Tawa plc

Annual Report 2012

- Loss for the period attributable to shareholders was $22.5 million;
- The Group's net assets were $178.5 million;
- Net assets per share in US Dollars were $1.57 (£0.98);
- Asta Insurance Markets Limited (formerly Whittington Insurance Markets Limited acquired on 26 January 2012 by a consortium comprising Tawa, Skuld, and the Paraline Group, Ltd;
- Hamburger Internationale Rückversicherung AG ("HIR") acquired on 19 April 2012. HIR is the holding company for the Chiltington group of companies;
- On 10 September 2012 the Board announced the launch of a formal sale process, aimed at expanding the search for further equity backers of the Group. The process was terminated on 30 November 2012;
- On 16 April 2013 Tawa plc closed the transaction to dispose of KX Reinsurance Company Limited and its wholly owned subsidiary OX Reinsurance Company to Catalina Holdings Limited.

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Tawa plc was formed in 2001 and is a specialised investor in the insurance industry. In the last few years, Tawa has moved from being a pure run-off risk owner towards being a multi-segment investor in the insurance market, expanding significantly in the servicing arena of the international insurance industry.

Tawa invests in acquiring run-off portfolios (“Portfolios”, “Risk Carriers”) and investing in servicing business. The Group also operates as an incubator for new projects and has invested alongside professional teams to create two new businesses, Q360 and Lodestar Marine, in addition to developing its own products to serve the insurance market as a whole such as STRIPE®.

On the portfolio front, Tawa has acquired, since its formation, nine insurance entities in run-off - CX Reinsurance Company Limited, Hamburger Internationale Rückversicherung AG, KX Reinsurance Company Limited, LGIC Holdings, LLC, PXRE Reinsurance Company, Island Capital Limited, Island Capital (Europe) Ltd, Pavant International Re S.A, and OX Reinsurance Company Limited. As an alternative technique to assuming run-off risks, Tawa established a dedicated reinsurance vehicle, QX Reinsurance Company Limited, in Bermuda to reinsure portfolios. On the service side, Tawa acquired Pro Insurance Solutions Ltd (Pro) in 2009 and the HIR group in April 2012. HIR owns the Chiltington Consulting Group. Through HIR, Tawa now offers a vehicle for European run-off portfolios transfers under the European Union portfolios transfer directive.

The Group’s combined servicing team of approximately 400 professionals provide underwriting, claims management, broking and consulting services to a broad array of international clients across the global insurance market, whether active underwriters or run-off. The Group has also established an innovative platform to provide turnkey services supporting clients wishing for immediate start of a new broking or MGA venture.

As part of its expansion in the Lloyd’s market, in January 2012, Tawa became the owner of 33% of Asta Limited, the leading turnkey agency management services company in Lloyd’s.

Joint statement of the Chairman and Chief Executive Officer

2012 was dominated by two themes for Tawa. One of these was ensuring the proper integration of the various businesses acquired and investments made in 2011. The other was the search for new equity backers, which took the form of a formal sales process.

Overview

Over the last three years, Tawa has moved from being a pure run-off risk carrier towards being a multi-segment player in the insurance market. Acting as a specialised investor in the insurance industry, Tawa owns run-off portfolios and insurance service providers. The Group also operates as an incubator for new projects in the sector and supports professional teams to launch and operate new business ventures.

In 2012 Tawa completed the previously announced acquisition of the Chiltington Group ("Chiltington"), a specialist in insurance consulting, and the acquisition of 33% of Asta (formerly known as Whittington), the leading turnkey agency management services company in Lloyd's, through a newly-created consortium. It also announced the sale, subject to regulatory approval, of KX Re to Catalina as part of its investment management program.

The priority in 2012 was the integration of recently acquired businesses and the optimisation of the operations and profitability of Tawa's business lines. Volatility reduction and portfolio downscaling received a great deal of attention in 2012. The risk carriers, excluding QX Re, returned a net profit of $8.1 million against a loss of $18.6 million in 2011. QX Re had a loss of $14.3 million (2011: profit $8.8 million) largely arising from strengthening reserves by $15.8 million. We expect these results will enable us to extract capital from the risk carriers in 2013 with regulatory consent.

The agreed KX Re sale to Catalina (subject to regulatory approval) will finalise a cash-on-cash return of $46.6 million (total purchase and interest costs of $71.7 million against total capital extractions, management fees and sale price of $118.3 million) for the Group and will enable us to deleverage the platform. While this disposal will result in a loss in 2013 of $20.0 million under IFRS accounting, cash-on-cash numbers are a better indicator of how our investment portfolio creates value for our shareholders.

Turning to the service business, in steering the business mix towards a more balanced portfolio, our subsidiaries have made significant investments to support new products. Meanwhile they continued to suffer from a high cost base. Profits of $2.7 million from Pro Insurance Solutions Limited ("Pro") and Chiltington were reduced to a loss of $0.5 million through exceptional restructuring costs to reduce the cost base going forward.

We have been successful in retaining more contract business for a longer period than had been expected as well as in replacing much of that business reaching the end of its natural lifecycle with new clients and more revenues from new business lines. Nonetheless, the staffing needs continued to change as a result of the changing business mix. Whilst we redeployed significant numbers of employees to new roles this year, we did let others go. We want to take this opportunity to thank each of them for their dedicated efforts on our behalf and to wish them well for the future.

On a more positive note, the continued development and profitability from Asta is an area of satisfaction. With 6 syndicates under management and the approval by Lloyd's of the new Nephila syndicate, Asta is on a steady course. It has met all its regulatory deadlines including the demanding Solvency II deadlines and expects to assist two of its incubated syndicates to set up their own managing agencies in the next year or so. The free cash flow generated by the business has enabled a slightly accelerated repayment of the acquisition loans.

Also in 2012, Tawa invested $7.0 million in support of Lodestar Marine, the marine P&I MGA, the broking firm Q360, and in developing STRIPE®, an internet claims management system. Whilst we consider these outlays as investments expected to provide superior earnings in the future, under IFRS accounting they were fully expensed during the year rather than capitalised.

Lastly, your management team continue to pursue opportunities for significant overhead cost savings across the organisation. Those costs have reduced by $3.0 million year on year on a like for like basis, excluding the acquisition of the Chiltington Group.

Formal sale process

On 10 September 2012 the Board announced the launch of a formal sale process, aimed at expanding the search for further equity backers of the Group. Although a number of proposals for certain parts of the Group were received, no proposal satisfactory to the board was forthcoming. The process was terminated on 30 November 2012.

Accounts and dividends

On the accounting front, Tawa reported a full year loss of $21.9 million, bringing the net assets per share at 31 December 2012 to $1.57 per share (£0.98 per share) compared with 31 December 2011 of $1.75 per share (£1.13 per share) and a share price of 44p at the end of 2012.

These results stem mainly from the $15.8 million adverse reserve development in QX Re, the Bermudian regulated special purpose insurer formed in March 2011 to provide reinsurance for a book of US lead paint exposure. Tawa has given the cedant company notice of potential claims arising out of the transaction documents. Ongoing discussions are being held with respect to resolution of these notified claims.

As noted above the $7.0 million invested in Lodestar Marine, Q360 and STRIPE® was fully expensed during the year rather than capitalised.

In light of these results, Tawa will not recommend any dividend in 2013 relating to the results for 2012.

2013 prospects

2013 will see a continuation of our efforts to grow the service business. Volatility reduction and downscaling will continue for our risk carriers. At Group level our agenda remains: deleveraging, cost savings and the restoration of an internal and external investment capacity.

Risk management and compliance

Tawa perceives the current regulatory environment, which is imposing a high toll on the industry in terms of expense and management focus, to be beneficial to its business model as high standards of compliance and risk management are increasingly becoming a USP for our service business.

Tawa and its subsidiaries are committed to responding positively and proactively to regulatory evolution and are allocating increased resources in the areas of risk management, compliance and internal audit. Our responsibility to our various shareholders is to assume and manage business risk, whilst ensuring that our low tolerance of other forms of risk is addressed through effective systems of internal control.

The Tawa senior team is closely involved in all companies in our portfolio to ensure our systems and controls are consistent with the size and the complexity of our different businesses. This requires constant improvement and an approach that ensures we are never complacent about what we perceive as a key business enabler.

Practically, the leadership teams run a balance between hands-on day to day management, what might be termed “management by walking around”, and a more formalised approach to risk management.

* * * * * *

In conclusion, we would like to thank each of our shareholders for their strong support during 2012. The company has started to build on foundations laid in 2011 to develop a larger high-end, stand-alone service unit and the momentum for a stronger and more profitable Group.

To achieve our goals, your Company will rely on what makes us different from other places, namely our people: people across the world with high expertise, skills and integrity, working together to achieve our common purpose. On your behalf, we would like to thank each of them for their continuing contribution to the Group.

Lastly, thanks also go to the Directors for their active contribution and support.

Colin Bird	Gilles Erulin
Chairman	**Chief Executive Officer**

Introduction to the Group's business

Tawa plc ("Tawa"), was formed in 2001 and is a specialised investor in the insurance industry. In the last few years, Tawa has moved from being a pure run-off risk owner towards being a multi-segment investor in the insurance market, expanding significantly in the servicing arena of the international insurance industry.

Tawa invests in acquiring run-off portfolios ("Portfolios", "Risk Carriers") and investing in servicing business. The Group also operates as an incubator for new projects and has invested alongside professional teams to create two new businesses, Q360 and Lodestar Marine, in addition to developing its own products to serve the insurance market as a whole such as STRIPE®.

On the portfolio front, Tawa has acquired, since its formation, nine insurance entities in run-off - CX Reinsurance Company Limited, Hamburger Internationale Rückversicherung AG, Island Capital Limited, Island Capital (Europe) Ltd, KX Reinsurance Company Limited, Lincoln General Insurance Company, Pavant International Re S.A, OX Reinsurance Company Limited and PXRE Reinsurance Company. As an alternative technique to assuming run-off risks, in 2011 Tawa established QX Reinsurance Company Limited, a special purpose reinsurer in Bermuda to reinsure a book of US lead paint exposure. In 2012 the Group has been focused on volatility reduction, portfolio downscaling and potential sale of some assets.

On the service side, Tawa acquired Pro in 2009 and the HIR group in April 2012. HIR owns the Chiltington Consulting Group. Through HIR, Tawa now offers a vehicle for European run-off portfolio transfers under the European Union portfolio transfer directive. Tawa currently services a number of significant insurance clients, and aims to continue the development of this platform. This development of the service business remains a key focus of the Group and it has changed the Group's metrics from being only a balance sheet cash extraction driven business to a more balanced mix between recurring cash flows matched with release of excess capital from the risk carriers.

In addition, since 2011, the Group has operated as an incubator for new and innovative products and projects in the insurance market. Tawa is investing significant financial and operating resources in this area as a means to diversify into the live insurance market and thereby provide the Group with enhanced business opportunities. Tawa has developed a web-based platform allowing principal to principal processing of claims and post-placement transactions which is branded as the STRIPE® system. In addition, in 2012 Pro expanded its intermediary management capacity to support brokers and managing general agency ("MGA") turnkeys. On this basis, Tawa launched and funded two new "incubation projects", namely Q360, a London-based broker, and Lodestar Marine, a MGA.

As part of its expansion in the Lloyd's market, in January 2012, Tawa acquired 33% of Asta Insurance Markets Limited (formerly Whittington Insurance Markets Limited), the leading turnkey agency management services company in Lloyd's.

Tawa has the following divisions with clearly identified lines of business, namely:

- risk carriers/insurance division which holds the Group's acquired insurance entities in run-off (risk carriers). Profitability is achieved by effectively managing these assets and liabilities;
- service providers which comprise a platform that generates income from consulting and outsourcing. Consulting typically includes work provided directly for clients and the outsourcing division includes work done on behalf of clients on Tawa's platform; and
- corporate division which comprises incubators, all Group overheads, corporate costs, acquisition activities and financing.

Summary of 2012 financial results

	31 Dec 2012 $m	31 Dec 2011 $m
External revenue	33.0	35.4
Profit recognised upon set-up of QX Re	-	20.9
Loss recognised in respect of QX Re for the period	(14.3)	(13.1)
Profit/(loss) recognised in respect of other risk carriers for the period	8.1	(18.6)
Loss recognised in respect of incubator costs for the period	(7.0)	(7.5)
(Loss)/profit recognised in respect of service division for the period	(0.5)	6.0
Loss recognised in respect of share of associate Asta for the period	(1.2)	-
Corporate costs for the period	(4.4)	(7.2)
Finance costs for the period	(3.2)	(2.1)
Total losses for the period attributable to the owners of the Company	(22.5)	(21.6)
Equity attributable to members	178.5	198.2

Summary of 2012 financial results continued

- Loss for the period attributable to owners of the Company was $22.5 million (2011: loss $42.5 million excluding profit of $20.9 million on set-up of QX Re);
- The Group's total equity has decreased by $19.7 million since 31 December 2011 to $178.5 million as at 31 December 2012;
- Net assets per share in sterling decreased from £1.13 to £0.98 ($ decreased from $1.75 to $1.57); and
- The Group's net tangible assets are $154.6 million (2011: $173.5 million).

On 26 January 2012, a consortium comprising Tawa plc, Skuld, and Paraline Group Limited completed the acquisition of Whittington Insurance Markets Limited. The company has since been renamed Asta Insurance Markets Limited under a new holding company set up by the consortium named Asta Capital Limited ("Asta"). This transaction provides Tawa with a platform through which to expand its range of services to the Lloyd's market. Asta is the leading franchise in the Lloyd's agency management market and provides the Group with real scale as a provider of insurance services to the live market. This is highly complementary with the range of consulting and outsourcing services currently provided through Pro.

On 19 April 2012, Tawa completed the acquisition of Hamburger Internationale Rückversicherung AG ("HIR"), the holding company for the Chiltington group of companies ("Chiltington"). Chiltington provides consultancy and outsource services to the international (re)insurance industry. While strengthening Tawa's UK and US units, this transaction provides a strong footprint in Continental Europe and a unique insurance consulting platform in South America. Also, through HIR, Tawa now offers a vehicle for European run-off portfolio transfers under the European Union portfolio transfer directive such as the Austrian Oberoesterreichische portfolio received in May 2012, following the Sparkassen portfolio received in late 2011.

Acquisitions

Tawa is in the business of acquiring, managing and then, if appropriate, divesting assets. On the portfolio front, during 2012 the divestment strategy has been prevalent, highlighted by the sale, subject to regulatory approval, of two of its risk carriers. In contrast, Tawa has pursued and generated acquisition targets through its servicing business clients and also special situations where the skill sets and expertise of its staff created a unique selling point for Tawa. On the servicing front the 2012 goal for Tawa was moving its internal resources towards providing more high-end, value-added consulting. This was supplemented by increasing its offering both geographically and into the Lloyd's market. Those strategies were achieved, the latter demonstrated by the acquisitions of HIR and Asta respectively.

Details of Tawa's acquisitions for the year are below:

Hamburger Internationale Rückversicherung AG

On 19 April 2012 the Group acquired 100% of the issued share capital of Hamburger Internationale Rückversicherung AG ("HIR"). HIR is the parent company of a group of companies detailed below which are involved in reinsurance, management and advisory services:

Chiltington Holdings Limited
Chiltington International Limited
Chiltington International Holding GmbH
Chiltington International Inc
Chiltington International GmbH
Chiltington Internacional S.A.
Pavant International Re S.A. ("PIR")
Hamburg International Reinsurance Limited

This transaction was accounted for by the purchase method of accounting. The initial accounting for the business combination is incomplete and the amounts recognised in these financial statements are provisional. The fair values of the acquired intangible assets remain provisional pending the final valuations of these assets. The net assets acquired in the transaction, and the goodwill arising, are as follows:

Acquisitions continued

	Book value $m	Fair value adjustments $m	**Fair value on acquisition $m**
Assets			
Cash and cash equivalents	13.7	-	**13.7**
Financial assets - investments	32.9	0.2	**33.1**
Loans and receivables including insurance receivables	6.0	-	**6.0**
Reinsurers' share of technical provisions	0.6	-	**0.6**
Property, plant and equipment	0.1	-	**0.1**
Liabilities			
Creditors arising out of insurance operations	(5.1)	-	**(5.1)**
Other liabilities	(14.8)	(1.2)	**(16.0)**
Technical provisions	(26.7)	2.0	**(24.7)**
	6.7	1.0	**7.7**
Consideration paid in cash			**4.5**
Consideration paid in shares			**1.8**
Deferred consideration payable			**1.0**
Consideration paid in cash net of cash and cash equivalents			**(9.1)**
Negative goodwill arising on acquisition			**(0.3)**

The initial accounting for the business combination is incomplete and the amounts recognised in these financial statements are provisional.

