize of the cruise liner, Costa Concordia, which is expected to cost insurers more than $1bn. As a market, Lloyd's net ultimate claims at 31 December 2012 for catastrophe losses during 2012 are estimated at £1.8bn, which is just above the 15 year average of £1.4bn but like the insurance industry as a whole a significant reduction on the record claims suffered in 2011 of £4.7bn.

Despite Hurricane Sandy and claims from the summer drought in the corn belt of the US, the underwriting results of the US property/casualty insurance industry improved in 2012 with net losses from underwriting reducing to $16.7bn from $36.2bn in 2011. Net investment gains (income and realised capital gains) enabled an improved overall net profit after tax of $33.5bn compared with $19.5bn in 2011.

Capital remains strong for both insurers and reinsurers. At Lloyd's total net resources increased by 6% in 2012 to a record £20.2bn with the solvency surplus improving by 4%, also to a record £3.1bn. The policyholders' surplus of the US property/casualty industry, a proxy for underwriting capacity, grew by $33.1bn in 2012 to a record $586.9bn. Reinsurance capital also grew to a record $505bn at year end 2012, an increase of 11% or $50bn since the end of 2011, according to reinsurance broker, Aon Benfield.

Demand measured by premium has grown over the long term, being linked to growth in GDP and levels of insurance penetration. During the Great Recession of 2007–2009 US net written insurance premiums fell by an aggregate 6.8%, the first three year decline since 1930–1933. Growth in overall net written premiums, a proxy for demand, accelerated to 4.3% in 2012 from 3.4% in 2011 with insurers writing predominantly

"In our view, the principal reason why pricing is recovering on US insurance business is the investment environment. The Federal Reserve is actively signalling that it is determined to keep interest rates low until unemployment drops below 6.5% or until inflation expectations exceed 2.5%."

2012 review and outlook for 2013 continued

commercial lines showing greater increases of 5.7%. The demand component has been boosted by a combination of increasing premium rates and a recovering US economy contributing to organic growth. Encouragingly, net written premium has now overtaken its previous peak set in 2006.

The insurance pricing cycle is typically supply led with demand playing a limited role. However, in this cycle deficient demand has had a greater impact than normal since 2007 as organic growth opportunities have largely not been available to use up surplus capital. The strength of the economic recovery remains uncertain in Lloyd's principal market, the US.

Sluggish economic conditions are expected to continue to have an impact on the demand for insurance and therefore organic growth opportunities. However, it is encouraging that US real GDP growth accelerated to 2.5% in the first quarter of 2013 compared with 0.4% in the final quarter of 2012.

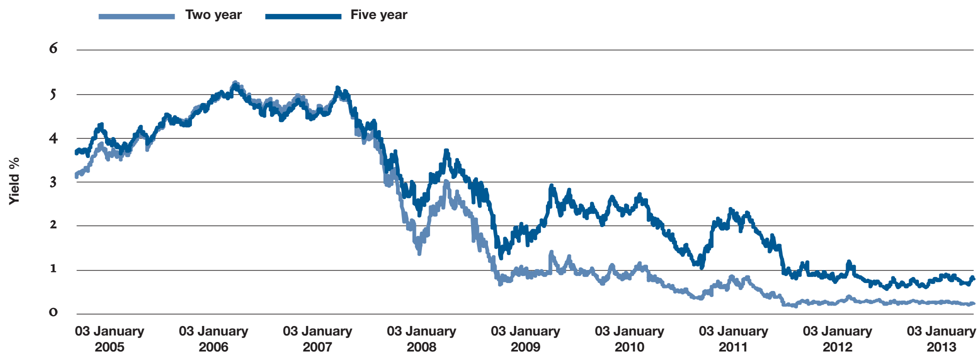
It is possible that we may have seen the bottom of the cycle in 2011 when the US property/casualty industry reported a combined ratio of 106.3%, the worst ratio since 2002 with the bottom of the previous cycle having been in 2001 when the combined ratio was 115.8%. US property/casualty industry net written premium growth in 2013 is expected to be the strongest since 2004 driven by a mixture of organic growth and a broad and sustained increase in pricing. A M Best is projecting net written premium growth of 4.5% for 2013.

Insurers and reinsurers have three main sources of earnings. These are the potential for underwriting profit on earned income from the current year, the potential for releases from reserves on business written in prior years and finally investment income and realised gains. In our view, the principal reason why pricing is recovering on US insurance business is the investment environment. The Federal Reserve is actively signalling that it is determined to keep interest rates low until unemployment drops below 6.5% or until inflation expectations exceed 2.5%.

US treasury bond yields

The treasury yield curve remains close to its most depressed level in at least 45 years. Investment income has further reduced due to a combination of lower yields and a reduction in the average maturity of insurers' bond portfolios which, according to the Insurance Information

US daily treasury yield



Source: US Department of the Treasury.

Institute based on A M Best data, has fallen from 7.32 years in 2006 to 6.45 years in 2011. The duration of bond investments for Lloyd's syndicates is even lower at 1.7 years.

The significance of the fall in bond years can be seen from the fact that a US five year treasury bond could have been bought with a yield of 5% in July 2007, yet when that bond matured in July 2012 the reinvestment yield available was only 0.6%.

The trend in declining yields from 2007 can be seen in the chart above which shows both the two year and five year US treasury from 2005 to May 2013. At the time of writing the two year is yielding 0.23% and the five year 0.79%.

The investment component of the return on equity by line of business is particularly important in capital intensive lines such as reinsurance, or casualty business where claims may not be paid out for a number of years. Apart from controlling expenses the main way for insurance company managements to compensate for this "lost investment income" is to encourage their underwriters to put rates up.

At previous cycle turning points, reserve deteriorations have followed periods of reserve releases. Currently reserve releases continue to be made, although they have been reducing since 2008 for US insurers and are expected to taper off in 2013 and 2014.

The rating environment

Global reinsurance rates were stable at 1 January 2013 despite the losses from Hurricane Sandy. The reinsurance broker, Guy Carpenter, reported that renewals for loss free accounts varied between down by 2.5% to up by 2.5% for US property catastrophe reinsurance with loss impacted catastrophe programmes experiencing increases, although the level of these increases varied widely. Reinsurance pricing at 1 April 2013 Asian renewals were stable to falling marginally.

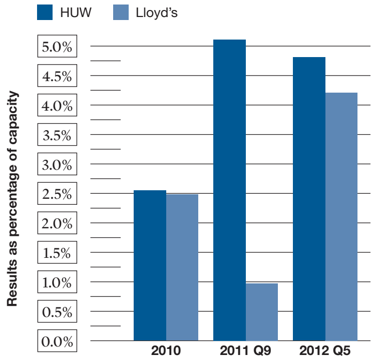
The most significant issue affecting the reinsurance industry in 2013 is the convergence of traditional and alternative sources of reinsurance capital with Guy Carpenter calculating that non-traditional capacity now makes up an estimated 14% of global property catastrophe limit. Alternative capital/reinsurance structures typically offer a collateralised quota share reinsurance through a variety of mechanisms designed for investors seeking catastrophe risk. At the time of writing the market is in a state of flux in advance of the 1 June and 1 July renewal seasons for reinsurance business. However, early indications are that there will be rate reductions of 10% or more, which will have a particular impact on what have been attractive margins for Florida reinsurance business, for example.

In contrast we are now seeing a sustained upturn in property and casualty insurance rates in the US, which does not suffer from the ease of entry from alternative sources of capital seen in the reinsurance sector. After nearly eight years of decreases the first increase we saw was in the third quarter of 2011 and by the fourth quarter of 2012 rates were up by an average of 5% using data supplied by the Council of Insurance Agents and Brokers, the largest increase since late 2003. Rate rises continued in the first quarter of 2013, averaging 5.2%. The President/CEO, Ken Crerar, commented, "Carriers backed off risky business, tightened underwriting and pressed for higher pricing and deductibles on renewal."

Lloyd's received 41% of its income from the US and Canada in 2012 and as the market leader in excess and surplus (the "E&S") lines business is expected to be a major beneficiary from a hardening US insurance market leading to business migrating back to the E&S market from the US admitted market.

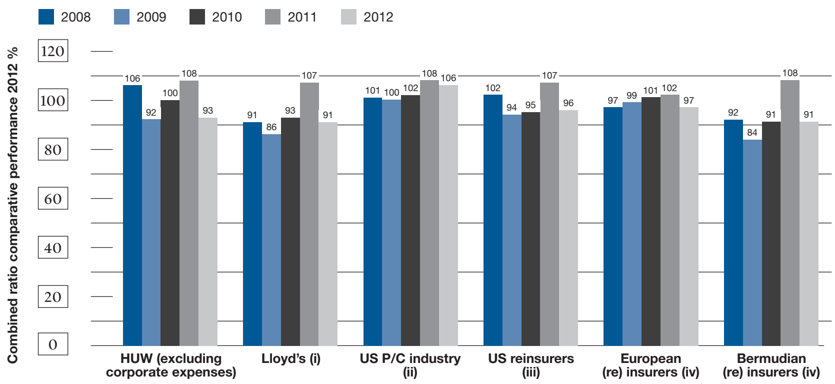
Following Hurricanes Katrina, Rita and Wilma in 2005, US reinsurance rates have been among the most attractive of any class of business. What we are seeing now in the current market place is potentially a healthy rebalancing in the relative attractiveness of writing insurance business compared to reinsurance business which, if sustained, would suggest that overall,

2010 account results, 2011 and 2012 account estimate results



2010 Results are as at 36 months. 2011 & 2012 estimated result derived from mid point of 2013 Q1 syndicate estimates. All results are after standard personal expenses but before members' agents' charges.

Combined ratio comparative performance with peer groups



Sources: i) Lloyd's pro-forma financial statements; ii) Insurance Information Institute; iii) Reinsurance Association of America; and (iv) Company data (8 European companies: 17 Bermudian companies).

"US reinsurance rates have been among the most attractive of any class of business. What we are seeing now in the current market place is potentially a healthy rebalancing in the relative attractiveness of writing insurance business compared to reinsurance business which, if sustained, would suggest that overall, the insurance cycle has turned the corner."

The rating environment continued
the insurance cycle has turned the corner. However, from a reinsurance perspective, reducing reinsurance rates should improve the margins of insurers but reduce the attractiveness of writing reinsurance business. Time will tell whether the alternative sources of capital which have entered the industry will sustain their provision of capital post a major loss and prove dependable for insurers.

Hampden Underwriting's 2012 results
The traditional method for comparing the performance of competing insurance businesses is an analysis of the combined ratio, which is the sum of net claims and expenses divided by net earned premium. The combined ratio of Hampden Underwriting's portfolio for 2012 was 93% which compares favourably with industry peer groups, outperforming the 2012 results of the US property/casualty industry, US reinsurers and European reinsurers.

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 marginally outperformed the Lloyd's result as a percentage of capacity on the 2010 account at 31 December 2012 with a profit of 2.55% (Lloyd's 2.49%) and is estimated to outperform Lloyd's on the 2011 account with a profit of 5.08% at the mid-point estimate (Lloyd's 0.96%).

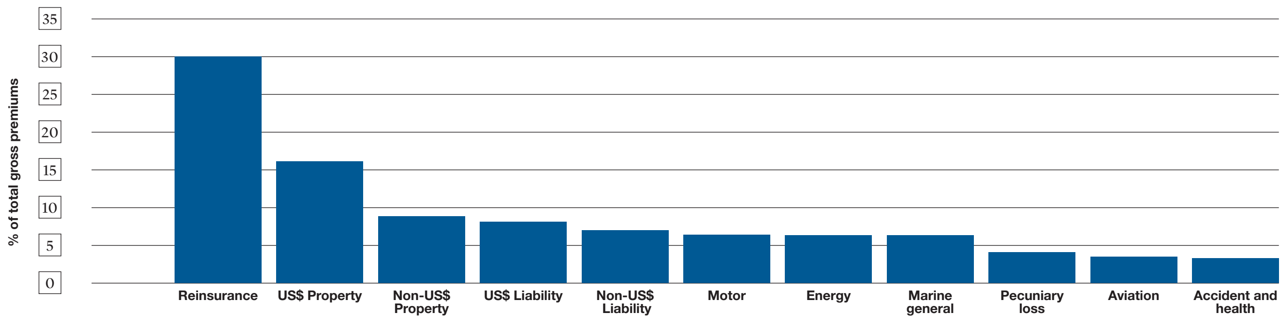
At this early stage of development of the 2012 account the mid-point estimate is a profit of 4.75% (Lloyd's 4.2%).

Hampden Underwriting's capital position
Net tangible assets per share fell marginally by 1.4% during 2012, principally as a result of the three acquisitions made in the year. Including the acquisitions, net tangible assets increased from £6.43m at year end 2011 to £7.3m at year end 2012 and continue to provide a capital surplus compared with the Lloyd's minimum capital requirement as at November 2012, which was £6.99m.

Classes of business for 2013
Hampden Underwriting's portfolio for 2013 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 through diversification to lower capital requirements.

Classes of business

Source: 2013 Syndicate Business Forecasts



Top ten syndicates for 2013
The two largest classes of business remain reinsurance and US dollar property insurance. Casualty and UK motor exposures provide balance against the more volatile property catastrophe exposures.

Top 10 syndicate holdings

Syndicate	Managing agent	2013 Syndicate capacity £'000	2013 HUW portfolio capacity £'000	2013 HUW portfolio % of total	Largest class
2791	Managing Agency Partners Ltd	511,018.4	1,942.5	15.1	Reinsurance
510	RJ Kiln & Co. Ltd	1,063,790.9	1,815.6	14.1	US$ Property
623	Beazley Furlonge Ltd	224,998.6	1,428.2	11.1	US$ Non-marine liability
609	Atrium Underwriters Ltd	419,734.3	1,292.8	10.0	Energy
33	Hiscox Syndicates Ltd	950,000.0	1,042.6	8.1	Reinsurance
6110	Pembroke Managing Agency Ltd	45,000.0	724.5	5.6	Reinsurance
218	Equity Syndicate Management Ltd	437,624.0	715.3	5.6	Motor
6111	Catlin Underwriting Agencies Ltd	85,694.1	680.5	5.3	Reinsurance
958	Canopius Managing Agents Ltd	220,000.0	523.3	4.1	Reinsurance
2010	Cathedral Underwriting Ltd	350,015.9	423.5	3.3	Reinsurance
Subtotal			10,588.8	82.2	
Total			12,882.3	100.0	

The top ten syndicates comprise 82.2% of the portfolio. No new syndicates were joined for 2013.

Hampden Underwriting's portfolio for 2013

28.2% 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 15.1% of capacity.