Deferred consideration payable as reserved dividends are due to the sellers as illustrated in the table below:

		Maximum settlements per annum $m
Dividends paid by HIR prior to 31 Mar 2012	100%	3.8
Dividends paid by HIR between 1 Apr 2012 - 31 Dec 2012	90%	3.4
Dividends paid by HIR between 1 Apr 2013 - 31 Dec 2013	75%	2.8
Dividends paid by HIR between 1 Apr 2014 - 31 Dec 2014	60%	2.3
Dividends paid by HIR between 1 Apr 2015 - 31 Dec 2015	45%	1.7
Dividends paid by HIR between 1 Apr 2016 - 31 Dec 2016	30%	1.1
Dividends paid by HIR between 1 Apr 2017 - 31 Dec 2017	15%	0.6

Tawa's actuaries have computed an expected fair value of $1.0 million.

Since acquisition the HIR group of companies have contributed a profit of $0.6 million after the elimination of intra-group income and expenses, comprising a profit of $1.4 million from the risk carriers offset by a loss of $0.8 million from the service division. If the acquisition of the HIR group of companies had been completed on the first day of the financial year, Group profit attributable to equity holders of the parent would have increased by $0.1 million.

On 5 June 2012 Swiss Re transferred 74% of its shares of ASS Assekuranz Service-und Sachverständigen GmbH ("ASS") to Chiltington International Holding GmbH (73%) and Pro Insurance Solutions Limited (1%). ASS is a specialised service provider in disability claims handling. Swiss Re will retain 26% of the shares. The transaction is of no value in the current year.

Acquisitions continued

Asta Capital Limited

On 26 January 2012, a consortium comprising Tawa plc, Skuld, and Paraline Group Limited completed the acquisition of Whittington Insurance Markets Limited. The company has since been renamed Asta Insurance Markets Limited under a new holding company set up by the consortium named Asta Capital Limited ("Asta"). Tawa's share of associate as at 31 December 2012 is:

	31 December 2012 $m
Gross revenue	34.7
Loss for the year	(3.5)
Group's share of associate's loss at 33.33%	(1.2)
Total assets	51.4
Total liabilities	(24.2)
Net assets	27.2
Group's share of associate's net assets at 33.33%	9.1

Tawa's results for the year summarised by division are:

	Insurance risk carriers					
Segmental extract	Group subsidiaries $m	Associate CX Re $m	Service providers $m	Corporate $m	Reconciliation to financial statements $m	Totals $m
External revenue	-	-	33.0	-	-	33.0
Segment profit/(loss) for the year	(9.6)	(0.2) *	(0.4)	(12.3)	-	(22.5)
Total equity	148.4	38.9	9.9	19.2	(37.9)	178.5

* CX Re loss is $0.2 million through deferred consideration.

Risk carriers/insurance division

Tawa generates value from run-offs in a variety of ways, depending on the nature of each run-off entity in question. These approaches include:

- Buying net assets at a significant discount to economic value and accelerating capital extraction; and
- Buying volatile books of business and applying management techniques to create value and reduce volatility.

This division comprises the results from the following run-off companies in which Tawa held the following interests at the reporting date:

Name of subsidiary	Place of incorporation (or registration) and operation	Portion of ownership interest
KX Reinsurance Company Limited ("KX Re")	Great Britain	100%
PXRE Reinsurance Company ("PXRE")	United States Connecticut	100%
Hamburger Internationale Rückversicherung AG ("HIR")	Germany	100%
Island Capital Ltd ("ICL")	Bermuda	94.30%
Island Capital (Europe) Ltd ("ICE")	Great Britain	94.30%
OX Reinsurance Company Limited ("OX Re")	Great Britain	100%
Pavant International Re S.A ("PIR")	France	100%
QX Reinsurance Company Limited ("QX Re")	Bermuda	100%
Name of Associate		
CX Reinsurance Company Limited ("CX Re")	Great Britain	12.65%

CX Re was initially a subsidiary of the Group but on 21 March 2006 Tawa disposed of 87.35% of its shareholding. In accordance with IFRS, the retained shareholding of 12.65% has been accounted for as an associate since that date. Although the Company disposed of 87.35% of CX Re the deferred consideration receivable on the sale will reflect the current net asset value of CX Re. As at 31 December 2012, the total deferred consideration was $48.7 million (2011: $53.8 million). The reduction in the year reflects the cash settlement of $4.8 million (£3.0 million) in respect of the transaction facilitation fee.

During the course of a run-off, the Group is exposed to a range of risks that need to be identified and managed. These risks include adverse loss development (insurance risk), liquidity, operational risks, fluctuating foreign exchange rates, interest rates and credit risk both in respect of investments and reinsurer solvency. The Group's focus is to manage and mitigate these risks.

The liabilities of the run-off companies typically comprise claims outstanding, being the estimated cost of settling all claims incurred but not paid, whether reported or not, together with provisions for future costs related to the management of the run-off. The claims outstanding reserves are estimated by the Group's actuaries.

The assets of a run-off company typically comprise cash, investments, subrogation recoveries and reinsurance recoverables. From these assets, and any associated investment income, the Group must meet the cost of administering and paying all claims that arise on policies issued prior to the run-off. The residual balance, if any, will be returned to shareholders once all liabilities have been repaid or when the relevant regulator is satisfied, inter alia, that the volatility is reduced to a level where capital can be released. This is based on estimates of the appropriate level of reserves and capital that the business requires to settle all valid claims.

The Group's net technical provisions (claims outstanding less reinsurance recoveries) will be paid over a period of many years dependent upon the nature of the underlying risk, the claims outstanding and the related reinsurance recoveries. The Group's policy is, where appropriate to discount the technical provisions at the risk-free rate applicable to the relevant currency at the duration of the liabilities where these have a mean term in excess of 4 years. Currencies held in the Group are US dollar, sterling and euro.

The Group's strategic principles for its asset and liability management ("ALM") in the insurance entities are to:

- Provide liquid funds to finance liability and capital management;
- Mitigate exposure to changes in interest and foreign exchange rates;
- Assume measured credit risk in line with agreed guidelines; and
- Invest the Group's surplus in line with agreed guidelines.

The ALM return represents the change in value to the Group statement of financial position from investment activities after taking into account the unwinding of the discount and fees. The discount is unwound over the lives of the portfolios, which represents a charge to the income statement and actual investment income is measured against this to ensure that it remains appropriate to continue to discount at the chosen rate.

Risk carriers/insurance division continued

The risk carriers' net loss of $6.2 million (2011: loss of $32.0 million), excluding taxation which is subject to group relief and any intergroup fees which are eliminated on consolidation, is summarised below:

	Group risk carriers							Associate		
	KX Re $m	PXRE $m	ICG [1] $m	OX Re $m	QX Re $m	HIR Group [2] $m	**Total Group $m**	**CX Re $m**	**31 Dec 2012 $m**	31 Dec 2011 [3] $m
Results										
ALM results	0.6	-	1.0	0.1	1.9	0.2	**3.8**	**2.0**	**5.8**	(1.3)
Premium and other income	2.8	(0.6)	0.2	-	-	0.1	**2.5**	**(0.1)**	**2.4**	4.6
Liability management	(1.7)	4.0	0.2	-	(15.8)	1.4	**(11.9)**	**(1.5)**	**(13.4)**	(32.5)
Other	0.1	0.8	(0.4)	(0.2)	(0.4)	(0.3)	**(0.4)**	**(0.6)**	**(1.0)**	(2.8)
Group profit/(loss) for the year	1.8	4.2	1.0	(0.1)	(14.3)	1.4	**(6.0)**	**(0.2)**	**(6.2)**	(32.0)
Group relief payment of surrendered losses	(2.0)	(0.1)					**(2.1)**	**0.6**	**(1.5)**	-
Intergroup fees eliminated on consolidation	(1.5)	-	-	-	-	-	**(1.5)**	**(0.6)**	**(2.1)**	(4.5)
Segmental profit/(loss) for the year	(1.7)	4.1	1.0	(0.1)	(14.3)	1.4	**(9.6)**	**(0.2)**	**(9.8)**	(36.5)
Capital extracted	-	-	-	(2.4)	-	-	**(2.4)**	**-**	**(2.4)**	(22.8)

(1) ICG includes the results of ICL and ICE.
(2) HIR Group includes the results of HIR and PIR.
(3) The 31 December 2011 comparative excludes the profit of $20.9 million recognised following the set-up of QX Re.

This division has experienced losses of $6.2 million during the year due mainly to volatility on liability management. A dividend of $2.4 million was paid by OX Re during the year.

The table below illustrates the risk carriers' assets and liabilities:

	Group risk carriers							Associate
	KX Re	PXRE	ICG	OX Re	QX Re	HIR Group	**Total Group**	CXRe
31 Dec 2012	$m	$m	$m	$m	$m	$m	**$m**	$m
Cash and investments	54.2	106.9	15.6	5.7	60.2	46.7	**289.3**	154.4
Average mean term of portfolio	10.1 years	< 4 years	< 4 years	< 4 years	< 4 years	10.1 years	**n/a**	8.5 years
Average effective rate of investment return	1.95%	Not discounted	Not discounted	Not discounted	Not discounted	1.95%	**n/a**	1.77%
Net insurance liabilities undiscounted	(42.5)	(9.5)	(0.7)	(0.3)	(32.2)	(25.1)	**(110.3)**	(105.1)
Net insurance liabilities discounted	(35.0)	(9.5)	(0.7)	(0.3)	(32.2)	(25.1)	**(102.8)**	(90.6)
Cumulative dividends paid to holding company	(75.0)	(34.8)	-	(2.4)	-	-	**(109.8)**	-
31 Dec 2011	$m	$m	$m	$m	$m	$m	**$m**	$m
Cash and investments	66.3	122.2	29.5	8.1	78.7	n/a	**304.8**	178.0
Average mean term of portfolio	10.3 years	8.5 years	< 4 years	< 4 years	< 4 years	n/a	**n/a**	8.5 years
Average effective rate of investment return	2.10%	1.91%	Not discounted	Not discounted	Not discounted	n/a	**n/a**	1.97%
Net insurance liabilities undiscounted	(48.4)	(43.1)	(11.6)	(0.3)	(38.7)	n/a	**(142.1)**	(123.4)
Net insurance liabilities discounted	(39.0)	(36.7)	(11.6)	(0.3)	(38.4)	n/a	**(126.0)**	(104.5)
Cumulative dividends paid to holding company	(75.0)	(34.8)	-	-	-	n/a	**(109.8)**	-

Risk carriers/insurance division continued

The business of KX Re comprises a collection of mature portfolios of long-tail liabilities, including exposure to asbestos, environmental and other latent claims. The Group's objective for KX Re was to reduce the company's liabilities by accelerating the natural run-off of the portfolio to enable the extraction of capital with regulatory approval. Since acquisition Tawa has extracted capital of $75.0 million from KX Re by way of dividends to the holding company. In 2012, Tawa announced the sale, subject to regulatory approval, of KX Re to Catalina. In 2012 the investment return for KX Re, which includes the return on the surplus, was $0.6 million more than the discount unwind (2011: $0.9 million more than the discount unwind). KX Re's contribution to the Group's results was a loss of $1.7 million (2011: profit $1.7 million). This loss was due to claims deterioration of $1.7 million, group relief payment of surrendered tax losses of $2.0 million and expenses of $1.5 million being offset by debt purchase income received of $2.8 million and favourable ALM returns of $0.6 million, as discussed above.

PXRE is mainly comprised of catastrophe exposures. In 2012 the investment return for PXRE was in line with the discount unwind (2011: $1.0 million less than the discount unwind). Since acquisition Tawa has extracted $34.8 million from PXRE by way of dividends to the holding company. This reflects the significant progress made in reducing the volatility, achieved by de-scaling the liability portfolios in this risk carrier. During the year PXRE made a profit of $4.1 million (2011: loss $5.0 million). This profit was primarily due to favourable movements on net claims reserves of $4.0 million.

Island Capital Group ("ICG"), which comprises ICL and ICE, is an insurance group with a specialist underwriting portfolio of trade credit and political risk insurance business, which went into run-off in November 2008 following the sale of its trade credit and political risk insurance underwriting platform. ICG made a profit of $1.0 million during the year (2011: loss $5.3 million). This profit was primarily due to favourable ALM results of $1.0 million, with an improvement in net claims reserves of $0.2 million being offset by expenses.

OX Re is a small London market company which has been in run-off since 1994, which Tawa acquired in 2011 for strategic reasons. During the year OX Re made a loss of $0.1 million due to expenses (2011: loss $0.5 million). A dividend of $2.4 million was paid by OX Re during the year.

QX Re is a Bermudian regulated special purpose insurer which Tawa set up in 2012. The company provides reinsurance coverage for a book of lead paint exposure underwritten by Penn National and, for a book of this nature, is considered short tail. QX Re has made a loss of $14.3 million as a result of experiencing continuing claims deterioration seen in the latter half of 2011 reflecting the large upswing in the number of new claimants. The claims deterioration of $15.8 million has been partially offset by favourable ALM results of $1.9 million.

Since acquisition in April 2012, the HIR risk carriers have contributed a profit of $1.4 million to the Group. This follows the completion of an actuarial review undertaken in the year, which identified a €5 million reduction against the reserves held. A reduction of €1.3 million has been recognised locally by HIR, with a further reduction of €2.0 million being recognised as a fair value adjustment at acquisition by the Group.

The associate CX Re has a book of reinsurance contracts written prior to August 2001, when the company ceased underwriting new business. The company has consistently maintained a portfolio of highly rated, readily realisable assets which broadly matches the duration and currency of the liabilities, plus a substantial tax asset, the recovery of which depends on the satisfactory resolution of pending litigation with HMRC. In 2012 the investment return for CX Re was $2.0 million in excess of the discount unwind (2011: $1.0 million less than the discount unwind). CX Re made a small loss of $0.2 million in the year (2011: loss of $14.3 million), with the deterioration in net discounted claims reserves of $1.5 million and management fees of $0.6 million being offset by the favourable ALM result noted above.

Service providers

Tawa's servicing platform comprises income from both consulting and outsourcing. Consulting typically refers to work provided directly for its clients and the outsourcing division refers to work Tawa does on behalf of clients on its operating platform.

This division comprises the results from the following service companies, in which Tawa had the following interests at the reporting date:

Name of subsidiary	Place of incorporation (or registration) and operation	Portion of ownership interest
Pro Insurance Solutions Limited ("Pro")	Great Britain	100%
Pro IS, Inc ("Pro IS")	United States Delaware	100%
Tawa Consulting Limited ("TCL")	Great Britain	100%
Chiltington group of companies ("Chiltington") [1]	Various	100%

(1) Chiltington group of companies reported under this segment comprises all entities listed in Note 40, with the exception of the risk carriers HIR and PIR.

The service providers' net loss of $0.5 million, excluding any taxation, is summarised below:

In accordance with the terms of the Pro sale and purchase agreement, from 1 January 2010 the Group shares this segment's after tax profits with Swiss Re on a 50/50 basis over the five financial years to 31 December 2014, subject to an overall cap of £12 million.

	Pro [1]	TCL	Chiltington	**31 Dec 2012**	31 Dec 2011
	$m	$m	$m	**$m**	$m
Results					
Revenue from services	28.8	0.4	5.3	**34.5**	29.2
Other income	3.0	-	-	**3.0**	3.8
Cost of services	(31.7)	(0.2)	(6.1)	**(38.0)**	(27.0)
Group profit/(loss) for the year	0.1	0.2	(0.8)	**(0.5)**	6.0
Taxation eliminated under Group relief	0.1	-	-	**0.1**	(1.7)
Segmental profit/(loss) for the year	0.2	0.2	(0.8)	**(0.4)**	4.3
Capital extracted	(3.5)	-	0.2	**(3.3)**	(3.2)

(1) Pro includes the results of Pro and Pro IS.

A dividend of $3.5 million was paid by Pro during the period (2011: $3.3 million).

A key focus within the division during the latter half of 2012 was to rationalise and reduce the cost base of the service platform. The effect of measures taken including manpower reduction and potential savings through identifying synergies within the division following acquisition of Chiltington will offer future financial savings.

Corporate division

This division incorporates corporate costs and Group overheads, incubator costs, acquisition activities and financing resulting in a loss of $12.3 million.

	31 Dec 2012 $m	31 Dec 2011 $m
Corporate costs		
Tawa plc	**(4.8)**	(5.2)
Variable pay	**-**	(0.7)
Share based payment accrual	**(0.3)**	(0.4)
Holding company costs	**(0.2)**	(2.3)
Other	**0.8**	1.4
Total corporate costs	**(4.5)**	(7.2)
Incubator costs	**(7.0)**	(7.5)
Acquisition related costs		
Acquisition related costs	**(0.2)**	(1.5)
Negative goodwill	**0.3**	1.5
Total acquisition related costs	**0.1**	-
Finance costs	**(3.2)**	(2.1)
Share of result in associate Asta Capital Ltd	**(1.2)**	-
Group loss for the year	**(15.8)**	(16.8)
Group tax relief received	**1.4**	1.7
Intergroup fees eliminated on consolidation	**2.1**	4.5
Segmental loss for the year	**(12.3)**	(10.6)

Corporate costs

Corporate costs, excluding any taxation and the investment in incubators, were $4.5 million for the year (2011: $7.2 million).