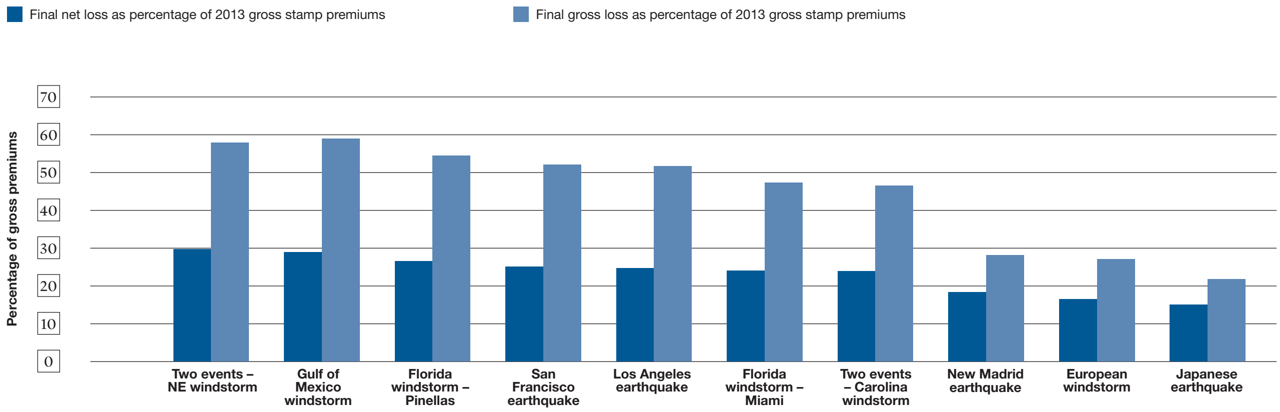
The top ten syndicates comprise 82.2% of the portfolio. No new syndicates were joined for 2013.

Risk management

The two major risks faced by insurers and reinsurers are deficient loss reserves and inadequate pricing, which, taken together, account for over 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 rating environment.

Realistic disaster scenarios – 2013 compared with 2012



Source: 2013 Syndicate Business Forecasts

> ***"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 rating environment."***

Risk management continued

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.

Hampden Underwriting's largest modelled exposures net of reinsurance as a percentage of gross premiums are similar for 2013 compared with 2012. The largest remains the first event (North-East wind storm) of a two event scenario incorporating two consecutive Atlantic seaboard windstorms in the US at 29.7% of gross premium, net of reinsurance. The next highest is the Gulf of Mexico windstorm at 28.9% net.

Directors

Sir James Michael Yorrick Oliver, aged 72
(Non-executive Chairman)

Sir Michael Oliver is a director of a number of investment funds, and the 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.

Nigel Hanbury, aged 56
(Chief Executive)

Nigel Hanbury joined Lloyd's in 1979 as an external member and became a Lloyd's broker in 1982. He later moved to the Members' Agency side latterly becoming Chief Executive and then Chairman of Hampden Members Agency. He serves on the board of the Association of Lloyd's Members and was elected to the Council of Lloyd's for the "Working Names" constituency twice serving on that body between 1999 and 2001 and then 2005 to 2008, as well as participating on the Market Board and other Lloyd's committees. In December 2009 he ceased being Chairman of Hampden but in 2012 acquired a majority stake in HIPCC, a Guernsey insurance protected cell Company, formerly wholly owned by Hampden Capital Plc.

John Andrew Leslie, aged 68
(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 1986 when 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 55
(Non-executive Director)

Jeremy Evans joined Minories 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 CEO of Nomina Plc as well as being a director of Hampden Capital Plc and Hampden Holdings Ltd.

Harold Michael Clunie Cunningham, aged 65
(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 £100 million in total.

The Directors present their report and the audited Group Financial Statements for the year ended 31 December 2012.

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 2012 is shown in the consolidated statement of comprehensive income. The Group profit for the year after taxation was £763,000 (2011: loss £387,000).

No dividend was paid in 2012 (2011: £nil).

Charitable and political donations

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

Directors and their interests

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. Michael Cunningham therefore retires by rotation and offers himself for re-election as a Director. Nigel Hanbury, a new Director during the year, is required to retire from the Board and offer 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	2012	2011
Operating profit/(loss) before tax	£854,000	£(604,000)
Profit/(loss) attributable to equity shareholders	£763,000	£(387,000)
Earnings/(loss) per share	9.92p	(5.22)p
Return on equity	8.4%	(5.2)%

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.

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 2012 is nil (2011: nil).

Substantial shareholdings

The substantial shareholders shown below were as at 1 May 2013:

	Number of shares	% holdings
Nigel John Hanbury (either personally or has an interest in)	1,261,257	14.79%
Lynchwood Nominees Limited	1,070,000	12.55%
Hampden Capital plc	1,014,560	11.90%
Roy Nominees Limited	717,500	8.41%
Ferlim Nominees Limited	430,000	5.04%

In addition to the following current TR-1 notifications have been received detailing shareholdings in excess of 3%.

	Shareholding	% of issued share capital
Smith & Williamson Nominees Limited	785,724	9.21%
Investec Wealth & Investment Limited	430,000	5.04%

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 28 May 2013.

Jeremy Evans
Non-executive Director
28 May 2013

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, other than its Chief Executive whose appointment and terms of employment were reviewed and approved by the Company's Non-executive Directors, the Company has no employees.

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

	Board		Audit Committee	
Director	Possible number of meetings	Number of meetings attended	Possible number of meetings	Number of meetings attended
Sir Michael Oliver	7	7	—	—
Nigel Hanbury	2	2	—	—
Andrew Leslie	7	6	2	2
Jeremy Evans	7	6	—	—
Michael Cunningham	7	7	2	2
Average attendance (%)		93%		100%

Subsidiary Board and committees

Jeremy Evans, Nigel Hanbury and Nomina plc are directors of Hampden Corporate Member Limited, Nameco (No. 365) Limited, Nameco (No. 605) Limited, Nameco (No. 321) Limited, Nameco (No. 917) Limited, Nameco (No. 229) Limited and Nameco (No. 518) 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
Nameco (No. 917) Limited	appointed 9 January 2013
Nameco (No. 229) Limited	appointed 1 November 2001
Nameco (No. 518) Limited	appointed 1 November 2001
Nigel Hanbury:	
Hampden Corporate Member Limited	appointed 18 February 2013
Nameco (No. 365) Limited	appointed 18 February 2013
Nameco (No. 605) Limited	appointed 18 February 2013
Nameco (No. 321) Limited	appointed 18 February 2013
Nameco (No. 917) Limited	appointed 18 February 2013
Nameco (No. 229) Limited	appointed 21 November 2012
Nameco (No. 518) Limited	appointed 27 November 2012
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
Nameco (No. 917) Limited	appointed 17 September 2004
Nameco (No. 229) Limited	appointed 24 September 1998
Nameco (No. 518) Limited	appointed 20 September 2000

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. Sir Michael Oliver was a director and Jeremy Evans is a director of Hampden Capital plc, which owns 100% of Hampden Agencies Limited and 99% of Nomina plc. 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.

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the 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;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether IFRS adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements.

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 auditors' report
To the members of Hampden Underwriting plc

We have audited the Financial Statements of Hampden Underwriting plc for the year ended 31 December 2012 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 auditors
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 2012 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRS 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 Report of the Directors for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception
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.

Ian Cowan (Senior statutory auditor)
For and on behalf of Littlejohn LLP
Statutory auditor
28 May 2013

1 Westferry Circus
Canary Wharf
London E14 4HD

Consolidated statement of comprehensive income
Year ended 31 December 2012

	Note	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Gross premium written		9,141	7,715
Reinsurance premium ceded		(1,820)	(1,445)
Net premiums written		7,321	6,270
Change in unearned gross premium provision		(405)	238
Change in unearned reinsurance premium provision		52	(17)
	5	(353)	221
Net earned premium		6,968	6,491
Net investment income	6	429	247
Other income		—	22
Goodwill on bargain purchase	18	568	—
		997	269
Revenue		7,965	6,760
Gross claims paid		(4,685)	(4,726)
Reinsurers share of gross claims paid		930	842
Claims paid, net of reinsurance		(3,755)	(3,884)
Change in provision for gross claims		229	(1,115)
Reinsurers share of change in provision for gross claims		24	486
Net change in provision for claims	5	253	(629)
Net insurance claims and loss adjustment expenses		(3,502)	(4,513)
Expenses incurred in insurance activities		(2,743)	(2,277)
Other operating expenses		(866)	(574)
Operating expenses		(3,609)	(2,851)
Operating profit/(loss) before tax	7	854	(604)
Income tax (charge)/credit	8	(91)	217
Profit/(loss) and total comprehensive income attributable to equity shareholders	17	763	(387)
Earnings/(loss) per share attributable to equity shareholders			
Basic and diluted	9	9.92p	(5.22)p

The profit/(loss) attributable to equity shareholders and earnings/(loss) 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 2012

	Note	31 December 2012 £'000	31 December 2011 £'000
Assets			
Intangible assets	11	1,797	1,052
Deferred income tax assets	12	—	—
Reinsurance assets:			
– reinsurers' share of claims outstanding	5	4,323	3,044
– reinsurers' share of unearned premium	5	590	409
Other receivables, including insurance receivables	13	9,343	6,628
Prepayments and accrued income		1,216	842
Financial assets at fair value	14	20,978	13,675
Cash and cash equivalents		1,444	3,020
Total assets		39,691	28,670
Liabilities			
Insurance liabilities:			
– claims outstanding	5	19,814	14,234
– unearned premium	5	4,624	3,137
Deferred income tax liabilities	12	938	415
Other payables, including insurance payables	15	4,589	2,911
Accruals and deferred income		631	488
Total liabilities		30,596	21,185
Shareholders' equity			
Share capital	16	853	741
Share premium	16	6,996	6,261
Retained earnings	17	1,246	483
Total shareholders' equity		9,095	7,485
Total liabilities and shareholders' equity		39,691	28,670

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

Approved and authorised for issue by the Board of Directors on 28 May 2013.

Jeremy Evans
Non-executive Director

Parent Company statement of financial position
At 31 December 2012

	Note	31 December 2012 £'000	31 December 2011 £'000
Assets			
Other receivables	13	7,350	4,418
Investments in subsidiaries	14	3,261	1,035
Cash and cash equivalents		11	2,463
Total assets		10,622	7,916
Liabilities			
Other payables	15	59	57
Current income tax liabilities		—	—
Total liabilities		59	57
Shareholders' equity			
Share capital	16	853	741
Share premium	16	6,996	6,261
Retained earnings	17	2,714	857
Total shareholders' equity		10,563	7,859
Total liabilities and shareholders' equity		10,622	7,916

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

Approved and authorised for issue by the Board of Directors on 28 May 2013.

Jeremy Evans
Non-executive Director

Company number 05892671

Consolidated statement of cash flows
Year ended 31 December 2012

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Cash flows from operating activities		
Results of operating activities	854	(604)
Interest received	(27)	(4)
Investment income	(320)	(275)
Goodwill on bargain purchase	(568)	—
Impairment of goodwill	81	—
Loss on sale of intangible assets	1	11
Amortisation of intangible assets	314	270
Income tax paid	(179)	(16)
Change in fair value of investments	(128)	(5)
Changes in working capital:		
– decrease/(increase) in other receivables	2,225	(530)
– (decrease)/increase in other payables	(1,046)	3
– net (decrease)/increase in technical provisions	(2,991)	454
Net cash outflow from operating activities	(1,784)	(696)
Cash flows from investing activities		
Interest received	27	4
Investment income	321	275
Purchase of intangible assets	(217)	(49)
Proceeds from disposal of intangible assets	51	—
Purchase of financial assets at fair value	854	166
Acquisition of subsidiaries, net of cash acquired	(828)	—
Net cash inflow from investing activities	208	396
Net decrease in cash and cash equivalents	(1,576)	(300)
Cash and cash equivalents at beginning of year	3,020	3,320
Cash and cash equivalents at end of year	1,444	3,020

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

Cash held within the syndicates accounts is £747,000 (2011: £537,000) of the total cash and cash equivalents held at the year end of £1,444,000 (2011: £3,020,000).

Non-cash transactions
The principal non-cash transaction is the issue of shares as consideration for the acquisition of Nameco (No. 917) Limited disclosed in Note 18.

Parent Company statement of cash flows
Year ended 31 December 2012

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Cash flows from operating activities		
Results of operating activities	1,795	989
Interest received	(25)	(2)
Dividend received	(2,100)	(1,231)
Changes in working capital:		
– decrease in other receivables	3	68
– increase/(decrease) in other payables	3	(35)
Net cash outflow from operating activities	(324)	(211)
Cash flows from investing activities		
Interest received	25	2
Dividend received	2,100	1,231
Purchase of subsidiary undertakings	(1,380)	—
Amounts owed by subsidiary undertakings	(2,873)	473
Net cash (outflow)/inflow from investing activities	(2,128)	1,706
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	—	—
Net cash outflow from financing activities	—	—
Net (decrease)/increase in cash and cash equivalents	(2,452)	1,495
Cash and cash equivalents at beginning of year	2,463	968
Cash and cash equivalents at end of year	11	2,463

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

Non-cash transactions

The principal non-cash transaction is the issue of shares as consideration for the acquisition of Nameco (No. 917) Limited disclosed in Note 18.

Statements of changes in shareholders' equity
Year ended 31 December 2012

Consolidated	Ordinary share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
	Attributable to owners of the parent			
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
At 1 January 2012	741	6,261	483	7,485
Share issue	112	735	—	847
Profit and total comprehensive income for the year	—	—	763	763
At 31 December 2012	853	6,996	1,246	9,095

Company	Ordinary share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
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
At 1 January 2012	741	6,261	857	7,859
Share issue	112	735	—	847
Profit and total comprehensive income for the year	—	—	1,857	1,857
At 31 December 2012	853	6,996	2,714	10,563

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

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 £9,095,000 and £10,563,000 respectively.

The Company's subsidiaries participate as underwriting members at Lloyd's on the 2010, 2011 and 2012 accounts and they have continued this participation since the year end on the 2013 year of account. This underwriting is supported by Funds at Lloyd's totalling £7,173,000 (2011: £4,090,000).