Although Tawa's associate Asta Capital Limited returned a trading profit for the period of $6.8 million, before finance costs of $2.2 million, it reported an overall loss for the period of $3.5 million, of which Tawa has a 33.33% share. The main contributory factors for this loss were fees in relation to the acquisition being expensed and a one-off acquisition completion bonus payable to executives and staff.

Tawa's investment in incubators

Tawa incubates new projects the Group is developing by providing capital to carefully selected projects, while Pro provides the operating platform (reporting, compliance and other support) to develop these projects until they can operate as independent, profitable businesses. Current incubation projects are:

- The STRIPE® system, a proprietary web-based platform that was launched in September 2010, allowing principal to principal processing of claims and other post placement transactions between ceding company and reinsurer;
- Q360 Limited ("Q360"), a new London-based broking operation; which was launched in February 2012 with Tawa providing the capital backing. Q360 will initially operate within the business sectors of onshore energy, property, binding authorities, professional indemnity and non-recourse construction finance. Central to the company's operational platform is the technology used, using innovative processing software, as well as web-based products giving an efficient binding authority facility. Tawa's subsidiary, Pro, has been retained to provide Q360's post-placement services; and
- Lodestar Marine, an MGA set up by Tawa in 2011 to write marine protection and indemnity insurance for vessels of a defined tonnage. Lodestar Marine commenced writing business in September 2012.

A further investment of $7.0 million has been made in the incubators during the current year (2011: $7.5 million). Q360 costs are $2.9 million, Lodestar Marine costs are $3.2 million and STRIPE® costs are $0.9 million. As this segment comprises the development of new projects it is expected that the generation of positive cash flows will take varying amounts of time.

Acquired company

Tawa's acquisition of Chiltington resulted in an immediate gain in the income statement of $0.3 million in 2012.

Goodwill shown in the Statement of Financial Position, being the excess of the cost of an acquisition over the fair value of the assets and liabilities acquired, as at 31 December 2012 was $22.8 million (2011: $23.4 million). This goodwill has been allocated to Tawa Management Limited, the incubators, and the Pro group of companies. Goodwill is tested annually for impairment and no impairment losses have been recognised in the current year (2011: $nil).

Acquisition related costs for the year were $0.2 million.

Financing

The corporate division also contains the Group's financing arrangements.

At the beginning of the year, the Group had an outstanding balance of $27.2 million on the $50 million facility set up originally to finance the creation of QX Re. A second facility was set up during the year and $24.1 million (£15.0 million) was drawn down during 2012 to fund the Group's investment in its new associate Asta, Chiltington and the incubators.

As part of the acquisition of ICG in 2010, the Group took on $10.0 million of that company's debentures repayable in 2035 with an interest rate of LIBOR +3.75%.

The total Group debt at 31 December 2012 is $60.5 million (2011: $36.6 million) which represents 33.9% of shareholders' funds (2011: 18.4%).

The finance costs in relation to these loans in 2012 were $3.2 million (2011: $2.1 million).

The Directors present their report together with the financial statements for the year ended 31 December 2012.

Share capital

A summary of the Company's share capital is set out in note 30 to the financial statements.

On 19 April 2012 the Company issued 3,000,000 Ordinary Shares of 10p to the vendor as part of the consideration paid for the acquisition of Hamburger Internationale Rückversicherung AG.

The Directors had authority, under a shareholders' resolution of 23 June 2011, to purchase through the market 11,298,716 of the Company's Ordinary Shares at prices ranging between £0.05 and £1.26 per share. On 21 June 2012, 2,611,987 shares acquired pursuant to that resolution and held in treasury were cancelled.

Principal activities and business review

Tawa plc ("Tawa") was formed in 2001 and is a specialised investor in the insurance industry. In the last few years, Tawa has moved from being a pure run-off risk owner towards being a multi-segment investor in the insurance market, expanding significantly in the servicing arena of the international insurance industry. Tawa invests in acquiring run-off portfolios ("Portfolios", "Risk Carriers") and investing in servicing business. The Group also operates as an incubator for new projects in addition to developing its own products to serve the insurance market as a whole such as STRIPE®. The principal risks and uncertainties facing the Group are in respect of the performance of run-off businesses acquired and the availability of acceptable future acquisition opportunities. The key performance indicators used to monitor the performance of the Group are the free cash flow and profitability of its service business, the value and changes in value of companies acquired, revenues and profits of its (re)insurance services businesses, and administrative expenses incurred and are discussed in the Financial Review on pages 4 to 13.

The Group recorded a loss attributable to shareholders for the year of $22.5 million (2011: loss $21.9 million). The composition of this loss by the lines of business reported by the Company is detailed fully in the Financial Review.

On 26 January 2012, a consortium comprising Tawa plc, Skuld, and Paraline Group Limited completed the acquisition of Whittington Insurance Markets Limited. The company has since been renamed Asta Insurance Markets Limited under a new holding company set up by the consortium named Asta Capital Limited ("Asta").

On 19 April 2012, Tawa completed the acquisition of Hamburger Internationale Rückversicherung AG ("HIR"), the holding company for the Chiltington Group of companies ("Chiltington").

On 24 September 2012 Tawa entered into a share purchase agreement to sell 100% of its shares in KX Reinsurance Company Ltd ("KX Re") to Catalina Holdings Ltd. The sale includes 100% of the shares in OX Reinsurance Company Ltd which is wholly owned by KX Re. Completion of the transaction is subject to receiving FSA approval to the change in control.

A review of the Company's and the Group's activities is more fully set out in the Joint Statement of the Chairman and Chief Executive Officer and the Financial Review on pages 2 and 4 respectively.

Formal sale process

On 9 September 2012 the Board announced that it was seeking potential offerors by means of a formal sale process in accordance with Rule 2.6 of the Takeover Code. This process had been initiated alongside the business review announced at the Company's AGM in June 2012. On 30 November 2012, the Board announced that the formal sale process had concluded. No proposal satisfactory to the board had been received although a number of proposals had been received, including proposals for certain parts of the Group in relation to which discussions may continue.

Results and dividends

The results for the Group for the year ended 31 December 2012 are set out in the accounts and related notes on pages 28 to 87.

In light of these results, Tawa will not recommend any dividend in 2013 relating to the results for 2012.

Directors

The Directors of the Company who served throughout the year, except as noted below, were as follows:

- C G Bird
- G M J Erulin
- P M M Barbizet (*)
- L P M J Brivezac (*)
- T J Carroll
- A J Hamilton
- J J Hendrickson (*)
- H H Miller (*)
- G F Pagniez
- D A Vaughan (*)

(*) did not seek re-election at the Annual General Meeting on 21 June 2012 and their term of office as a Director of Tawa plc came to an end at the close of that meeting.

During the year, the Company reviewed with its advisors areas of the organisation that could benefit from simplification or adaptation appropriate to the Company's size and current stage of development while ensuring an appropriate balance of executive and independent non-executive directors, proper governance and protection of all its stakeholders. As a result of that review, the existing Board was divided into a Formal Board and an Advisory Board. The role of the Advisory Board is to assist the Company and its management team in (1) establishing its strategic goals; (2) assessing growth opportunities; and (3) long term planning.

In light of the above, and based on the Company's policy that all members of the Board retire and offer themselves for re-election each year, all directors retired and only Colin Bird, Tim Carroll, Gilles Erulin, Anthony Hamilton and Gilles Pagniez sought re-election at the Annual General Meeting.

With effect from 16 January 2013, Loïc Brivezac has been appointed as a Non-Executive Director of the Formal Board replacing Gilles Pagniez. Concurrently, Mr Pagniez has been appointed as a member of the Company's Advisory Board in place of Mr Brivezac.

None of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings other than their contracts of employment.

Corporate governance

The Company's compliance with corporate governance requirements is described in the corporate governance statement on pages 18 to 25.

Directors' interests

The interests of the Directors in the issued Ordinary Share capital of the Company at the beginning and the end of the year are set out below.

	31 December 2012 Ordinary Shares of 10p	31 December 2011 Ordinary Shares of 10p
G M J Erulin	940,345	940,345
C G Bird	897,675	897,675
T J Carroll	-	-
A J Hamilton	50,000	50,000
G F Pagniez	400,000	400,000
D A Vaughan (Director until 21 June 2012)	n/a	917,931

Directors' interests continued

The Company has made awards to Executive Directors under its Performance Share Plan. Prior to 21 June 2012, the Remuneration Committee had sole discretion for making awards. Since that date, the Board has ceased to have a Remuneration Committee and the duties formerly performed by that Committee were assumed by the Board with effect from that date. Awards made under the Performance Share Plan are as follows:

Director	At 1 January 2012	Date of Grant	Number granted during 2012	Number vested during 2012	Number lapsed during 2012	At 31st December 2012	Price	Vesting date
G M J Erulin	769,231	27 March 2009	-	-	769,231	-	Nil	27 March 2012
	289,655	12 April 2010	-	-	-	289,655	Nil	12 April 2013
	405,797	6 May 2011	-	-	-	405,797	Nil	6 May 2014

Awards made prior to 21 June 2012 are subject to performance conditions that were set by the Remuneration Committee when those awards were granted and these determine the extent to which awards vest. Awards that do not vest will lapse. Details of the applicable performance conditions are set out in the Directors' Remuneration Report on page 21.

Except as stated above, none of the Directors in office as at 31 December 2012, nor any members of their immediate family, had any interest in the share capital of the Company at 31 December 2011 or 31 December 2012.

Substantial shareholdings

The following table provides details of the main shareholders as at 31 December 2012:

	Number of Ordinary Shares	Percentage of issued Ordinary Share Capital
Financière Pinault SCA	80,491,017	70.99%
Karrick Limited	11,096,147	9.79%
AXA Group SA	4,082,160	3.60%

The Directors have not been notified nor were otherwise aware of any other holdings of 3% or more of the Company's issued share capital.

Acquisition and cancellation of the Company's own shares

The Directors had authority, under a shareholders' resolution of 23 June 2011, to purchase through the market 11,298,716 of the Company's ordinary shares at prices ranging between £0.05 and £1.26 per share. On 21 June 2012, 2,611,987 shares acquired pursuant to that resolution and held in treasury were cancelled.

Directors' indemnities

The Company maintains insurance cover for its Directors and officers against liabilities which may be incurred by them while acting as Directors and officers. As at the date of this report, indemnities are in force under which the Company has agreed to indemnify its Directors and officers, to the extent permitted by law and the Company's articles of association, against all costs, charges, losses, liabilities and expenses that they may incur in the execution of their duties, powers and offices as Directors and officers of the Company. Copies of these indemnities are kept at the Company's registered office and are open for inspection by any member of the Company without charge.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the AIM rules to prepare the Group financial statements under International Financial Reporting Standards ("IFRSs") as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006.

Statement of Directors' responsibilities continued

IAS1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 financial statements may differ from legislation in other jurisdictions.

Risk management

The main risk factors to the Group's financial performance and the steps taken to mitigate them are detailed in the analysis of risk note on pages 48 to 63.

Creditor payment policy

Although the Company does not follow a specific code when settling its payment obligations with creditors, it is the policy of the Company to ensure that all suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations.

Going concern

The Directors have considered the position of the Group's investments and assets compared to the technical provisions and other liabilities. In addition, they have assessed the Group's liquidity with regard to expected future cash flows. They have also considered the performance of the business, as discussed in the financial review and projections for the coming year. The Directors have concluded that it is appropriate to adopt the going concern basis in preparing the annual report and accounts.

Charitable and political donations

During the year, charitable donations amounted to $nil (2011: $nil). No political contributions were made.

Auditor

The auditor has expressed its willingness to continue in office as auditor and a resolution to reappoint the auditor will be proposed at the forthcoming Annual General Meeting.

Each Director confirms that so far as they are aware there is no relevant audit information of which the Company's auditor is unaware. Each Director also confirms that they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish whether the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board

Christopher Jones
Company Secretary
28 March 2013

The Company has continued its commitment to maintaining effective corporate governance during 2012. Companies on the AIM Market are not obliged to comply with the UK Corporate Governance (the "Code"). When the Company listed it expressed an intention to conform with best practice in relation to corporate governance and to respect the Code as far as practicable having regard to its size and stage of development. This position is kept under regular review in regard to the current status of the Company and the perceived cost/benefits in doing so.

The Board has authority, and is accountable to shareholders, for ensuring that the Company is appropriately managed and achieves the corporate objectives it sets. In order to fulfil its responsibilities, the Board meets on a regular basis and has a formal schedule of matters specifically reserved for its consideration and decision. The schedule of matters reserved to the Board provides that the Board's role encompasses the overall management of the Company including approval of long term strategy and objectives, oversight of operations, ensuring maintenance of a sound system of internal controls and risk management, decisions relating to any changes in the Company's capital structure or of management and approval of any significant expenditure. When Directors are unable to attend a meeting, they are advised of matters to be discussed and have the opportunity to make their views known to the Chairman prior to the meeting.

Since 21 June 2012, the Board has comprised two Executive Directors, namely Colin Bird and Gilles Erulin and three Non-Executive Directors, namely, Tim Carroll, Anthony Hamilton and Gilles Pagniez.

With effect from 16 January 2013, Loïc Brivezac has been appointed as a Non-Executive Director of the Company's Formal Board replacing Gilles Pagniez. Concurrently, Mr Pagniez has been appointed as a member of the Company's Advisory Board in place of Mr Brivezac.

The Non-Executive Directors share responsibility for the discharge of the Board's duties by taking an essentially supervisory role and are chosen for their broad and complementary experience in relation to the Executive Directors. The key elements of the role and responsibility of the Non-Executive Directors are:

- Supervision of, and advice to, the Executive Directors;
- Evaluation of Executive Directors' performance;
- Setting the remuneration of Executive Directors;
- Monitoring of the effectiveness of controls; and
- Governance and compliance.

These roles and responsibilities are carried out through membership of the Board and its committees. Prior to 21 June 2012, the Board had an Audit Committee, Nomination Committee and a Remuneration Committee. Since that date, the Board has ceased to have a Nomination Committee and a Remuneration Committee and the duties formerly performed by those committees have been assumed by the Board. Membership of, and attendance at, the Board and Committees is set out below. The terms of reference for the Audit Committee, along with the schedule of matters reserved to the Board can be found in the investor relations section of the Company's website www.tawaplc.co.uk.

Board attendance during 2012

Director	Relevant number of meetings	Number attended	% Attendance
Gilles Erulin	7	7	100%
Patricia Barbizet (*)	3	3	100%
Colin Bird	7	7	100%
Loïc Brivezac (*)	3	3	100%
Tim Carroll	7	7	100%
Anthony Hamilton	7	7	100%
John Hendrickson (*)	3	2	67%
Hans Miller (*)	3	3	100%
Gilles Pagniez	7	7	100%
David Vaughan (*)	3	3	100%
Average attendance			98%

(*) did not seek re-election at the Annual General Meeting on 21 June 2012 and term of office as a Director of Tawa plc came to an end at the close of that meeting.

Committee membership during 2012

Director	Audit Committee	Nomination Committee (until 21 June 2012)	Remuneration Committee (until 21 June 2012)
Gilles Erulin	No	No	No
Patricia Barbizet	No	Yes (Chair)	No
Colin Bird	No	No	No
Loïc Brivezac	Yes	No	No
Tim Carroll	Yes	No	Yes
Anthony Hamilton	No	Yes	No
John Hendrickson	Yes (Chair/member until 21 June 2012)	No	Yes
Hans Miller	Yes (Member until 21 June 2012)	No	No
Gilles Pagniez	Yes (Chair from 21 June 2012)	No	Yes (Chair)
David Vaughan	No	No	No

Following appointment to the Tawa plc Board on 16 January 2013, Loïc Brivezac has also been appointed as chair of the Company's Audit Committee.

Board independence

The Board concludes that Tim Carroll and Anthony Hamilton are independent in character and judgement.

The Board will review on an ongoing basis whether there are relationships or circumstances which are likely to affect or could appear to affect the independence of Mr Carroll and Mr Hamilton.

Audit Committee

The Audit Committee was established by the Board on 28 June 2007 and at the reporting date consisted of Gilles Pagniez, Loïc Brivezac and Tim Carroll. John Hendrickson and Hans Miller served as members of the Committee until 21 June 2012. The Committee meets at least twice a year and will meet at least once without any Executive Director being present. The external auditor attends the Committee meetings (including at least one with no Executive Directors present), to discuss the nature and scope of the audit before it commences as well as reviewing the auditor's reports relating to accounts and internal control systems. Effective 16 January 2013, Loïc Brivezac was appointed as chair of the Audit Committee.