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

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that had a material impact on the Group's Financial Statements.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012 and have not been applied in preparing these Financial Statements. None of these is expected to have a significant effect on the financial statements of the Group:

- Amendment to IAS 1 "Financial statement presentation" regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" ("OCI") on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
- IAS 19 "Employee Benefits" was amended in June 2011. The amendments eliminate the option to defer the recognition of gains and losses, known as the "corridor method"; streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in other comprehensive income; and enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.
- IFRS 7 "Financial Instruments: Disclosures" was amended for asset and liability offsetting. This amendment requires disclosure of information that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment is effective for the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.
- IFRS 10 "Consolidated Financial Statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the Parent Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 11 "Joint Arrangements" provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangement; joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venture has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

2. Accounting policies continued

International Financial Reporting Standards continued

- IFRS 12 "Disclosures of Interests in Other Entities" includes the disclosure requirements for all forms of interests in entities, including joint arrangements, associates, special purpose vehicles and other off Statement of Financial Position vehicles. The Group intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.
- Amendments to IFRS 10 "Consolidated Financial Statements" IFRS 11 "Joint Arrangements and IFRS 12" "Disclosure of Interests in Other Entities" provide additional transition relief to IFRS 10,11 and 12 by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The Group intends to adopt the amended standards no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.
- IFRS 13 "Fair Value Measurement" aims to provide consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other IFRS.
- IAS 27 "Separate Financial Statements" replaces the current version of IAS 27 "Consolidated and Separate Financial Statements" as a result of the issue of IFRS 10. The revised standard includes the requirements relating to separate financial statements. The Group intends to adopt IAS 27 (revised) no later than the accounting period beginning on or after 1 January 2013.
- IAS 28 "Investments in Associates and Joint Ventures" replaces the current version of IAS 28 "Investments in Associates" as a result of the issue of IFRS 11. The revised standard includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 1. The Group intends to adopt IAS 28 (revised) no later than the accounting period beginning on or after 1 January 2013.
- IFRS 9 "Financial Instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics for the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.
- Amendments to IAS 32 "Financial Instruments: Presentation" add application guidance to address inconsistencies identified in applying some of the criteria when offsetting financial assets and financial liabilities. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The Group is yet to assess the full impact of the amendments to IAS 32 and intends to adopt the amended standard no later than the accounting period beginning on or after 1 January 2014.

"Annual Improvements 2009–2011 Cycle" sets out amendments to various IFRS as follows:

- An amendment to IFRS 1 "First-time Adoption" clarifies whether an entity may apply IFRS 1:
  - if the entity meets the criteria for applying IFRS 1 and has applied IFRS 1 in a previous reporting period; or
  - if the entity meets the criteria for applying IFRS 1 and has applied IFRS in a previous reporting period when IFRS 1 did not exist.
- The amendment to IFRS 1 also addresses the transitional provisions for borrowing costs relating to qualifying assets for which the commencement date for capitalisation was before the date of transition to IFRS.
- An amendment to IAS 1 "Presentation of Financial Statements" clarifies the requirements for providing comparative information:
  - for the opening statement of financial position when an entity changes accounting policies, or makes retrospective restatements or reclassifications; and
  - when an entity provides Financial Statements beyond the minimum comparative information requirements.
- An amendment to IAS 16 "Property, Plant and Equipment" addresses a perceived inconsistency in the classification requirements for servicing equipment.
- An amendment to IAS 32 "Financial Instruments: Presentation" addresses perceived inconsistencies between IAS 12 "Income Taxes" and IAS 32 with regard to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.
- An amendment to IAS 34 "Interim Financial Reporting" clarifies the requirements on segment information for total assets and liabilities for each reportable segment.

The Group is yet to assess the full impact of these amendments and intends to adopt the amended standards no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

2. Accounting policies continued

International Financial Reporting Standards continued

Amendments to IFRS 10 "Consolidated Financial Statements" IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" in its consolidated and separate Financial Statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27. The Company is yet to assess the full impact of these amendments and intends to adopt the amended standards no later than the accounting period beginning on or after 1 January 2014, subject to endorsement by the EU.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Consolidation

The Financial Statements incorporate the Financial Statements of Hampden Underwriting plc, Hampden Corporate Member Limited, Nameco (No. 365) Limited, Nameco (No. 605) Limited, Nameco (No. 321) Limited, Nameco (No. 917) Limited, Nameco (No. 229) Limited and Nameco (No. 518) Limited.

The Financial Statements of Hampden Corporate Member Limited, Nameco (No. 365) Limited, Nameco (No. 605) Limited, Nameco (No. 321) Limited, Nameco (No. 917) Limited, Nameco (No. 229) Limited and Nameco (No. 518) Limited are prepared for the year ended 31 December 2012. Consolidation adjustments are made to convert the subsidiary Financial Statements prepared under UK GAAP to IFRS so as to align accounting policies and treatments.

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 £1,857,000 (2011: profit £1,052,000).

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.

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.

2. Accounting policies continued

Underwriting continued

Claims incurred and reinsurers' share continued

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.

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.

2. Accounting policies continued

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 other operating expenses in the consolidated statement of comprehensive income.

Investment in subsidiaries

Subsidiaries are 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 capitalised and recorded as goodwill. Following initial recognition; goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually or if events or changes in circumstances indicate that the carrying value may be impaired. 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 the consolidated statement of comprehensive income. 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 statement of cash flows, 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 by the relevant managing agent to years of account proportionately to the funds contributed by the year of account.

Other operating expenses

All expenses are accounted for on an accruals basis.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regular occurring market transaction on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation technique. These valuation techniques maximise the use of observable market data where it is available and rely as little possible on entity-specific estimates.

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 tax is provided in full, using the balance sheet 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 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 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 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 Nigel Hanbury.

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 Group'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. For the purposes of setting capital requirements for the 2013 year of account, Lloyd's introduced the Lloyd's Capital Return ("LCR") which replaced the Individual Capital Assessment ("ICA"). Each managing agent will have prepared an LCR for the syndicate to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicate's business and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are typically reflected in the LCR and typically the majority of the total assessed value of the risks concerned is attributable to insurance risk.

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on 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 investment risk, liquidity risk, credit risk, currency risk and interest rate risk leading to financial loss. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's and the Prudential Regulation 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, credit 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, credit 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 Groups maximum exposure to credit risk at 31 December 2012 and 2011 is £8.6 million (2011: £7.1 million) being the aggregate of Group's insurance receivables, prepayments and accrued income, financial assets at fair value and cash and cash equivalents, excluding any amounts held in the syndicates. The Syndicates can distribute their results in sterling, US dollars or a combination of the two. The Group is exposed to movements in the US dollar between the balance sheet date and the distribution of the underwriting profits and losses, which is usually in the May following the closure of the a year of account. The Group does not use derivative instruments to manage risk and, as such, no hedge accounting is applied.

Market risk

The Group is exposed to market and liquidity risk in respect of its holdings of syndicate participations. Lloyd's syndicate participations are traded in the Lloyd's auctions held in September and October each year. The group is exposed to changes in market prices and a lack of liquidity in the trading of a particular syndicate's capacity which could result in the Group making a loss compared to the carrying value when the Group disposes of particular syndicate participations.

Regulatory risks

The Company's subsidiaries are subject to continuing approval by Lloyd's to be a member of a Lloyd's syndicate. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to membership of Lloyd's. 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 a subsidiary of the Company 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 operational 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.

Capital management objectives, policies and approach

The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- to maintain the required level of stability of the Group thereby providing a degree of security to shareholders;
- to allocate capital efficiently and support the development of the business by ensuring that returns on capital employed meet the requirements of the shareholders; and
- to maintain the financial strength to support increases in the Group's underwriting through acquisition of capacity in the Lloyd's auctions or through the acquisition of new subsidiaries.

The Group's capital management policy is to hold a sufficient level of capital to allow the Group to take advantage of market conditions, particularly when insurance rates are improving and to meet the Funds at Lloyd's ("FAL") requirements that support the corporate member subsidiaries current and future levels of underwriting.

3. Risk management continued

Approach to capital management

The capital structure of the Group consists entirely of equity attributable to equity holders of the Company, comprising issued share capital, share premium and retained earnings as disclosed in the consolidated statement of changes in equity on page 20.

At 31 December 2012 the corporate member subsidiaries had an agreed FAL requirement of £7,173,000 (2011: £4,090,000) to support their underwriting on the 2013 year of account. The funds to support this requirement are held in short-term investment funds and deposits. The FAL requirements are formally assessed and funded twice yearly and must be met by the corporate member subsidiaries to continue underwriting. At 31 December 2012 the agreed FAL requirement for the Group was 56% (2011: 44%) of the capacity for the following year of account.

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 2012	Syndicate participation £'000	Investment management £'000	Other corporate activities £'000	Total £'000
Net earned premium	6,968	—	—	6,968
Net investment income	405	24	—	429
Goodwill on Bargain Purchase	—	—	568	568
Net incurred insurance claims and loss adjustment expenses	(3,502)	—	—	(3,502)
Expenses incurred in insurance activities	(2,743)	—	—	(2,743)
Amortisation of syndicate capacity	—	—	(192)	(192)
Other operating expenses	(303)	—	(371)	(674)
Results of operating activities	825	24	5	854

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 income	22	—	—	22
Net incurred 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)

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 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
At 1 January 2012	14,234	3,044	11,190
Increase in reserves arising from acquisition of subsidiary undertakings	9,445	1,993	7,452
Movement of reserves	(229)	24	(253)
Other movements	(3,636)	(738)	(2,898)
At 31 December 2012	19,814	4,323	15,491

Included within other movements are the 2009 and prior years' claims reserves reinsured into the 2010 year of account on which the group does not participate and currency exchange differences.

5. Insurance liabilities and reinsurance balances continued

Movement in unearned premium

	Gross £'000	Reinsurance £'000	Net £'000
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
At 1 January 2012	3,137	409	2,728
Increase in reserves arising from acquisition of subsidiary undertakings	1,285	171	1,114
Movement of reserves	405	52	353
Other movements	(203)	(42)	(161)
At 31 December 2012	4,624	590	4,034

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 2012.

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 £1,981,000 (2011: £1,423,000);
- a 10% increase/decrease in the managing agents' calculation of net claims reserves will decrease/increase the Group's pre-tax profits by £1,549,000 (2011: £1,119,000); and
- a 10% increase/decrease in the run-off year net claims reserves will decrease/increase the Group's pre-tax profits by £12,000 (2011: £14,000).

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

Analysis of gross and net claims development

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

2012

Gross claims as a % of gross earned premium

Year of account	2010*	2011*	2012
12 months	62.9%	72.1%	68.1%
24 months	81.9%	62.4%	—
36 months	70.1%	—	—

Net claims as a % of net earned premium

Year of account	2010*	2011*	2012
12 months	67.2%	76.7%	71.8%
24 months	77.2%	64.0%	—
36 months	63.2%	—	—

* Including the new acquisitions.

5. Insurance liabilities and reinsurance balances continued

2011

Gross claims as a % 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%	—	—

6. Net investment income

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Investment income	320	275
Realised gains on financial assets at fair value through profit or loss	3	74
Unrealised gains on financial assets at fair value through profit or loss	128	5
Investment management expenses	(49)	(111)
Bank interest	27	4
Net investment income	429	247

7. Operating profit/(loss) before tax

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Operating profit/(loss) before tax is stated after charging/(crediting):		
Directors' remuneration	84	65
Exchange differences	125	(19)
Amortisation of intangible assets	314	270
Acquisition costs in connection with the new subsidiaries acquired in the year	45	—
Impairment of goodwill	81	—
Goodwill on bargain purchase	(568)	—
Auditors' remuneration:		
– audit of the Parent Company and Group Financial Statements	25	25
– audit of subsidiary company Financial Statements	14	8
– services relating to taxation	—	—
– other services pursuant to legislation	—	—
– other services	—	—

The Group has no employees other than the Directors of the Company.

Directors' remuneration	Year ended 31 December 2012 £	Year ended 31 December 2011 £
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
Nigel Hanbury	18,750	—
Total	83,750	65,000

Directors' remuneration comprises only Directors' fees. The Chief Executive, Nigel Hanbury, has a bonus incentive scheme. No bonus has been paid during the year. No other Directors derive other benefits, pension contributions or incentives from the Group. At 31 December 2012 no share options were held by the Directors (2011: nil).

The Company did not have a Remuneration Committee during the year.

8. Income tax charge

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

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Current tax:		
– current year	221	—
– prior year	16	(20)
– foreign tax paid	36	31
	273	11
Deferred tax:		
– current year	(201)	(211)
– prior year	19	(17)
	(182)	(228)
Tax on profit/(loss) on ordinary activities	91	(217)

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

Tax for the year is lower than (2011: lower than) the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%).

The differences are explained below:

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit/(loss) on ordinary activities before tax	854	(604)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	209	(160)
Prior year adjustments	16	(20)
Change in deferred tax rate	(19)	(46)
Permanent disallowances	27	30
Goodwill on bargain purchase not subject to tax	(116)	—
Relief for foreign taxation	36	31
Other	(62)	(52)
Tax charge/(credit) for the year	91	(217)

The results of the Group's participation on the 2010, 2011 and 2012 years of account and the calendar year movement on 2009 and prior run-offs will not be assessed to tax until the year ended 2013, 2014 and 2015 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.

9. Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the earnings/(loss) 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 earnings/(loss) and weighted average number of shares used in the calculation is set out below:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit/(loss) for the year	£763,000	£(387,000)
Weighted average number of shares in issue	7,691,769	7,413,376
Basic and diluted earnings/(loss) per share	9.92p	(5.22)p

10. Dividends

No equity dividends were proposed, declared or paid in the year (2011: £nil).

11. Intangible assets

	Goodwill £'000	Syndicate capacity £'000	Total £'000
Cost			
At 1 January 2011	—	1,979	1,979
Additions	—	49	49
Disposals	—	(1)	(1)
At 31 December 2011	—	2,027	2,027
At 1 January 2012	—	2,027	2,027
Additions	81	218	299
Disposals	—	(56)	(56)
Impairment	(81)	—	(81)
Acquired with subsidiary undertakings	—	1,032	1,032
At 31 December 2012	—	3,221	3,221
Amortisation			
At 1 January 2011	—	705	705
Charge for the year	—	270	270
At 31 December 2011	—	975	975
At 1 January 2012	—	975	975
Charge for the year	—	314	314
Disposals	—	(4)	(4)
Acquired with subsidiary undertakings	—	139	139
At 31 December 2012	—	1,424	1,424
Net book value			
As at 31 December 2011	—	1,052	1,052
As at 31 December 2012	—	1,797	1,797

12. Deferred tax

Deferred tax is calculated in full on temporary differences using a tax rate of 23% (2011: 25%). The movement on the deferred tax account is shown below:

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
At 1 January	415	643	—	—
On acquisition of subsidiary undertakings	705	—	—	—
Prior period adjustment	19	(17)	—	—
Credit for the year	(201)	(211)	—	—
At 31 December	938	415	—	—