The main responsibilities of the Audit Committee are to monitor the integrity of the financial statements, to review the effectiveness of the Company's financial reporting and internal control policies, to make recommendations to the Board in relation to the appointment of the external auditor, including reviewing terms and conditions and fee arrangements. The Committee also has regard to the requirements of the Financial Services Authority and the UK Corporate Governance Code in carrying out its duties. These are detailed further in the Internal control and risk management section on page 26.

During the year, the Audit Committee reviewed the Company's interim report. Since the year end, the Audit Committee has reviewed the 2012 annual report. The Committee also considered the terms and conditions, fees and independence of Mazars LLP and confirms the independence of the external auditor.

Attendance at each of the meetings by Committee members is set out below.

Audit Committee

Relevant Director	Relevant number of meetings	Number attended
John Hendrickson Chair/member until 21 June 2012)	2	2
Loïc Brivezac	3	3
Tim Carroll	3	3
Hans Miller (member until 21 June 2012)	2	2
Gilles Pagniez (Chair/member since 21 June 2012)	1	1
Average attendance		100%

Remuneration Committee (Function assumed by the board since 21 June 2012)
The Remuneration Committee was established by the Board on 28 June 2007 and consisted of Gilles Pagniez (Chairman), Tim Carroll and John Hendrickson.

The Committee's main responsibilities were to determine the remuneration of the Company's Chairman, the Executive Directors and the Company Secretary and to see that awards under the Group's share and incentive plans, while complying with statutory and other requirements, were consistent with the Group's overall performance and the performance of individuals and provided an additional incentive to management.

During the year, the Remuneration Committee reviewed the report on Directors' remuneration in the 2011 annual report and approved salary and bonus proposals for the Executive Directors and the Company Secretary.

Attendance at each of the meetings by Committee members is set out below.

Remuneration Committee

Relevant Director	Relevant number of meetings	Number attended
Gilles Pagniez	2	2
Tim Carroll	2	2
John Hendrickson	2	2
Average attendance		100%

Nomination Committee (Function assumed by the board since 21 June 2012)
The Nomination Committee was established by the Board on 28 June 2007 and consisted of Patricia Barbizet (Chairman) and Anthony Hamilton. Its duties included reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board with regard to any changes.

During the year, the Nomination Committee reviewed the size, structure and composition of the Board and carried out the biennial review of the performance of the Non-Executive Directors.

Attendance at each of the meetings by Committee members is set out below

Nomination Committee

Relevant Director	Number of meetings	Number attended
Patricia Barbizet	1	1
Anthony Hamilton	1	1
Average attendance		100%

Corporate social responsibility
The Company recognises the importance of various stakeholders to its business, including its employees, shareholders, capital providers, clients and the wider community. The Company takes into account its responsibilities to, and impact on, each of these stakeholders in its policies and procedures.

Employees
The Company's employee mix changed during 2012 as a result of acquisitions and transfers. From a predominantly UK based organisation in 2011 of 300 people, staff numbers increased to 416 of which just under one third are based outside the UK:

UK	294
Germany	42
USA	62
South America	18

Employee relations

The Company recognises that its success lies with its employees and, accordingly, it aims to meet or exceed best practice in terms of employee relations. The Company has an established equal opportunities policy. Key performance indicators continue to be monitored within the UK and have been established cross territory for ongoing monitoring.

UK staff absence averaged 2.5 per days per employee compared with 5.5 during 2011. Ongoing professional development is encouraged with 25% of the UK workforce holding at least one professional qualification. UK voluntary employee turnover increased to 7% during 2012 from 2.7% in 2011. Involuntary turnover (redundancies) amounted to 12.9% in 2012 an increase from 9.3% in 2011. Within the US voluntary employee turnover amounted to 3.4% with involuntary turnover of 18.6%.

Employee policies and procedures

The Group complies with employment legislative requirements and aims to build on these to ensure best practice processes across the Group and within each territory.

Information and consultation

During 2012 briefing sessions on the Group's progress have been held for all employees together with regular information bulletins via email.

Employee remuneration

The Group offers competitive remuneration which consists of base pay, benefits, variable pay and severance pay where linked to run-off portfolios.

Pay is reviewed and variable pay awarded in the context of the performance management framework which evaluates, Group, team and individual performance.

A review of variable pay has been undertaken during 2012 with the aim of harmonising legacy approaches for 2013. 2012 was the last year for UK variable pay in its current form of a percentage of the salary budget (5% for 2012) distributed to all employees and awarded dependent on performance.

Directors' remuneration report

All members of the Remuneration Committee are Non-Executive Directors and they do not have any personal financial interest in the Company other than their shareholdings in the Company disclosed in the Report of the Directors. The Directors' remuneration report is presented on a voluntary basis.

The Remuneration Committee ceased to exist from 21 July 2012 at which point its duties were assumed by the Board.

Remuneration policy

The objective of the policy is to ensure that all members of the executive management of the Company are provided with appropriate incentives to encourage and maintain long term sustainability and enhanced performance and are, in a fair and responsible manner, rewarded for their individual and collective contributions to the success of the Company. The Board will have regard to conditions of service and remuneration levels of competitor companies to ensure that the Company is well placed to attract and retain high calibre management, but not so as to cause remuneration to rise without a corresponding sustained improvement in performance.

There are key elements of the remuneration package for Executive Directors and senior management:

- Basic salary, contractual benefits including pensions;
- Annual performance related remuneration; and
- Share awards.

Basic salary, variable pay and benefits

The Non-Executive Directors are responsible for determining the remuneration of the Chairman, all Executive Directors, the Company Secretary and, in addition the senior management of the Group with annual remuneration above £300,000 or the equivalent thereof. They utilise advice from New Bridge Street Consultants (a leading advisor on senior executive compensation to UK listed companies) together with reports provided by Towers Watson as well as other publicly available reports in order to ensure that remuneration levels are consistent with comparable companies, while also taking into account the Company's performance. Executive Directors also receive benefits in kind such as private health care and permanent heath insurance and pension contributions.

Annual performance related remuneration

A review of legacy practices across the Group has been undertaken during 2012 so as to harmonise approaches from 2013.

For Pro a Business Performance Bonus ("BPB") is directly linked to the performance of the Company against the business plan and factors which employees can control.

The award pool calculation is formulaic and aggregates (1) capital extractions from owned risk carriers, (2) downscaling of those owned risk carriers, (3) contribution to group NAV resulting from acquisitions made during the year and (4) servicing business profitability.

The BPB distributed in 2012 (reflecting 2011 performance) was reduced to reflect Company performance. Awards totalled 10% of total base pay costs and ranged from 0-50% of individual base pay. In order to support retention this remuneration was paid in tranches for all payments over £3,000. Two thirds was paid in cash with the remaining third deferred for a further 12 months subject to continued employment but no other employment conditions.

Across the Chiltington Group variable pay is awarded in the form of a share of the profits made.

Directors' remuneration

Services whilst Directors of the parent, amounts received as Directors of the parent, as Directors of any subsidiaries and otherwise in connection with any company in the Group are as follows:

	Salary / Fees Taxable $	Performance related renumeration $	Pension $	Taxable Benefits $	**2012 Total $**	2011 Total $
Chairman						
Colin Bird	304,878	-	55,343	14,849	**375,070**	562,244
Executive Directors						
Gilles Erulin	539,805	93,602	66,408	30,059	**729,874**	1,289,637
David Vaughan (*)	154,445	97,080	44,127	14,771	**310,423**	1,011,356
Non-Executive Directors						
Patricia Barbizet (*)	27,546	-	-	-	**27,546**	82,671
Loïc Brivezac (*)	29,151	-	-	-	**29,151**	81,111
Tim Carroll	65,589	-	-	-	**65,589**	68,096
Anthony Hamilton	46,400	-	-	-	**46,400**	84,230
John Hendrickson (*)	57,499	-	-	-	**57,499**	162,221
Hans Miller (*)	29,151	-	-	-	**29,151**	60,713
Gilles Pagniez	120,881	-	-	-	**120,881**	176,260
Total	1,375,345	190,682	165,878	59,679	**1,791,584**	3,578,539

(*) did not seek re-election at the Annual General Meeting on 21 June 2012 and term of office as a Director of Tawa plc came to an end at the close of that meeting.

Share awards

The Company operates a single share plan that was introduced in 2007, being the Performance Share Plan which is designed to align the interests of senior management and shareholders to deliver outstanding results. There were no new awards granted in 2012.

The Performance Share Plan

The Performance Share Plan provides for the grant of awards over Ordinary Shares. The vesting of awards granted to Executive Directors and senior management are subject to performance conditions set by the Remuneration Committee on or prior to the grant of an award. Awards normally vest on the third anniversary of the date of grant, subject to the satisfaction of relevant performance conditions and to the employee being either an employee or Director within the Tawa Group on that date.

The awards made in 2010 to the Executive Directors and senior executives are subject to the following conditions:

One-half of the award is subject to a performance condition measuring the average annual compound growth in the Company's Net Asset Value ("NAV") per share before dividends as determined by the Remuneration Committee over a single period of three financial years of the Company commencing with the financial year in which the award is granted. The NAV performance period for the awards made in 2010 commenced on 1 January 2010 and ended on 31 December 2012;

One half of the award is subject to a performance condition comparing the Company's relative Total Shareholder Return ("TSR") against a comparator group of companies comprising the FTSE Small Cap (excluding investment trusts) on the grant date over a period of three years commencing on the date of grant of an award.

The performance period for the TSR condition began on 12 April 2010. The "base" TSR of the Company and the companies in the Comparator Group will be the average net returns of such companies for the first three months of the performance period, with the "end" TSRs being the relevant Net Returns for the three month period preceding the end of the performance period (except in the event of a takeover when TSR may be averaged over a shorter period).

The portion of the award subject to the NAV condition will vest as follows:

NAV per Share growth during the performance period (average compound)	Percentage of one-half of the total number of Shares subject to the award that will vest
Equal to or greater than 15%	100%
Between 7.5% and 15%	Pro-rata between 25% and 100%
Equal to 7.5%	25%
Less than 7.5%	Nil%

The portion of the award subject to the TSR performance condition will vest as follows:

Rank of the Company's TSR against comparator companies at the end of the performance period	Percentage of one-half of the total number of Shares subject to the award that will vest
Upper quartile or above	100%
Between upper quartile and median	Pro-rata between 25% and 100%
Median	25%
Below median	Nil%

The Performance Share Plan continued

The performance conditions for awards made on 6 May 2011 are subject to four independent performance conditions.

Acquisitions performance condition (APC): 30% of the award is subject to a performance condition based on the size and number (if any) of acquisitions completed by the Company during the acquisitions performance period.

Acquisitions completed during the acquisitions performance period	Percentage of 30% of the total number of Shares subject to an award that vests
One transformational acquisition	100%, i.e. 30% of the total number of Shares subject to the Award
For each big acquisition	50%, i.e. 15% of the total number of Shares subject to the Award
For each transactional acquisition	16.6%, i.e. 5% of the total number of Shares subject to the Award
For each small acquisition	6.6%, i.e. 2% of the total number of Shares subject to the Award

Cumulative extraction of capital performance condition ("CEC"): 25% of the award is subject to this condition.

Cumulative extraction of capital at the end of the cumulative extraction of capital performance period	Percentage of 25% of the total number of Shares subject to an award that vests
100% or more of CEC Target	100%, i.e. 25% of total number of Shares subject to the Award
Between 75% of CEC Target and 100% of CEC Target	Pro-rata between 25% and 100%, i.e. between 6.25% and 25% of total number of Shares subject to the Award
75% of CEC Target	25%, i.e. 6.25% of total number of Shares subject to the Award
Less than 75% of CEC Target	Nil%

NAV performance condition: This requires average annual compound net asset value per share growth over the NAV performance period to be at least equal to 7.5% where upon that part of the award subject to the NAV performance condition shall vest as follows:

Average annual compound NAV over the NAV performance period	Percentage of 25% of the total number of Shares subject to an award that vests
Equal to or greater than 15%	100%, i.e. 25% of total number of Shares subject to the Award
Between 7.5% and 15%	Pro-rata between 25% and 100%, i.e. between 6.25% and 25% of total number of Shares subject to the Award
Equal to 7.5%	25%, i.e. 6.25% of total number of Shares subject to the Award
Less than 7.5%	Nil%

TSR performance condition: The portion of the award subject to the TSR performance condition will vest as follows:

Rank of the Company's TSR against comparator companies at the end of the performance period	Percentage of 20% of the total number of Shares subject to the award that will vest
Upper quartile or above	100% i.e. 20% of the total number of Shares subject to the Award.
Between upper quartile and median	Pro-rata between 20% and 100% i.e., between 4% and 20% of the total number of shares subject to the Award
Median	20% i.e., 4% of the total number of Shares subject to the Award
Below median	Nil%

As noted above, in addition to the satisfaction of performance conditions, the vesting of these awards is subject to the Executive Director and senior executive being either an employee or Director within the Tawa Group on the third anniversary of date of grant, except in the case of the award granted to Gilles Erulin, who is required to be an employee or Director within the Tawa Group on 30 March 2013 for awards made in 2010, and 30 March 2014 for awards made in 2011.

Awards held

The awards held over Ordinary Shares of 10p each in the Company as at 31 December 2012 by Executive Directors serving at the year-end are disclosed in the Directors' Report on page 16.

Future grants of awards under the Performance Share Plan will be approved by the Board. The Board will have due regard to the Association of British Insurers Guidelines, the UK Corporate Governance Code and the Financial Services Authority code of practice in making such awards and setting appropriate performance conditions.

Pensions

Executive Directors are entitled to become members of Tawa's Retirement Benefit Plan or to elect for contributions to be paid into a personal plan. The amount of employer contributions is linked to age and ranges from contributions of 7% to 20% of salary. To be a member of the Tawa Plan individuals are required to contribute a minimum of 3% of salary. The amount of contribution made to Executive Directors is outlined in the Directors' remuneration table above.

Service contracts

The contracts of Gilles Erulin and Colin Bird are terminable by either side on 12 months' notice. The Board believes that these notice periods provide an appropriate balance and adequately protect the Company, having regard to the prevailing market for recruiting suitable replacements.

Non-Executive Directors

The Executive Directors review Non-Executive Directors' remuneration annually to ensure that fees are in line with comparable companies. All Non-Executive Directors receive an annual fee in respect of their Board duties and an attendance fee for each Board and Board committee meeting they attend. The Non-Executive Directors do not receive any other benefit.

Overview

The control of all day-to-day operations of the Group is vested in the Board, delegated to management where appropriate, but always subject to review by the Board. At the present size of the Group, the key controls are vested in the Executive Directors, who undertake a close day-to-day supervision of all activities and financial decisions.

However, such a system can only provide reasonable, not absolute, assurance against material misstatement or loss. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives as set by the Board.

The Audit Committee has oversight over the external auditor. Executive Management is responsible for the implementation and satisfactory maintenance of systems of internal controls over financial reporting and for compliance with laws and regulations.

The Audit Committee's main objectives are: to monitor the integrity of the Group's financial statements and any other formal announcements relating to the Group's financial performance before submission to, and approval by, the Board; review the Group's internal controls and risk management system; and review arrangements by which employees may, in confidence, raise concerns in financial reporting and other matters.

The Group's systems of internal control consist of inter-related components:

- Control environment

The control environment within the Group provides structure and discipline for the other four components, incorporating factors such as integrity, ethical values, management's philosophy and operating style; assignment of authority and responsibility; employee competence; organisational structure; and the attention and direction provided by the Board of Directors.

The control environment is also communicated to all employees through the following key policies approved by the Board:

- Tawa plc's corporate objectives;
- Code of ethics and conduct;
- Whistle blowing procedures; and
- Insider trading – restrictions on share dealing by Directors and employees.

Risk management

The Company faces a variety of risks from both internal and external sources that require identification, assessment and management. The management of these risks is a process that enables the business to:

- Identify and understand the risks that it faces in the pursuit of its business objectives;
- Assess and prioritise the risks identified and the means of mitigating them;
- Where possible and commercially feasible, reduce the probability and impact of those risks;
- Regularly review, monitor and report on those risks in order to take informed actions; and
- Ensure that any new risks, or changes to existing risks, are captured.

As the environment in which the Company is operating is constantly changing, the risk assessment process needs to be dynamic and updated on an ongoing basis.

An analysis of the risk management framework at Tawa can be found on pages 48 to 63.

Monitoring

Internal control systems need to be monitored to assess the quality of the systems over time. The Group achieves this through a combination of day-to-day operational monitoring conducted by management, such as the review of monthly management and exception reports. The Group believes it has implemented an effective system of internal control.

We have audited the financial statements of Tawa plc for the year ended 31 December 2012 which comprise the Consolidated and Parent Company Income Statements, the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website www.frc.org.uk/auditscopeukprivate.

Opinion on the 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 loss and the Parent Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Financial Review and the Joint Statement of the Chairman and Chief Executive Officer that is cross referred from the Directors' Report. Our responsibilities do not extend to any other information.

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.

Andrew Heffron (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD

28 March 2013

Tawa plc Consolidated income statement

For the year ended 31 December 2012

	Notes	31 Dec 2012 $m	31 Dec 2011 $m
Income from continuing operations			
Insurance premium revenue		**(0.2)**	58.6
Insurance premium ceded to reinsurers		**(0.1)**	(0.4)
Commission income		**1.1**	-
Net earned premium revenue		**0.8**	58.2
Revenue from consultancy, insurance and run-off services	7	**33.0**	35.4
Investment return	8	**7.7**	11.0
Other income	9	**11.1**	5.6
Income		**51.8**	52.0
Total income		**52.6**	110.2
Insurance claims and loss adjustment expenses	10	**(9.3)**	(84.6)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	**(2.6)**	21.6
Net insurance claims		**(11.9)**	(63.0)
Total expenses		**(56.8)**	(53.3)
Results of operating activities before negative goodwill recognised		**(16.1)**	(6.1)
Negative goodwill recognised	40	**0.3**	1.5
Results of operating activities		**(15.8)**	(4.6)
Share of results of associates	27	**(1.2)**	(1.8)
Finance costs	14	**(5.0)**	(4.0)
Loss before taxation		**(22.0)**	(10.4)
Taxation	15	**(0.3)**	1.0
Loss for the year from continuing operations		**(22.3)**	(9.4)
Loss for the year from discontinued operations	16	**(0.2)**	(12.5)
Loss for the year	17	**(22.5)**	(21.9)
Attributable to:			
Owners of the Company		**(22.5)**	(21.6)
Non-controlling interests		**-**	(0.3)
		(22.5)	(21.9)
Earnings per share			
From continuing and discontinued operations			
Basic: Ordinary shares (cents per share)	19	**(20.22)**	(19.83)
Diluted: Ordinary shares (cents per share)	19	**(20.22)**	(19.83)
From continuing operations			
Basic: Ordinary shares (cents per share)	19	**(20.04)**	(8.51)
Diluted: Ordinary shares (cents per share)	19	**(20.04)**	(8.51)

The notes on pages 33 to 87 form part of these financial statements.

	Notes	31 Dec 2012 $m	31 Dec 2011 $m
Loss for the year		**(22.5)**	(21.9)
Other comprehensive losses	32		
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**0.6**	(0.8)
		0.6	(0.8)
Total comprehensive losses for the year		**(21.9)**	(22.7)
Attributable to:			
Owners of the Company		**(21.9)**	(22.4)
Non-controlling interests		**-**	(0.3)
		(21.9)	(22.7)

The notes on pages 33 to 87 form part of these financial statements.

Consolidated statement of financial position

For the year ended 31 December 2012

	Notes	31 Dec 2012 $m	31 Dec 2011 $m
Assets			
Cash and cash equivalents	20	**57.0**	44.7
Financial assets - investments	21	**249.9**	267.1
Loans and receivables including insurance receivables	22	**59.0**	56.5
Reinsurers' share of technical provisions	23	**27.9**	46.3
Property, plant and equipment	24	**1.6**	2.1
Deferred assets	25	**48.7**	53.8
Interest in associates	27	**13.9**	4.9
Other intangible assets	28	**1.1**	1.3
Goodwill	29	**22.8**	23.4
Total assets		**481.9**	500.1
Equity			
Share capital	30	**22.2**	22.2
Share premium	31	**110.6**	111.4
Other reserves	32	**3.4**	(0.2)
Retained earnings	33	**41.3**	63.8
Equity attributable to owners of the Company		**177.5**	197.2
Non-controlling interests		**1.0**	1.0
Total equity		**178.5**	198.2
Liabilities			
Creditors arising out of insurance operations	34	**71.2**	58.9
Other liabilities	35	**41.0**	29.4
Financial liabilities - borrowings	36	**60.5**	36.6
Technical provisions	23	**130.7**	177.0
Total liabilities		**303.4**	301.9
Total liabilities and equity		**481.9**	500.1

The notes on pages 33 to 87 form part of these financial statements.

The financial statements of Tawa plc were approved by the Board of Directors and authorised for issue on 20 March 2013 and were signed on its behalf on 28 March 2013 by:

Colin Bird
Chairman

Gilles Erulin
Chief Executive Officer

Consolidated statement of changes in equity

	Share capital $m	Share premium reserve $m	Share based payments reserve $m	Own shares reserve $m	Translation reserve $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 January 2011	**22.2**	**111.4**	**3.2**	**(1.1)**	**(0.5)**	**89.8**	**225.0**	**1.3**	**226.3**
Comprehensive income									
Loss for the year	-	-	-	-	-	(21.6)	(21.6)	(0.3)	(21.9)
Other comprehensive loss									
Currency translation differences	-	-	-	-	(0.8)	-	(0.8)	-	(0.8)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(0.8)**	**(21.6)**	**(22.4)**	**(0.3)**	**(22.7)**
Transactions with owners									
Share based payments	-	-	0.5	-	-	-	0.5	-	0.5
Dividends paid	-	-	-	-	-	(4.4)	(4.4)	-	(4.4)
Own shares acquired in the period	-	-	-	(1.5)	-	-	(1.5)	-	(1.5)
Total transactions with owners	**-**	**-**	**0.5**	**(1.5)**	**-**	**(4.4)**	**(5.4)**	**-**	**(5.4)**
Balance at 31 December 2011	**22.2**	**111.4**	**3.7**	**(2.6)**	**(1.3)**	**63.8**	**197.2**	**1.0**	**198.2**
Balance at 1 January 2012	**22.2**	**111.4**	**3.7**	**(2.6)**	**(1.3)**	**63.8**	**197.2**	**1.0**	**198.2**
Comprehensive income									
Loss for the year	-	-	-	-	-	(22.5)	(22.5)	-	(22.5)
Other comprehensive income									
Currency translation differences	-	-	-	-	0.6	-	0.6	-	0.6
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**0.6**	**(22.5)**	**(21.9)**	**-**	**(21.9)**
Transactions with owners									
Issue of share capital	0.4	1.4	-	-	-	-	1.8	-	1.8
Share based payments	-	-	0.4	-	-	-	0.4	-	0.4
Dividends paid	-	-	-	-	-	-	-	-	-
Own shares cancelled in the period	(0.4)	(2.2)	-	2.6	-	-	-	-	-
Total transactions with owners	**-**	**(0.8)**	**0.4**	**2.6**	**-**	**-**	**2.2**	**-**	**2.2**
Balance at 31 December 2012	**22.2**	**110.6**	**4.1**	**-**	**(0.7)**	**41.3**	**177.5**	**1.0**	**178.5**

The notes on pages 33 to 87 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2012

	Notes	31 Dec 2012 $m	31 Dec 2011 $m
Net cash (used in)/generated by operations	37	(76.4)	25.9
Investing activities			
Cash payments to acquire debt securities		(318.4)	(1,144.8)
Cash receipts from sale or maturity of debt securities		368.1	1,113.1
Cash transferred from investing activities		8.3	(3.7)
Cash receipts from interest		7.8	6.8
Purchases of property, plant and equipment		(0.1)	(1.0)
Acquisition of investment in an associate		(10.1)	-
Acquisition of subsidiary net of cash and cash equivalents	40	9.1	2.4
Cash generated by/(used in) investing activities		64.7	(27.2)
Financing activities			
Dividends paid		-	(4.4)
Own shares purchased		-	(1.5)
Proceeds from financial borrowings		24.1	27.6
Repayments of financial borrowings		-	(24.1)
Cash flows generated by/(used in) financing activities		24.1	(2.4)
Net increase/ (decrease) in cash and cash equivalents		12.4	(3.7)
Cash and cash equivalents at beginning of year		44.7	48.5
Effects of exchange rate changes on the balance of cash held in foreign currencies		(0.1)	(0.1)
Cash and cash equivalents at end of year		57.0	44.7

The notes on pages 33 to 87 form part of these financial statements.

1 General information

Tawa plc (the "Company") and its subsidiaries (together the "Group") are engaged in four principal business activities:

- The acquisition and run-off of insurance companies that have ceased underwriting;
- The provision of insurance;
- The provision of run-off management services to acquired insurance companies; and
- The provision of insurance services to external clients.

The Company is incorporated in the United Kingdom under the Companies Act. The address of the registered office is disclosed on page 101.

2 Application of new and revised International Financial Reporting Standards ("IFRSs")

The new and revised standards that have been adopted in the current year and have affected disclosure and amounts reported in these financial statements are set out in 2a. Details of other standards and interpretations effective in the current period that have had no impact on these financial statements are set out in 2b. Standards and interpretations in issue and not yet adopted are set out in 2c.

a Standards and interpretations adopted in the current year affecting disclosure and amounts reported in these financial statements

The adoption of these standards has not led to any retrospective application of changes in the Group's accounting policies.

- Amendments to IAS 1 Presentation of Items of Other Income – the amendments have been applied in advance of the effective date (annual periods beginning on or after 1 July 2012). There is a requirement for items of other comprehensive income to be grouped into two categories (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The change has been applied retrospectively, and being a presentational change only, does not have any financial impact.

b Standards and interpretations adopted in the current year with no effect on these financial statements

The following new and revised standards and interpretations have also been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions or arrangements.

- Amendments to IAS 12 Deferred Tax – specifically recovery of underlying assets effective for annual periods beginning on or after 1 January 2012;
- Amendments to IFRS 1 First Time Adoption of IFRS – amended for fixed transition dates and hyperinflation effective for annual periods beginning on or after 1 July 2011; and
- Amendments to IFRS 7 Financial Instruments Disclosures – enhancing disclosures on transfers of financial assets effective for annual periods beginning on or after 1 July 2011.

2 Application of new and revised International Financial Reporting Standards ("IFRSs") continued

c Standards and interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 9 Financial Instruments – In November 2009 the IASB issued IFRS 9, in October 2010 they issued an amendment which introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition. This standard has not yet been endorsed by the European Union;
- The following standards on consolidation, joint arrangements, associates and related disclosures have been issued or amended. The standards need to be applied collectively and are effective for annual periods beginning on or after 1 January 2014 as a result of endorsement by the European Union:
  - IAS 27 (as revised in 2011) Separate Financial Statements – now only deals with the requirements for separate financial statements, requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements;
  - IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures – the standard supersedes IAS 28 and prescribes the accounting for investments in associates and joint ventures and sets out the requirements for the application of the equity method of accounting;
  - IFRS 10 Consolidated Financial Statements – The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has:
    - Power over the investee;
    - Exposure, or rights, to variable returns from its involvement with the investee; and
    - The ability to use its power over the investee to affect the amount of the returns.
  - IFRS 11 Joint Arrangements – The standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations or joint ventures; and
  - IFRS 12 Disclosure of Interests in Other Entities – requires extensive disclosure to enable users of the financial statements to evaluate the nature of, and risks associated with, interests in other entities.
- IFRS 13 Fair Value Measurement – Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard, effective for annual periods beginning on or after 1 January 2013;
- IAS 19 (as revised in 2011) Employee Benefits – Improvements to the recognition, presentation and disclosure requirements for defined benefit pension schemes, effective for annual periods beginning on or after 1 January 2013;
- Amendments to IAS 32 Financial Instruments Presentation – offsetting financial assets and financial liabilities effective for annual periods beginning on or after 1 January 2014;
- Amendments to IFRS 7 Financial Instruments Disclosures – amendments related to offsetting of financial assets and financial liabilities, and related disclosures on transition to IFRS 9 effective for annual periods beginning on or after 1 January 2013 and 1 January 2015 respectively;
- Annual Improvements to IFRSs 2009-2011 Cycle for annual periods beginning on or after 1 January 2013, with earlier application permitted. The amendments impact the following five standards:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards – the amendments clarify matters in relation to the repeated application of IFRS 1 and treatment at transition of borrowing costs capitalised under previous GAAP;
  - IAS 1 Presentation of Financial Statements – the amendment provides clarification of the requirements for comparative information;
  - IAS 16 Property Plant and Equipment – the amendment which clarifies the classification of spare parts, stand-by equipment and servicing equipment has no relevance to the Group;

2 Application of new and revised International Financial Reporting Standards ("IFRSs") continued

c Standards and interpretations in issue not yet adopted continued

- IAS 32 Financial Instruments: Presentation – the amendments clarify that income tax on distributions to holders of an equity instrument and on transaction costs of an equity transaction should be accounted for in accordance with IAS 12;
- IAS 34 Interim Financial Reporting – the amendments clarify the disclosure requirements for segment information for total assets and liabilities in interim financial statements when certain conditions arise.

- IFRIC 20 Stripping costs in the production phase of a surface mine effective for annual periods beginning on or after 1 January 2013 has no relevance to the Group.

The Directors anticipate that the adoption of IFRS 9, which the Group plans to adopt when the final standard receives full endorsement by the European Union, will impact both the measurement and disclosures of Financial Instruments, however the full assessment of the impact of IFRS 9 will be completed once the final standard is issued. The Directors anticipate the adoption of the standards on consolidation, joint arrangements, associates and related disclosures, for the year beginning on 1 January 2014, may impact the consolidation treatment of the Group's associates and subsidiaries. The application may result in the Group no longer consolidating some of its investees and consolidating investees that were not previously consolidated. The remaining standards and interpretations will have no material impact on the financial statements of the Group.

3 Significant accounting policies

a Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") adopted for use in the European Union. The financial statements also comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' Report.

The financial statements are presented in millions of US dollars, rounded to the nearest hundred-thousand. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

In accordance with IFRS 4 "Insurance contracts", the Group has applied existing accounting practices for insurance contracts and investment contracts within each of its subsidiaries, modified as appropriate, to comply with the IFRS framework and applicable standards.

b Basis of consolidation

These financial statements consolidate all the enterprises in which the Group exercises control either directly or indirectly (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(i) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet conditions for recognition under IFRS 3 are recognised at fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non current assets held for sale and discontinued operations", which are measured at fair value less costs to sell.

Where the vendor retains a non-controlling interest in the subsidiary, the value of equity attributable has been accounted for as a proportionate share of identifiable net assets acquired as defined under IFRS 3. The treatment can however be varied based on choice made on acquisition-by-acquisition basis, with the alternative method to account for the non-controlling interest at fair value.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised of a subsidiary, associate or jointly controlled entity at the date of acquisition. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination "negative goodwill", the excess is recognised immediately in the income statement.

3 Significant accounting policies continued

When the consideration in a business combination is subject to a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments may arise from additional information becoming available during the period up to one year from the date of acquisition in relation to the position at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 39 or IAS 37, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. The results of subsidiaries disposed of during the year are included in the consolidated income statement up to the effective date of disposal, as appropriate. The financial results, profit on disposal and deferred consideration adjustments relating to the sale of Group operations are included in "Profit/(loss) for the year from discontinued operations" in the income statement.

(ii) Insurance risk premium

On acquisition of a subsidiary, in determining the fair value of an acquired company's assets and liabilities, the technical provisions are increased to include an insurance risk premium, which reflects management's consideration of the uncertainty of the technical provisions acquired.

At acquisition the level of the risk premium is determined on an actuarial basis as the difference between the acquiree's level of technical provisions held and those that bring them up to the 75th percentile level of confidence.

Following acquisition the in-house actuaries undertake a full actuarial review of the acquired company's technical provisions. At that time a review of the risk premium held is determined with any resultant increase or decrease in the risk premium charged or released to the income statement.

Management determines, through its business plan for the acquired company, the rate of de-scale for the company of its technical provisions and in each individual case sets a period over which the remaining risk premium will be released on a straight line basis.

(iii) Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the statement of financial position at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates.

3 Significant accounting policies continued

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the associates. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

(iv) Goodwill

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous GAAP amounts subject to being tested for impairment at that date.

c Segment reporting

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

d Foreign currency translation

(i) Functional and presentation currency

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 functional currencies of the major Group entities are:

Tawa plc	GBP	KX Reinsurance Company Limited	USD
Pro Insurance Solutions Limited	GBP	PXRE Reinsurance Company	USD
Tawa Management Limited	GBP	Island Capital Limited	USD
OX Reinsurance Company Limited	GBP	QX Reinsurance Company Limited	USD
Hamburger Internationale Rückversicherung AG	EUR	Pavant International Re S.A.	EUR

The consolidated financial statements are presented in millions of US dollars which is the Group's presentation currency. The presentation currency of the Group is different from the functional currency of the Company as the majority of the Group's assets and liabilities are in USD, as evidenced by the Group's analysis of currency risk in note 5c (ii).

The GBP to USD rate of exchange applicable at the balance sheet date is 1.60462 (2011: 1.55982).