12. Deferred tax continued

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

Deferred tax assets	Unutilised losses £'000	Timing differences on underwriting results £'000	Total £'000
At 1 January 2011	(12)	—	(12)
Charge for the year	12	—	12
At 31 December 2011	—	—	—
At 1 January 2012	—	—	—
Charge for the year	—	—	—
At 31 December 2012	—	—	—

Deferred tax liabilities	Valuation of capacity £'000	Timing differences on underwriting results £'000	Total £'000
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
At 1 January 2012	127	288	415
Prior period adjustment	—	19	19
On acquisition of subsidiary undertakings	219	486	705
Credit for the year	(38)	(163)	(201)
At 31 December 2012	308	630	938

13. Other receivables

Group	31 December 2012 £'000	31 December 2011 £'000
Arising out of direct insurance operations	2,424	1,773
Arising out of reinsurance operations	3,519	2,131
Other debtors	3,400	2,724
	9,343	6,628

Company	31 December 2012 £'000	31 December 2011 £'000
Amounts owed by subsidiary undertakings	7,332	4,397
Prepayments	18	21
	7,350	4,418

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 21). None of the Group's other receivables are past their due date and are classified as fully performing.

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.

14. Financial assets at fair value through profit or loss continued

As at 31 December 2012, the Group held the following financial assets carried at fair value on the statement of financial position:

Assets measured at fair value

Group	2012 £000	Level 1 £000	Level 2 £000
Shares and other variable yield securities	391	391	—
Debt securities and other fixed income securities	10,864	10,864	—
Participation in investment pools	847	847	—
Loans guaranteed by mortgage	91	—	91
Holdings in collective investment schemes	1,211	—	1,211
Deposits with credit institutions	22	—	22
Funds held at Lloyd's	7,173	7,173	—
Other	379	—	379
Total – market value	20,978	19,275	1,703

Group	2011 £000	Level 1 £000	Level 2 £000
Shares and other variable yield securities	202	202	—
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	869	—	869
Deposits with credit institutions	43	—	43
Funds held at Lloyd's	4,090	4,090	—
Other	85	—	85
Total – market value	13,675	12,597	1,078

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.

The comparative figures have been reclassified to show "holdings in collective investment schemes" separately from "shares and other variable" yield securities.

Investment subsidiary undertakings incurred at cost

Company	31 December 2012 £'000	31 December 2011 £'000
Investment in subsidiary undertakings	3,261	1,035
Total – cost	3,261	1,035

During the year the Company acquired Nameco (No. 917) Limited, Nameco (No. 229) Limited and Nameco (No. 518) Limited for a total consideration of £2,226,000. No amounts have been impaired.

The Company owns 100% of the share capital of Hampden Corporate Member Limited, Nameco (No. 365) Limited, Nameco (No. 605) Limited, Nameco (No. 321) Limited, Nameco (No. 917) Limited, Nameco (No. 229) Limited and Nameco (No. 518) Limited, all of which trade as Lloyd's of London corporate vehicles and are incorporated in England and Wales.

15. Other payables

Group	31 December 2012 £'000	31 December 2011 £'000
Arising out of direct insurance operations	331	483
Arising out of reinsurance operations	2,146	1,022
Other creditors	2,112	1,406
	4,589	2,911

Company	31 December 2012 £'000	31 December 2011 £'000
Accruals and deferred income	59	57
	59	57

All other payables are due within one year.

16. Share capital and share premium

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 2012	741	6,261	7,002
Share issue	112	735	847
8,526,948 ordinary shares of 10p each and share premium at 31 December 2012	853	6,996	7,849

During the year 1,113,572 ordinary shares of 10p each were issued for a total consideration of £847,000 as part of the acquisition of Nameco (No. 917) Limited, see Note 18.

17. Retained earnings

Group	2012 £'000	2011 £'000
At 1 January	483	870
Profit/(loss) attributable to equity shareholders	763	(387)
At 31 December	1,246	483

Company	2012 £'000	2011 £'000
At 1 January	857	(195)
Profit attributable to equity shareholders	1,857	1,052
At 31 December	2,714	857

18. Acquisition of Nameco's

Nameco (No. 917) Limited

On 2 October 2012 Hampden Underwriting plc acquired 100% of the issued share capital of £1 ordinary shares of Nameco (No. 917) Limited for £847,000. Nameco (No. 917) Limited is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the purchase method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £1,415,000. Negative goodwill of £568,000 arose on acquisition and has been immediately recognised as goodwill on bargain purchase in the income statement. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

18. Acquisition of Nameco's continued

Nameco (No. 917) Limited continued

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	180	175	355
Reinsurers' share of insurance liabilities:			
Reinsurers' share of outstanding claims	1,249	—	1,249
Reinsurers' share of unearned premium	69	—	69
Other receivables, including insurance receivables	3,949	—	3,949
Prepayments and accrued income	152	—	152
Financial investments	4,292	—	4,292
Cash and cash equivalents	267	—	267
Insurance liabilities:			
Claims outstanding	(5,917)	—	(5,917)
Unearned premiums	(523)	—	(523)
Deferred income tax liabilities	(440)	(40)	(480)
Other payables, including insurance payables	(1,854)	—	(1,854)
Accruals and deferred income	(144)	—	(144)
Net assets acquired	1,280	135	1,415
Satisfied by:			
1,113,572 ordinary 10p shares issued	847	—	847
Negative goodwill	(433)	(135)	(568)

The net earned premium and profit of Nameco (No. 917) Limited for the period since the acquisition date to 31 December 2012 is £314,000 and £61,000 respectively.

Nameco (No. 229) Limited

On 23 November 2012 Hampden Underwriting plc acquired 100% of the issued share capital of £1 ordinary shares of Nameco (No. 229) Limited for £505,000. Nameco (No. 229) Limited is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the purchase method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £487,000. Goodwill of £18,000 arose on acquisition. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	4	246	250
Reinsurers' share of insurance liabilities:			
Reinsurers' share of outstanding claims	410	—	410
Reinsurers' share of unearned premium	54	—	54
Other receivables, including insurance receivables	1,057	—	1,057
Prepayments and accrued income	104	—	104
Financial investments	1,410	—	1,410
Cash and cash equivalents	123	—	123
Insurance liabilities:			
Claims outstanding	(1,902)	—	(1,902)
Unearned premiums	(396)	—	(396)
Deferred income tax liabilities	(58)	(57)	(115)
Other payables, including insurance payables	(461)	—	(461)
Accruals and deferred income	(47)	—	(47)
Net assets acquired	298	189	487
Satisfied by:			
Cash and cash equivalents	505	—	505
Goodwill	207	(189)	18

The net earned premium and profit of Nameco (No. 229) Limited for the period since the acquisition date to 31 December 2012 is £60,000 and £7,000 respectively.