The average GBP to USD rate of exchange over the period is 1.58306 (2011: 1.61013)

3 Significant accounting policies continued

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets and liabilities are initially translated at transaction date. Non-monetary items are measured at the rate applicable when the transaction occurred and not retranslated.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing exchange rates at the date of the most recent statement of financial position presented;
- income statement items are translated at the rate prevailing throughout the relevant period; and
- all resulting exchange differences are recognised in other comprehensive income and accumulated in a separate reserve within equity.

e Product classification

The Group's products are classified, for accounting purposes, as either insurance contracts or deposit contracts either at inception or upon acquisition, where the Group's interest arises in a business combination. A contract classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Deposit contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

Deposit contracts are contracts that carry financial risk with no significant insurance risk.

In some insurance contracts or deposit contracts, the financial risk is borne by the policyholders.

The accounting policy for deposit contracts is presented in note 3(q).

f Revenue recognition

(i) Net earned insurance premium revenue

Written premiums, gross of commission payable to intermediaries, comprise the Group's share of written premiums on contracts entered into during a financial period, exclusive of taxes and duties levied on premiums. Premiums written include adjustments to premiums written in prior accounting periods and estimates for pipeline premiums. For inwards proportional reinsurance treaties and certain binding authorities and lineslips, written premium is included in line with anticipated writing patterns of cedants and agents. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business. There was no material unearned premium for either the current or comparative year.

(ii) Revenue from run-off services

Revenue is attributable to providing management and operational services relating to the insurance industry and all income derived from associated concerns and are recognised in the income statement on an accrued basis. Incentive fees are attributable to providing transaction facilitation and structuring services and are recognised in the income statement on an accrued basis. Fees are recognised in the income statement over the period to which the services relate, with the exception of incentive fees. Incentive fees are recognised over three quarters from the date in which the service is provided, with the balance being recorded as deferred income.

3 Significant accounting policies continued

(iii) Investment return

Investment return consists of dividends, interest, realised gains and losses, and unrealised gains and losses on fair value assets. Investment income is accounted for on a receivable basis, gross of any imputed tax credit. Interest is accrued up to the statement of financial position date.

(iv) Debt purchase income

This income reflects the anticipated return on the cashflows forecast in respect of the debt purchase portfolio. Under IFRS, there is a requirement to account for these transactions at amortised cost. The amortised cost is calculated as the present value of the expected future cash flows over the life of the instrument, discounted by the Internal Rate of Return ("IRR") estimated at acquisition of each debt purchased. The income is calculated as the assumed return on this valuation at the IRR and is recorded in the consolidated income statement as a component of other income. The debt purchase debtor is included in other debtors.

g Insurance claims incurred

Claims incurred include all claims and internal and external claims settlement expense payments made in respect of the financial period, together with the movement in the provision for claims outstanding and internal and external claims settlement expenses, including claims incurred but not reported. Outwards reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inwards reinsurance business being reinsured. Provision for claims outstanding and reinsurance recoveries are recorded net of discount for the time value of money.

h Employee benefits

(i) Pension costs

The Group operates defined contribution pension arrangements. Contributions are charged to the income statement as employee benefit expense as they become payable in accordance with the rules of each scheme. The Group has no further payment obligations once the contributions have been paid.

Following the acquisition of HIR, the Group has assumed an employer-sponsored defined benefit pension plan. In accordance with IAS 19, the Projected Unit Credit method (PUCM) is used to determine the present value of the defined benefit obligation. Actuarial valuations of plan assets and the present value of the defined benefit obligations are used as measurement criteria and there may be actuarial gains or losses charged to the income statement. Key actuarial assumptions include the mortality tables of Prof. Dr. Klaus Heubeck to estimate life expectancy and a suitable discount rate derived from Bundesbank

(ii) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of two stochastic valuation models, namely the Monte Carlo method and the Black-Scholes valuation model. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restriction, and behavioural considerations.

i Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3 Significant accounting policies continued

j Taxation

Income tax expense represents the sum of the tax payable or receivable in the year and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the statement of financial position date.

Deferred income tax is provided in full, using the liability method, on all temporary differences, which are based on the differences between the financial statement carrying values and the tax bases of assets and liabilities using enacted income tax rates and laws that are expected to apply when the asset is realised or the liability is settled. Deferred income tax assets are recognised to the extent that it is regarded as probable that they will be utilised against sufficient future taxable income. Deferred income tax assets and liabilities are not discounted.

Current tax payable by any Group company on distribution to the holding company of the undistributed profits of any subsidiaries is recognised as deferred tax unless the timing of the distribution of those profits is controlled by the holding company and the temporary difference is not expected to reverse in the foreseeable future.

Current tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

k Other intangible assets

(i) Software

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from the Group's software development is recognised only if all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the development costs of the asset can be measured reliably.

It is amortised on a straight-line basis over its estimated useful life. The estimated useful lives are as follows:

Software (Development costs, Patents and trademarks)	5 years

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. The impairment policy is set out in note m below.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

3 Significant accounting policies continued

An intangible asset arising from an acquisition of a subsidiary by the Group is initially valued on a provisional basis, pending the final valuation of these assets on completion of the fair value exercise. The final valuation will be specific to the nature of the business acquired, based on an assessment of the type of intangible assets identified matched with the application of the most appropriate valuation technique.

The types of intangible asset that may be identified are:

- Market related;
- Contract based;
- Customer related; and
- Technology based.

The valuation methods applied can be:

- Market - by reference to transactions that occurred recently in similar markets, or benchmarks of comparable assets;
- Income - on the basis of the future economic benefits derived from the ownership of the asset; and
- Cost - by assessing the development or replacement cost of an asset.

The intangible assets recognised are amortised on a straight line basis, over their estimated useful lives as follows:

Contract based 'valued on the income method'	2 years
Customer related 'valued on the income method'	5 years

l Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses when appropriate. Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Fixtures and fittings	4 years
Computer equipment	4 years
Leasehold improvements	Remainder of lease

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

The residual values and useful lives of the assets are reviewed at each statement of financial position date and adjusted if appropriate.

m Impairment of non-financial assets

The Group reviews the carrying amounts of its non-financial assets at each statement of financial position date to determine whether there is any indication of impairment. If any indication exists, the asset's recoverable amount is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of fair value less costs to sell and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Impairment reviews on non-financial assets, with the exception of goodwill, may be reversed in subsequent periods.

3 Significant accounting policies continued

n Financial instruments

The Group recognises a financial asset or a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. On initial recognition, the Group determines the category of the financial instrument and values it accordingly. The classification depends on the purpose for which the financial instruments are acquired.

The Group does not deal in any derivatives. Purchases and sales of securities and currencies are recognised on trade date, the date on which the Group commits to purchase or sell the asset.

(i) Financial assets

The Group classifies its financial assets in the following categories: at FVTPL and loans and receivables.

Financial assets at FVTPL

The Group has classified its investments as financial assets at FVTPL. The Group manages financial investments held to cover its insurance liabilities on the same basis, being fair value. As such the Group's investments are classified as FVTPL at inception. Investments are stated at fair value at the statement of financial position date with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in net investment return in the income statement. Transaction costs directly attributable to the acquisition of financial instruments at fair value through profit or loss ("FVTPL") are recognised immediately in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less in the statement of financial position.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are designated on initial recognition and measured at fair value, using relevant measurement techniques. They are subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and the loss is recognised in the income statement.

Reclassification of financial assets

The Group has not reclassified any non-derivative financial assets out of FVTPL to available for sale financial assets. Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short term. In all cases, reclassifications of financial assets are limited to debt instruments. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

3 Significant accounting policies continued

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(ii) Financial liabilities

The Group classifies its financial liabilities as other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iv) Fair value of financial instruments

The fair value of non-derivative financial assets with standard terms and conditions and traded on active liquid markets are determined by reference to quoted market prices. Financial assets in this category include listed equities, listed debt securities and mortgages.

o Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

p Technical provisions

(i) Claims outstanding, related reinsurance recoveries and loss adjustment expenses

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred up to, but not paid at, the statement of financial position date, whether reported or not, together with provisions for future costs related to the management of the run-off of the portfolio of claims. Where applicable, prudent estimates are made for salvage recoveries.

The gross claims outstanding provisions and related reinsurance recoveries, net of specific provisions for doubtful recoveries, are determined on the basis of information currently available. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly. Claims outstanding are carried at actuarial "best-estimates".

3 Significant accounting policies continued

(ii) Discounting

The Group's net technical provisions will be paid over a period of many years dependent upon the nature of the underlying risk, the claims outstanding and the related reinsurance recoveries. The net future liabilities have been reduced or "discounted" by an amount representing an estimate of future investment income from income-producing assets set aside to meet net claims liabilities. Discounting is applied to claims with a mean term of at least 4 years. The payment patterns for claims outstanding are derived by the Group's actuaries from analysis of historical patterns experienced by the Group and other comparable companies in run-off. The Group's investment portfolio has been structured to minimise interest rate exposure such that the maturity profile of the fixed income investments matches the maturity profile of the technical provisions. The discount rate, hence anticipated future investment income, has been calculated with reference to relevant dates on the yield curve for treasury bonds in the currencies in which the investments are held.

q Deposit contracts

Insurance contracts that do not transfer significant insurance risk and do not result in the reasonable possibility that the Company may realise significant loss from the transaction are accounted for as deposit contracts.

The deposit liabilities, which are not insurance contracts as defined, are included in other creditors. The related assets are financial assets and are designated at inception as at fair value through profit or loss. The matching liabilities are measured by reference to the fair value of the underlying net asset value of the financial assets backing those contracts at the end of the reporting period.

Interest income earned, disclosed as part of the Group's investment return, is charged to the deposit contract. The corresponding charge is disclosed as finance costs. Any claims notified are withdrawn from the funds/financial assets and an offsetting entry reduces the deposit liability.

r Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

s Liability adequacy testing

At each reporting date, an assessment is made of whether the long-term business provisions are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of liabilities (less related assets) is insufficient in the light of the future estimated cash flows, the deficiency is recognised in the income statement by setting up an additional provision in the statement of financial position.

4 Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to exercise judgement in making estimates and assumptions that affect the application of the Group's accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the periods in which the estimates are revised if the revisions affect only those periods or in the periods of the revision and future periods if applicable.

Judgements made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in following years include:

a Technical provisions

(i) Outstanding claims provisions and related reinsurance recoveries

There is uncertainty as regards the eventual outcome of the claims and related reinsurance recoveries that have occurred by the statement of financial position date but remain unsettled. This includes claims that may have occurred but have not yet been notified and those that are not yet apparent to the insured. Significant delays occur in the notification of certain claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date.

In particular, estimates of technical provisions inevitably contain inherent uncertainties because extensive periods of time may elapse between the occurrence of an insured loss, the reporting of that claim and the payment of the claim and the receipt of reinsurance recoveries.

The adequacy of the claims outstanding provision is assessed by reference to actuarial projections of the ultimate development of claims in respect of each underwriting year. In addition, in certain areas of the portfolio, exposure analysis has been performed. This provision is derived through extensive analysis by the Group's in-house actuaries. The methods used, and the estimates made, are reviewed regularly. This is detailed further in note 5c (i).

(ii) QX Re

The reserving estimate for QX Re is highly uncertain. This is largely because of a step change in the nature of the claims environment observed since mid-2011. The average monthly claim rate had run steadily at about 8 claims per month for the previous four years. From May 2011 onwards, this immediately stepped up to about 19 per month, where it has remained until the end of 2012.

It is believed that the step change is due to the emergence of a "backlog" of claims that law firms have previously believed to be too weak to be a filing priority. However, as these potential claimants reach the age at which the statute of limitations would prevent future filing, they have been flooded into the system.

As the Group's in-house actuaries believe these claims are of a fundamentally different nature to historic claims, with likely much higher rates of zero indemnity (as well as lower settlements for claims with non-zero indemnity), it has been necessary to isolate them and model them separately from the continuation of the existing meritorious claims.

This has raised considerable uncertainty, because:

- the actuaries have had to make assumptions for how many of the current claims are due to the backlog, rather than being the natural continuation of historic claim reporting. They have further had to project this backlog into the future, modelling how long it will last and at what rate it will emerge. They have projected 67 "natural" claims in 2013, plus an additional 61 "backlog" claims. This projection continues with 51 natural claims in 2014 and 6 backlog claims;
- they have had to allow for the anticipated increase in payments without indemnity (and reduced size of claims with indemnity) for the backlog claims, both for claims currently reported and claims yet to be reported. Since the end of 2012, over 40% of settled claims have done so with zero indemnity.

The actuaries have had to perform this analysis with little detailed information about the backlog claims themselves, as it may take a year before claim details are known and the backlog only started mid-2011.

4 Critical accounting judgements and estimates continued

In addition to issues surrounding the changing nature of claims, the actuaries have also instituted a more rigorous claims surgery process, which they believe will help reduce costs associated with all claims, both backlog and otherwise. Tawa has seen evidence of the success of this with a material drop in average costs for settlements after June 2012. From the second quarter of 2012 onwards, there has been a distinct drop in overall average indemnity settlement, which previously had been running at about $0.13 million to $0.18 million but has since been running at about half this level. The actuaries have built these improvements into the modelling, but this is also a source of uncertainty.

(iii) Basis of discounting

The Group's net technical provisions are discounted as set out in note 3p (ii). The use of discounted technical provisions depends upon the accuracy of the following estimates:

- future claims and expense payments and associated reinsurance recoveries;
- the payment profiles attributable to claims payments and related reinsurance recoveries; and
- the future rate of return expected on invested assets.

b Fair value of financial assets – measurement considerations

Determining the fair value of a financial instrument requires estimation. A financial instrument is regarded as quoted in an active market 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 regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g. a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate.

c Deferred assets – deferred consideration

The deferred consideration receivable on the sale of the majority of the Group's shareholding in CX Reinsurance Company Limited ("CX Re"), is impacted by the net asset value of the company. A number of risks, in particular the availability of consortium relief, impact the fair value of CX Re and any changes in the fair value will have a direct impact on the value of deferred consideration carried in the statement of financial position. Further details are provided in note 5c (ii).

d Consolidation of Lincoln General Insurance Company

On 5 October 2011 Tawa acquired 51% of Lincoln General Insurance Company ("LGIC") for a nominal sum.

This ownership does not constitute control on the following basis:

- at 31 December 2010, the LGIC's total adjusted capital was $(18) million, which placed the Company at the National Association of Insurance Commissioners ("NAIC") risk-based capital ("RBC") mandatory action level, and as a result of its current RBC level, the Department is required to take steps to place the insurer under control. The current financial position of the company, notably in having a total adjusted capital deficit, has not substantially changed from that which placed the Company at the NAIC's RBC Level 5 Mandatory Control Level;
- as a result of the NAIC's RBC mandatory action level, there is a statutory obligation for the Company to prepare and submit for acceptance by the Department a formal, comprehensive Risk Based Capital Plan detailing operational and financial aspects of the business for the Department's approval; and
- as a result of the NAIC's RBC mandatory action level, the Company is subject to a "Letter Agreement" restricting financial and operating policies subject to regulatory approval.

On this basis, it is management's view that Tawa does not control LGIC, within the meaning of applicable accounting standards, and does therefore not consolidate the results of LGIC.

5 Analysis of risk

This note provides details of the risks in relation to the Group and its associate CX Re. Although the Group disposed of the majority of its shareholding in CX Re, the deferred consideration receivable on the sale is impacted by the current net asset value of CX Re. Consequently, the Group remains exposed to all the major risks related to its associate CX Re and details of these risks are therefore disclosed.

a Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance while holding sufficient capital in each of the insurance operating entities to meet regulatory requirements. The capital structure of the Group consists of debt which includes borrowings, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued share capital, share premium and retained earnings.

The Group measures its capital using an economic capital model which is the Group's own assessment of the amount of capital it needs to hold and takes into account both financial and non-financial assumptions. The economic capital is used within the Financial Services Authority's ("FSA") requirement on Individual Capital Assessment ("ICA"). Developments in Solvency II are being monitored.

The Group's executive management reviews working capital on a continual basis and assesses the appropriate financing structures for acquisitions. They are responsible for assessing the Group's capital structure on a regular basis with the aim of selecting a debt-to-equity ratio that maximises return to shareholders. As at 31 December 2012 the debt-to-equity ratio was 24.0% (2011: 15.0%). The debt is defined as long and short term borrowings and has not been reduced by all Group cash and cash equivalents as some cash belonging to regulated subsidiaries is not regarded as readily distributable within the Group. Equity includes all capital and reserves of the Group.

As at 31 December 2012 the Group was required to hold sufficient capital to meet the conditions of bank loan covenants in respect of loans of $60.5 million (2011: $36.6 million).

The Group is also subject to externally imposed capital requirements in respect of all insurance entities that previously wrote insurance and reinsurance business. These requirements, which have been complied with during the year, are enforced within the individual locations and are detailed below:

- KX Reinsurance Company Limited ("KX Re") is regulated by the FSA and it is required by the FSA to submit an annual statement of solvency and to hold capital resources in excess of its capital resources requirement;
- PXRE Reinsurance Company ("PXRE") is regulated by the Connecticut Department of Insurance. It is required by the Connecticut Department to submit an annual risk-based capital statement and to hold total adjusted capital in excess of the Company Action Level which is 200% of its Authorised Control Level Risk-Based Capital;
- Island Capital Limited ("ICL") is regulated by the Bermuda Monetary Authority ("BMA"), and it is required by the BMA to submit an annual statutory return and to hold capital resources in excess of its capital resources requirement;
- Island Capital (Europe) Limited ("ICE") is regulated by the FSA and it is required by the FSA to submit an annual statement of solvency and to hold capital resources in excess of its capital resources requirement;
- OX Reinsurance Company Limited ("OX Re") is regulated by the FSA and it is required by the FSA to submit an annual statement of solvency and to hold capital resources in excess of its capital resources requirement;
- QX Reinsurance Company Limited ("QX Re") is regulated by the BMA, and it is required by the BMA to submit an annual statutory return and to hold capital resources in excess of its capital resources requirement; and
- Hamburger Internationale Rückversicherung AG ("HIR") and Pavant International Re S.A. ("PIR") are regulated by the Federal Financial Supervisory Authority in Germany ("BaFin") and L'Authorité de Contrôle Prudentiel ("ACP") in France respectively.

5 Analysis of risk continued

b Fair value of financial instruments

The Group is exposed to liquidity risk arising from the Group's ability to realise the fair value of its financial instruments. The Group manages this risk by ensuring its exposure to financial assets valued at other than quoted prices is monitored by the Group's management. Valuations are determined by the Group's external investment managers and the suitability of the pricing methodologies are reported to and considered by the Group's management.

(i) Valuation techniques and assumptions applied for the purposes of measuring fair value

The Directors consider that the carrying amounts of financial assets and financial liabilities in the financial statements approximate their fair values.

Fair value is the amount for which an asset could be exchanged between willing parties in an arm's length transaction. The fair values of financial assets and financial liabilities are determined as follows:

- fair values of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- where such price information is typically not available for all instruments the Group applies valuation techniques based on discounted cash flow techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independent of the risk taker.

(ii) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Included in the Level 1 category are financial assets that are measured by reference to quoted prices (unadjusted) in an active market for identical assets. (A financial instrument is regarded as quoted in an active market 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 regularly occurring market transactions on an arm's length basis. The Group does not have any financial assets classified as Level 1);
- Included in the Level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable; and

5 Analysis of risk continued

(ii) Fair value measurements recognised in the statement of financial position continued

- Included in the Level 3 category are financial assets measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and debt securities. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data.

The following table presents the Group's and associate's financial instruments that are measured at fair value as at 31 December 2012.

Group	Level 1 $m	Level 2 $m	Level 3 $m	31 Dec 2012 Total $m
Financial assets designated as fair value through profit or loss ("FVTPL")				
Invested Assets	-	249.9	-	**249.9**

Associate CX Re	Level 1 $m	Level 2 $m	Level 3 $m	31 Dec 2012 Total $m
Financial assets designated as fair value through profit or loss ("FVTPL")				
Invested Assets	-	107.6	-	107.6

Group	Level 1 $m	Level 2 $m	Level 3 $m	31 Dec 2011 Total $m
Financial assets designated as fair value through profit or loss ("FVTPL")				
Invested Assets	-	267.1	-	267.1

Associate CX Re	Level 1 $m	Level 2 $m	Level 3 $m	31 Dec 2011 Total $m
Financial assets designated as fair value through profit or loss ("FVTPL")				
Invested Assets	-	107.5	-	107.5

There were no transfers between levels in the year.

5 Analysis of risk continued

(iii) Significant assumptions used in determining the fair value of financial assets

Asset backed securities

The financial statements of the Group include other debt securities backed by underlying pools of mortgage related loans which are measured at fair value (note 21). The financial statements of the Group's associate also include other debt securities backed by underlying pools of mortgage related loans which are measured at fair value. The fair value of the asset backed securities is determined using valuation techniques based on the calculation of the present value of expected future cash flows of the assets. Inputs to these valuation techniques include some assumptions relating to both these securities and the underlying loans to which they are collateralised, the majority of which are market observable (e.g. repayment speeds and default rates of the underlying loans and loss severity based on collateral type).

c Risk management

The Group's activities expose it to a variety of financial and non-financial risks. The Board of Directors retains overall responsibility for the risk management framework that has been established to minimise the Group's exposure to risk and assesses the effectiveness of the controls established to identify, monitor and mitigate the risks faced by the Group.

The risks that the Group faces include but are not limited to:

- Insurance risk; and
- Financial risk.

(i) Insurance risk

Insurance risk is the risk associated with the uncertainty and the quantum of the claim or the time when claims payments will fall due. In order to mitigate these risks the Group uses actuarial techniques to project future claim payments.

Sources of uncertainty in the estimation of future claim payments

The uncertainty in the financial statements principally arises in respect of the outstanding claims provisions and related reinsurance recoveries, as set out in note 4. As a consequence of this uncertainty, the Group needs to apply sophisticated estimation techniques to determine the appropriate provisions. The Group sets its provision for claims outstanding based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date, together with the provision for related claims handling costs net of salvage and subrogation recoveries. The provision also includes the estimated cost of claims incurred but not reported at the statement of financial position date based on statistical methods and market benchmarks, as appropriate.

The adequacy of the claims outstanding provision is assessed with reference to actuarial projections of the ultimate development of claims in respect of each underwriting year. In addition, in certain areas of the portfolio, exposure analysis has been performed. This provision is derived through extensive analysis by the Group's in-house actuaries including reference to internal and external benchmarks. The methods used, and the estimates made, are reviewed regularly. The methodology used to project ultimate development for liability classes is reviewed annually.

5 Analysis of risk continued

An analysis of the net claims development is below.

Group	31 Dec 2008 $m	31 Dec 2009 $m	31 Dec 2010 $m	31 Dec 2011 $m	**31 Dec 2012 $m**
Net reserves at:					
1 January	73.3	146.0	111.6	91.9	**130.7**
Net acquisition of subsidiaries	88.8	-	9.7	0.2	**24.2**
Take on claims of QX Re	-	-	-	38.7	**-**
First year movement	(16.1)	-	-	-	**-**
Second year movement	-	(34.4)	-	-	**-**
Third year movement	-	-	(29.4)	-	**-**
Fourth year movement	-	-	-	(0.1)	**-**
Fifth year movement	-	-	-	-	**(52.1)**
Net position at 31 December	146.0	111.6	91.9	130.7	**102.8**

Associate CX Re	31 Dec 2008 $m	31 Dec 2009 $m	31 Dec 2010 $m	31 Dec 2011 $m	31 Dec 2012 $m
Net reserves at:					
1 January	212.3	169.2	139.0	121.1	108.1
First year movement	(43.1)	-	-	-	-
Second year movement	-	(30.2)	-	-	-
Third year movement	-	-	(17.8)	-	-
Fourth year movement	-	-	-	(13.1)	-
Fifth year movement	-	-	-	-	(17.4)
Net position at 31 December	169.2	139.0	121.1	108.1	90.7

Estimated net reserves at:	31 Dec 2008 $m	31 Dec 2009 $m	31 Dec 2010 $m	31 Dec 2011 $m	**31 Dec 2012 $m**	Associate CX Re 31 Dec 2012 $m
1 January	73.3	146.0	111.6	91.9	**130.7**	108.1
Net acquisition of subsidiaries	88.8	-	9.7	0.2	**24.2**	-
Take on claims of QX Re	-	-	-	38.7	**-**	-
Impact of changes in foreign exchange rates	(7.0)	2.8	(0.9)	(0.1)	**0.2**	0.1
Net claims paid	(17.5)	(25.2)	(32.1)	(7.9)	**(60.5)**	(22.5)
(Decrease)/increase in ultimates for net claims before discounting	(1.2)	(0.7)	4.4	2.9	**(0.1)**	0.6
Change in the impact of discounting	12.8	(7.5)	3.0	6.9	**8.6**	4.4
Risk premium released	(3.2)	(3.8)	(3.8)	(1.9)	**(0.3)**	-
Net position at 31 December	146.0	111.6	91.9	130.7	**102.8**	90.7

The provision for claims outstanding and the provision for future expenses, related to the run-off of the net liabilities, with the exception of ICL, ICE, OX Re, PXRE and QX Re are discounted to take account of future investment income which will be generated prior to settlement of the claims. The use of discounted technical provisions depends upon the accuracy of estimates as set out in note 4.

5 Analysis of risk continued

Whilst the Directors consider that the gross provision for claims and related recoveries are fairly stated on the basis of the information currently available to them, due to the nature of the insurance industry there is inherent uncertainty in these estimates. This uncertainty is such that the ultimate liability, which will vary as a result of subsequent information and events, may result in adjustments to the amounts provided. Adjustments of the provisions are reflected in the financial statements for the period in which the adjustments are made.

The following tables present the gross claims outstanding split between case reserves and incurred but not reported reserves ("IBNR") and booked gross claims outstanding before claims handling provisions and before discounting by major risk class:

	31 Dec 2012 %	31 Dec 2011 %	Associate CX Re 31 Dec 2012 %	Associate CX Re 31 Dec 2011 %
Case reserves	**67.5%**	64.0%	70.5%	74.7%
IBNR	**32.5%**	36.0%	29.5%	25.3%
Total	**100.0%**	100.0%	100.0%	100.0%

	31 Dec 2012 $m	31 Dec 2011 $m	Associate CX Re 31 Dec 2012 $m	Associate CX Re 31 Dec 2011 $m
Asbestos, pollution and other latent claims	**91.8**	85.0	60.6	53.4
Other	**38.5**	98.4	67.7	102.6
Total	**131.3**	183.4	128.3	156.0

Asbestos, pollution and other latent claims

These claims arise from policies issued prior to 1986 on a losses occurring basis and since 2011, the take-on claims in respect of lead paint exposures. This means that a claim being notified any time after the exposure period would attach back to that exposure period regardless of the length of delay. For lead paint exposures, claims can be reported any time up until the child affected reaches 21 years of age. By their nature such claims are frequently subject to disputes such as the extent of coverage and definitions of occurrence and possible legislative changes. Consequently, reserves for claims of this type cannot be determined using traditional actuarial techniques and the uncertainty surrounding the ultimate cost of settlement is greater than for more standard claims within the Group's portfolio. Significant adverse development may have a material impact on the Group's future results and net assets.

Other

All books of business have been closed to new exposures for a number of years now and the result is that they do not suffer from attritional claims activity. However, the age of these claims means that more will be subject to disputes on the extent of coverage and size of loss and allocation of loss amounts. Market rulings and legal judgements can have a material effect on groups of these claims making the final outcome uncertain.

5 Analysis of risk continued

Basis for establishing provision for claims outstanding

Loss reserves for insurance and reinsurance business are established based on claims data reported to the Group by insureds and ceding companies supplemented with relevant industry benchmark loss development patterns used to project the ultimate incurred loss. Ultimate incurred loss indications are calculated by the Group's actuaries using several standard actuarial methodologies.

The Group's actuaries utilise several assumptions in applying each methodology, including loss development factors and actual reported claim frequency and severity. These reviews and documentation are completed in accordance with professional actuarial standards appropriate to the jurisdictions where the business is written. The selected assumptions reflect the actuaries' judgement based on historical data and experience combined with information concerning economic, judicial, regulatory and other influences on ultimate claim settlements. Best estimates are derived for each group and underwriting year.

Based on the actuarial indications, the Group selects and records a single point estimate, which becomes management's best estimate which the Group considers to be one that has an equal likelihood of developing a redundancy or deficiency as the loss experience matures. On an annual basis the Group analyses and records its loss reserve estimates across detailed lines of business which reflect class of business, geographic location, insurance versus reinsurance, proportional versus non-proportional, and treaty versus facultative exposures. In addition, a limited number of the Group's largest contracts are reviewed individually.

During the loss settlement period, additional facts regarding claims are reported. As this occurs it may be necessary to increase or decrease the unpaid losses and loss expense reserves. The actual final liability may be significantly different to prior estimates. The Group reviews additional reported claim information on a monthly basis. Actual claim experience is compared to that expected from the most recent actuarial reserve review to highlight significant variances. A complete actuarial analysis by detailed line of business including selection of single point estimates is completed annually and is reviewed by the Group's management.

The unallocated loss adjustment expense provision ("ULAE") is based on an assessment of the resources required by year to deliver the strategy for each company taking into account staff by department, accommodation and office services overheads, legal and professional charges, including assistance with planned schemes of arrangement, IT overheads including investment in system developments and human resources overheads. These estimates are reviewed in the context of previous year's actual expenses.

Insurance risk sensitivity analysis

If net claims reserves of $102.8 million (2011: $130.7 million) carried in the statement of financial position moved by 1% the impact on the income statement would be a change in the profit before tax and net assets of $1.0 million (2011: $1.3 million). If CX Re net claims reserves of $90.6 million (2011: $108.1 million) carried in the statement of financial position moved by 1% the impact on the income statement would be a change in the profit before tax and net assets of $0.9 million (2011: $1.0 million).

(ii) Financial risk

The Group is subject to several types of financial risk:

- Market risk (including interest rate risk) and currency risk;
- Credit risk, which are the risks associated with the Group's reinsurance arrangements, investment portfolios, and other counterparty credit risks; and
- Liquidity risk, the risk that cash may not be available to pay obligations when due.

5 Analysis of risk continued

Market risk (including interest rate risk)

The investment strategy of the Group and its associate CX Re is based on a high quality diversified portfolio of liquid investment grade fixed income and other securities as a method of preserving equity capital and prompt claim payment capability.

The Group uses external investment managers to invest and manage its assets. The Board establishes investment policies and creates guidelines for such external investment managers. These guidelines specify criteria on the overall credit quality and liquidity characteristics of the portfolio and include limitations on the size of certain holdings as well as restrictions on purchasing certain types of securities.

Total invested assets managed by third-party fund managers with the asset mix as shown below:

Group	31 Dec 2012 %	Average rating 31 Dec 2012	31 Dec 2011 %	Average rating 31 Dec 2011
Governments	**29.9%**	**AA+**	41.3%	AA+
US corporates	**42.0%**	**A**	25.1%	A
Asset backed securities	**14.1%**	**AA+**	11.6%	AA+
Equities	**0.6%**	**NR**	0.5%	NR
Cash and other	**13.4%**	**AA-**	21.5%	AA-
Total Group	100.0%		100.0%	
Associate CX Re				
US Government	27.5%	AA+	34.5%	AA+
Mortgage backed securities	8.7%	AA+	9.6%	AA+
Commercial mortgage backed securities	3.7%	AA+	0.0%	AA+
EU Government and corporates	16.6%	AA-	15.0%	AA-
GBP Government and corporates	7.0%	AA-	6.7%	AA-
US Corporates	15.9%	A+	10.4%	A+
Municipals	2.8%	AA+	2.5%	AA+
Other asset backed securities	5.8%	AAA	6.4%	AAA
Canadian Government	1.3%	AA	1.0%	AA
Cash and other	10.7%	A1	13.9%	A1
Total associate CX Re	100.0%		100.0%	

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

In practice, the Group mitigates the majority of its exposure to interest rate movements by broadly matching the duration of its assets and liabilities by comparing the discounted cash flows from its cash and investments (principal and interest) according to the period in which such cash flows arise.

The Group's financial borrowings are subject to interest payable which is determined with reference to 3 month LIBOR. This exposure to changes in LIBOR, which is not considered material because of the likely profile of repayments, is not hedged.

5 Analysis of risk continued

The following table shows the securities' maturity dates or contractual re-pricing dates and interest rate ranges:

		Maturity date or contractual re-pricing date				
	Total $m	Less than one year $m	After one year but less than two years $m	After two years but less than three years $m	After three years but less than five years $m	More than five years $m
31 Dec 2012						
Group invested assets fixed interest rate	**234.7**	**32.0**	**26.9**	**36.3**	**55.1**	**84.4**
Group invested assets variable interest rate	**15.2**	**11.5**	**0.5**	**0.3**	**-**	**2.9**
Associate CX Re invested assets fixed interest rate	100.3	5.4	8.7	8.4	11.2	66.6
Associate CX Re invested assets variable interest rate	52.4	49.8	-	-	0.2	2.4
31 Dec 2011						
Group invested assets fixed interest rate	248.3	51.3	32.5	34.2	40.7	89.6
Group invested assets variable interest rate	18.8	13.5	1.2	1.1	0.3	2.7
Associate CX Re invested assets fixed interest rate	96.5	3.6	2.7	10.4	18.4	61.4
Associate CX Re invested assets variable interest rate	77.9	76.8	-	-	-	1.1

				Interest rates range	
	%	%	%	%	%
31 Dec 2012					
Group debt securities fixed interest rate	**0.0% - 6.0%**	**0.0% - 9.5%**	**0.5% - 5.9%**	**0.5% - 6.6%**	**0.6% - 8.5%**
Associate CX Re invested assets fixed interest rate	0.0% - 0.1%	0.3% - 5.0%	0.3% - 5.6%	0.6% - 6.3%	0.8% -7.8%
31 Dec 2011					
Group invested assets fixed interest rate	0.0% - 7.0%	0.3% - 7.1%	0.4% - 9.5%	0.8% - 8.9%	1.3% - 8.5%
Associate CX Re invested assets fixed interest rate	0.0% - 0.6%	0.1% - 5.2%	0.3% - 5.0%	0.9% - 5.3%	1.4% - 8.8%

5 Analysis of risk continued

Market risk (including interest rate risk) sensitivity analysis

The Group and its associate's invested assets are subject to interest rate risk. The interest rate risk is concentrated in investments in US dollar, sterling and euro and is sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Based on the Group's invested assets including cash at external managers of $249.9 million (2011: $267.1 million), a 1% increase/decrease in interest rates across the yield curve would result in an approximate $0.5 million loss/profit respectively (2011: $1.2 million), net of the impact on the discounted net technical provisions. For associate CX Re's invested assets including cash at external managers of $152.7 million (2011: $174.4 million), a 1% increase/decrease in interest rates across the yield curve would result in an approximate $0.3 million profit/loss (2011: $0.8 million).