18. Acquisition of Nameco's continued

Nameco (No. 518) Limited

On 20 December 2012 Hampden Underwriting plc acquired 100% of the issued share capital of £1 ordinary shares of Nameco (No. 518) Limited for £875,000. Nameco (No. 518) Limited is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the purchase method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £812,000. Goodwill of £63,000 arose on acquisition. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	3	302	305
Reinsurers' share of insurance liabilities:			
Reinsurers' share of outstanding claims	341	—	341
Reinsurers' share of unearned premium	48	—	48
Other receivables, including insurance receivables	1,031	228	1,259
Prepayments and accrued income	108	—	108
Financial investments	1,141	—	1,141
Cash and cash equivalents	162	—	162
Insurance liabilities:			
Claims outstanding	(1,663)	—	(1,663)
Unearned premiums	(368)	—	(368)
Deferred income tax liabilities	(40)	(122)	(162)
Other payables, including insurance payables	(318)	—	(318)
Accruals and deferred income	(41)	—	(41)
Net assets acquired	404	408	812
Satisfied by:			
Cash and cash equivalents	875	—	875
Goodwill	471	(408)	63

The net earned premium and profit of Nameco (No. 518) Limited for the period since the acquisition date to 31 December 2012 is £20,000 and £nil respectively.

Had the three Namecos been consolidated from 1 January 2012, the consolidated statement of comprehensive income would show net earned premium of £9,098,000 and a profit after tax of £1,025,000.

Costs incurred in connection with the three acquisitions totalling £45,000 have been recognised in the consolidated statement of comprehensive income.

19. Related party transactions

Hampden Underwriting plc has provided inter-company loans to Hampden Corporate Member Limited, Nameco (No. 365) Limited, Nameco (No. 605) Limited, Nameco (No. 321) Limited, Nameco (No. 917) Limited and Nameco (No. 229) 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, Nameco (No. 605) Limited, Nameco (No. 321) Limited, Nameco (No. 917) Limited and Nameco (No. 229) Limited to meet their liabilities as they fall due. The amounts outstanding as at 31 December are set out below:

Company	31 December 2012 £'000	31 December 2011 £'000
Balances due from Group companies at the period end:		
Hampden Corporate Member Limited	3,537	2,637
Nameco (No. 365) Limited	350	345
Nameco (No. 605) Limited	1,306	1,097
Nameco (No. 321) Limited	350	318
Nameco (No. 917) Limited	1,431	—
Nameco (No. 229) Limited	358	—
Nameco (No. 518) Limited	—	—
Total	7,332	4,397

Hampden Corporate Member Limited, Nameco (No. 365) Limited, Nameco (No. 605) Limited, Nameco (No. 321) Limited, Nameco (No. 917) Limited, Nameco (No. 229) Limited and Nameco (No. 518) 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 (2011: £2,750) per Corporate Member.

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, is also a director 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 2012 are set out below:

Company	31 December 2012 £'000	31 December 2011 £'000
Hampden Corporate Member Limited	16	41
Nameco (No. 365) Limited	2	10
Nameco (No. 605) Limited	8	11
Nameco (No. 321) Limited	2	14
Nameco (No. 917) Limited	1	—
Nameco (No. 229) Limited	—	—
Nameco (No. 518) Limited	—	—
Total	29	76

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 (2011: £35,000) were charged to Hampden Underwriting plc. Jeremy Richard Holt Evans is a Director of Hampden Holdings Limited. Hampden Holdings Limited has a controlling interest in both Hampden Legal plc and Hampden Capital plc.

20. 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 2010* £	2011* £	2012* £	2013 £
33	Hiscox Syndicates Limited	666,070	464,465	385,769	385,769
218	Equity Syndicate Management Limited	400,105	363,431	229,285	329,285
260	Canopius Managing Agents Limited	44,166	—	—	—
386	QBE Underwriting Limited	81,422	76,108	86,117	86,117
510	R J Kiln & Co Limited	928,155	528,155	457,911	457,911
557	R J Kiln & Co Limited	653,108	327,725	523,590	102,868
570	Atrium Underwriters Limited	231,671	181,671	—	—
609	Atrium Underwriters Limited	215,723	215,723	397,394	397,394
623	Beazley Furlonge Limited	502,631	452,631	324,688	340,269
727	S A Meacock & Company Limited	69,592	69,592	69,592	69,592
807	R J Kiln & Co Limited	294,932	120,587	—	—
958	Omega Underwriting Agents Limited	696,093	260,508	335,508	263,615
1176	Chaucer Syndicates Limited	177,388	—	101,818	201,818
1200	Argo Managing Agency Limited	367,465	217,465	197,466	28,551
2010	Cathedral Underwriting Limited	312,690	162,690	162,690	162,690
2121	Argenta Syndicate Management Limited	137,348	156,969	156,969	11,691
2791	Managing Agency Partners Limited	1,345,074	828,338	653,338	653,338
6103	Managing Agency Partners Limited	345,000	110,000	310,000	363,956
6104	Hiscox Syndicates Limited	310,000	115,000	315,000	345,000
6105	Ark Syndicate Management Limited	—	99,847	99,847	55,439
6106	Amlin Underwriting Limited	240,000	140,000	190,000	175,000
6107	Beazley Furlonge Limited	25,000	25,000	75,000	10,000
6110	Pembroke Managing Agency Limited	—	—	314,379	724,541
6111	Catlin Underwriting Agencies Limited	—	—	292,654	424,537
7200	Members' Agents Pooling Arrangement	305,246	295,244	303,646	303,646
7201	Members' Agents Pooling Arrangement	1,578,650	1,532,034	1,556,783	1,556,783
7202	Members' Agents Pooling Arrangement	570,698	542,164	552,664	552,664
7203	Members' Agents Pooling Arrangement	61,728	59,738	60,624	60,624
7208	Members' Agents Pooling Arrangement	5,086,907	4,627,865	—	—
7211	Members' Agents Pooling Arrangement	—	—	4,751,602	4,751,602
7217	Members' Agents Pooling Arrangement	88,813	67,622	67,622	67,622
Total		15,735,675	12,040,572	12,971,956	12,882,322

* Including the new acquisitions

21. 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 2012			31 December 2011		
	Group £'000	Syndicate £'000	Total £'000	Group £'000	Syndicate £'000	Total £'000
Assets						
Intangible assets	1,797	—	1,797	1,052	—	1,052
Deferred income tax assets	—	—	—	—	—	—
Reinsurance assets						
– reinsurers' share of outstanding claims	—	4,323	4,323	—	3,044	3,044
– reinsurers' share of unearned premium	—	590	590	—	409	409
Other receivables, including insurance receivables	490	8,853	9,343	421	6,207	6,628
Prepayments and accrued income	62	1,154	1,216	41	801	842
Financial assets at fair value	7,354	13,624	20,978	4,090	9,585	13,675
Cash and cash equivalents	697	747	1,444	2,483	537	3,020
Total assets	10,400	29,291	39,691	8,087	20,583	28,670
Liabilities						
Insurance liabilities:						
– claims outstanding	—	19,814	19,814	—	14,234	14,234
– unearned premiums	—	4,624	4,624	—	3,137	3,137
Deferred income tax liabilities	938	—	938	415	—	415
Other payables, including insurance payables	246	4,343	4,589	126	2,785	2,911
Accruals and deferred income	581	50	631	862	(374)	488
Total liabilities	1,765	28,831	30,596	1,403	19,782	21,185
Shareholders' equity						
Share capital	853	—	853	741	—	741
Share premium	6,996	—	6,996	6,261	—	6,261
Retained earnings	786	460	1,246	(318)	801	483
Total shareholders' equity	8,635	460	9,095	6,684	801	7,485
Total liabilities and shareholders' equity	10,400	29,291	39,691	8,087	20,583	28,670

22. 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)
Nigel John Hanbury (Chief Executive Director)
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 auditor
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

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Hampden Underwriting plc

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