The Group is also exposed to interest rate risk on its insurance reserves and floating rate borrowings. Where appropriate, reserves are discounted as permitted by IFRS 4. Discount rates are based on the relevant currencies' risk-free rates which are derived from yields on securities issued by UK, US and European Governments. A reduction of 1% in risk-free yields would reduce the net discount in the statement of financial position by approximately $5.9 million as at 31 December 2012 (2011: $5.7 million). Such a reduction would also reduce the amortised cost of the Group's borrowings by $0.6 million (2011: $0.4 million). A reduction of 1% would reduce the net discount in the statement of financial position of associate CX Re by approximately $6.3 million (2011: $7.6 million). Details of the Group's borrowings can be found in note 36.

Currency risk

The Group and in particular the insurance companies are exposed to foreign currency risk generated through regular trading activity denominated in currencies other than their functional currencies. The Group reports its results in US dollars and accordingly, to the extent that shareholders' funds are invested in assets denominated in currencies other than US dollars, exchange gains or losses may arise on translation. The most significant currencies to which the Group is exposed are sterling and euro and the Group controls its currency risk by investing in assets that match the currency in which it expects related insurance liabilities to be paid and by investing the majority of assets backing shareholder funds in US dollars. The summary of the major currencies to which the Group is exposed are shown in the table below.

		31 Dec 2012		31 Dec 2011
	Sterling in	**Euro in**	Sterling in	Euro in
Group	**$m**	**$m**	$m	$m
Cash and cash equivalents	**15.9**	**10.8**	11.0	1.1
Financial assets - investments	**3.0**	**37.6**	3.9	4.7
Deferred assets	**48.7**	**-**	53.8	-
Other assets	**17.6**	**10.9**	16.1	1.0
Total assets	**85.2**	**59.3**	84.8	6.8
Technical provisions	11.5	28.6	12.3	2.9
Other liabilities	16.8	25.2	17.8	1.2
Total liabilities	28.3	53.8	30.1	4.1
Net assets	56.9	5.5	54.7	2.7

5 Analysis of risk continued

The summary of the major currencies to which associate CX Re is exposed are shown in the table below:

		31 Dec 2012		31 Dec 2011
Associate CX Re	Sterling in $m	Euro in $m	Sterling in $m	Euro in $m
Cash and cash equivalents	45.0	0.1	0.2	0.1
Financial assets - investments	7.4	18.6	77.8	20.1
Other assets	4.8	1.1	1.6	0.6
Total assets	57.2	19.8	79.6	20.8
Technical provisions	11.9	23.3	15.8	21.7
Other liabilities	25.8	0.7	32.3	0.6
Total liabilities	37.7	24.0	48.1	22.3
Net assets	19.5	(4.2)	31.5	(1.5)

At 31 December 2012 the Group estimates that 65% (2011: 71%) of shareholders' funds consists of US dollars.

Currency sensitivity analysis

A 1% increase/decrease in the US dollar against the relevant foreign currencies would result in an approximate $0.6 million foreign exchange profit/loss (2011: $0.5 million). For associate CX Re a 1% increase/decrease in the US dollar against the relevant foreign currencies would result in an approximate $0.2 million unrealised foreign exchange profit/loss (2011: $0.3 million). Any potential gain/loss would result primarily from shareholders' funds held in sterling.

Credit risk

When the Group's portfolio of insurers were underwriting, it purchased reinsurance to manage its catastrophe exposure and mitigate insurance risk. However, the ceding of insurance risk exposes the Group to credit risk from its reinsurers and retrocessionaires.

In designing the reinsurance programme the Group took account of the risk assessment, the financial strength of reinsurance counterparties, the benefits to shareholders of capital efficiency and reduced volatility, and the cost of reinsurance protection.

When underwriting, the Group purchased retrocessional reinsurance to improve the extent to which it could manage risk exposures, protect against catastrophic losses, access additional underwriting capacity and stabilise financial ratios.

Credit risk includes the risk of reinsurer default. The Directors have assessed exposure to bad debts arising from reinsurance dispute or failure and, following careful review, have made a provision against bad debts based on current information available.

Reinsurance recoveries are calculated by reference to the gross claims including IBNR utilising the Group's recovery programmes for facultative, proportional and excess of loss reinsurance. There is a quarterly review process to ensure the recoveries calculated are accurate.

5 Analysis of risk continued

The following table summarises the average credit ratings of the reinsurance counterparties:

Credit rating of reinsurance counterparties	31 Dec 2012	31 Dec 2011	Associate CX Re 31 Dec 2012	Associate CX Re 31 Dec 2011
A++	**0.9%**	13.9%	-	6.8%
A+	**57.3%**	41.9%	4.1%	0.8%
A	**0.6%**	4.2%	56.5%	57.6%
A-	**1.0%**	1.3%	13.9%	16.7%
B++	**0.6%**	0.8%	-	0.1%
B+	**-**	-	-	-
Other	**39.6%**	37.9%	25.5%	18.0%
Total	**100.0%**	100.0%	100.0%	100.0%

The management of the Group and its associate mitigate risks associated with reinsurers by monitoring aged debt profiles. All factors which may impact recoverability are taken into account in determining the bad debt provisions and where possible management reduces bad debt exposure through commutations or settlements with counterparties.

For bad debt provisioning purposes, all insolvent security has a 100% provision. Well rated reinsurers are not provided against. In addition to a security provision there is a provision for losses classified as contentious and a provision for time barred losses which are calculated on a case by case basis. Any claim set-offs are netted off fully.

Additionally, the Group is subject to credit risk in respect of third party entities in which the Group holds debt securities issued by those entities. As a consequence of the established investment policies and in order to mitigate investment risk, the average credit quality of the portfolio was AA, CX Re AA (2011: AA, CX Re AA). Other than with respect to US, Canadian and European Union Government and agency securities, the Group's investment guidelines limit its aggregate exposure to any single issuer to 2% (CX Re: 2%) of its portfolio. All securities must be rated BBB (CX Re: BBB) or better at the time of purchase and the weighted average rating requirement of the Group's portfolio is A. There were no investment write-offs in 2012 (2011: nil).

The following table illustrates the split of total debt securities by rating of investee

Credit rating of investee	31 Dec 2012	31 Dec 2011	Associate CX Re 31 Dec 2012	Associate CX Re 31 Dec 2011
AAA / US Government or equivalent	**18.3%**	12.0%	31.2%	27.5%
AA	**42.2%**	53.3%	45.1%	46.5%
A	**23.6%**	22.4%	17.5%	12.3%
A1	**7.7%**	8.1%	4.7%	10.5%
BBB+	**6.2%**	3.7%	-	0.5%
CCC	**-**	-	-	0.1%
Not rated	**2.0%**	0.5%	1.5%	2.6%
Total	**100.0%**	100.0%	100.0%	100.0%

At 31 December 2012 the Group's largest aggregate exposure to any single issuer other than with respect to the United States Government and agency securities was $6.1 million in respect of the Wells Fargo Advantage Government Securities Fund rated AA+ (2011: $9.2 million in respect of the BlackRock Institutional Liquidity Fund rated AAA). At 31 December 2012 associate CX Re's largest aggregate exposure to any single issuer other than with respect to the United States Government and agency securities was $45.1 million (2011: $66.9 million) in respect of shares in JP Morgan AAA rated liquidity funds. Both these funds are structured as Undertakings for Collective Investments and Transferable Securities ("UCITS") which enable investors to assess counterparty exposure on the basis of the underlying investments in the funds, rather than on the basis of the issuing funds.

5 Analysis of risk continued

The investment duration targets for the Group and for CX Re are set in the context of the duration of the underlying liabilities. The duration of an investment is based on the maturity of the security and also reflects the payment of interest and the possibility of early principal payment of such security. The Group seeks to utilise investment benchmarks that reflect this duration target. The Board periodically revises the Group's investment benchmarks based on business and economic factors including the average duration of the Group's potential liabilities. At 31 December 2012 the Group's investment portfolio had an effective duration of 2.6 years (2011: 2.7 years). Associate CX Re's investment portfolio had an effective duration of 4.6 years (2011: 4.4 years).

The following table shows the carrying value of assets that are neither past due nor impaired, the ageing of assets that are past due but not impaired and assets that have been impaired. Reinsurers' share of technical provisions is disclosed before discounting:

Group 31 Dec 2012	Neither past due nor impaired	Past due but less than 180 days	Past due more than 180 days	**Carrying amount Net**	Impaired assets	Carrying amount Gross
Invested assets	249.9	-	-	**249.9**	-	249.9
Loans and receivables including insurance receivables	53.8	0.6	4.6	**59.0**	13.5	72.5
Reinsurers' share of technical provisions	31.2	-	-	**31.2**	12.7	43.9
Group 31 Dec 2011						
Invested assets	267.1	-	-	267.1	-	267.1
Loans and receivables including insurance receivables	40.7	0.3	15.5	56.5	13.2	69.7
Reinsurers' share of technical provisions	50.2	-	-	50.2	13.9	64.1

Associate CX Re 31 Dec 2012	Neither past due nor impaired	Past due but less than 180 days	Past due more than 180 days	Carrying amount Net	Impaired assets	Carrying amount Gross
Invested assets	107.6	-	-	107.6	-	107.6
Loans and receivables including insurance receivables	-	0.2	0.6	0.8	18.6	19.4
Reinsurers' share of technical provisions	23.2	-	-	23.2	6.9	30.1
Associate CX Re 31 Dec 2011						
Invested assets	107.5	-	-	107.5	-	107.5
Loans and receivables including insurance receivables	-	0.5	0.8	1.3	18.5	19.8
Reinsurers' share of technical provisions	31.4	-	-	31.4	7.9	39.3

5 Analysis of risk continued

Liquidity risk

In order to ensure that adequate liquid resources are available to fund insurance liability cash outflows when they fall due, the Group's practice is to invest in assets to establish a sufficient matching with the duration of the expected related liabilities for liquidity purposes. The tables below show the matching of assets and liabilities for the years under review:

		Maturity date or contractual re-pricing date				
Group 31 Dec 2012	Total $m	Less than one year $m	After one year but less than two years $m	After two years but less than three years $m	After three years but less than five years $m	More than five years $m
Cash and cash equivalents	57.0	57.0	-	-	-	-
Financial assets - investments	249.9	43.7	27.4	36.6	55.0	87.2
Reinsurers' share of technical provisions	31.2	4.1	3.9	2.9	4.0	16.3
Deferred assets	48.7	-	-	-	-	48.7
Other assets	98.5	17.5	13.1	10.3	19.2	38.4
Total assets	485.3	122.3	44.4	49.8	78.2	190.6
Technical provisions	146.3	25.7	19.0	14.5	17.8	69.3
Financial liabilities - borrowings	60.5	-	-	51.3	-	9.2
Other liabilities	112.2	23.7	17.8	11.9	5.9	52.9
Total liabilities	319.0	49.4	36.8	77.7	23.7	131.4
Surplus		72.9	7.6	(27.8)	54.6	59.1
Cumulative surplus		72.9	80.5	52.7	107.2	166.3
Group 31 Dec 2011						
Cash and cash equivalents	44.7	44.7	-	-	-	-
Financial assets - investments	267.1	66.0	35.9	35.4	41.2	88.6
Reinsurers' share of technical provisions	50.2	8.1	9.6	8.1	7.1	17.3
Deferred assets	53.8	-	-	-	-	53.8
Other assets	88.2	18.1	26.2	8.1	4.1	31.7
Total assets	504.0	136.9	71.7	51.6	52.4	191.4
Technical provisions	196.9	42.3	37.8	23.4	22.0	71.4
Financial liabilities - borrowings	36.6	-	-	-	26.6	10.0
Other liabilities	88.3	15.3	11.5	7.7	3.8	50.0
Total liabilities	321.8	57.6	49.3	31.1	52.4	131.4
Surplus		79.3	22.4	20.5	-	60.0
Cumulative surplus		79.3	101.7	122.2	122.2	182.2

5 Analysis of risk continued

The tables below show the matching of associate CX Re assets and liabilities for the years under review:

		Maturity date or contractual re-pricing date				
Associate CX Re 31 Dec 2012	Total $m	Less than one year $m	After one year but less than two years $m	After two years but less than three years $m	After three years but less than five years $m	More than five years $m
Cash and cash equivalents	1.9	1.9	-	-	-	-
Financial assets - investments	152.7	55.1	8.7	8.4	11.4	69.1
Reinsurers' share of technical provisions	23.2	0.8	1.5	1.4	2.4	17.1
Other assets	15.2	6.1	4.6	3.0	1.5	-
Total assets	193.0	63.9	14.8	12.8	15.3	86.2
Technical provisions	128.2	13.8	11.8	10.3	16.6	75.7
Other liabilities	40.3	16.1	12.1	8.1	4.0	-
Total liabilities	168.5	29.9	23.9	18.4	20.6	75.7
Surplus/(deficit)		34.0	(9.1)	(5.6)	(5.3)	10.5
Cumulative surplus		34.0	24.9	19.3	14.0	24.5
Associate CX Re 31 Dec 2011						
Cash and cash equivalents	3.5	3.5	-	-	-	-
Financial assets - investments	174.5	59.2	6.6	8.9	18.8	81.0
Reinsurers' share of technical provisions	29.0	0.9	1.9	1.7	3.0	21.5
Other assets	19.5	7.7	5.9	3.9	2.0	-
Total assets	226.5	71.3	14.4	14.5	23.8	102.5
Technical provisions	156.1	19.9	13.8	11.9	20.2	90.3
Other liabilities	50.4	7.4	5.6	3.7	1.9	31.8
Total liabilities	206.5	27.3	19.4	15.6	22.1	122.1
Surplus/(deficit)		44.0	(5.0)	(1.1)	1.7	(19.6)
Cumulative surplus		44.0	39.0	37.9	39.6	20.0

The analysis of assets and liabilities by maturity has been prepared on the following basis:

- Assets are disclosed according to the date of maturity; and
- Net liabilities, represented as undiscounted cash flows, are disclosed according to the timing of payment.

5 Analysis of risk continued

Deferred consideration

Following the reorganisation of associate CX Re on 21 March 2006, CX Re has surrendered tax losses by way of consortium relief relating to its accounting periods ended 31 December 2006, 31 December 2007 and 31 December 2008. These surrenders required the claimant companies to place in sterling escrow accounts in the name of CX Re the amount of the consideration, which together with interest, at 31 December 2012 amounted to $45.1 million (2011: $66.9 million). There are no additional debtor balances currently due to CX Re (2011: Nil). The sale of shares in CX Re on 21 March 2006 carried rights to receive additional consideration from the purchasers, based on future distributions from CX Re to shareholders, which would include the proceeds from surrendering tax losses. CX Re also carries creditor balances being amounts due to third parties from the proceeds of the transactions amounting to $10.6 million (2011: $12.1 million), thus the net benefit to the Group at 31 December 2012 is $48.7 million (2011: $53.8 million). This amount is included in "Deferred assets" in the consolidated statement of financial position. The proceeds will not be released from escrow until the claiming companies agree their tax returns for the relevant periods with HMRC. Should the losses not finally be available to the claiming companies, the proceeds would accrue to the claiming companies and the deferred amounts receivable by the Group would reduce accordingly.

6 Segmental information

The Group's reportable segments under IFRS 8 are identified as follows:

- Underwriting run-off and insurance segment;
- CX Re (associate) underwriting run-off;
- Service providers; and
- Other corporate activities.

On 21 March 2006, the Company disposed of 87.35% of its "A" Shares (carrying the economic rights) and 50.05% of its "B" Shares (carrying the voting rights) of CX Re. As a result of the disposal, the classification of the Company's 12.65% shareholding in CX Re changed from "subsidiary" to "associate", as the Group retains 49.95% of the voting power, and the equity accounting method has been adopted. An initial consideration was payable with further amounts being payable to the Company, referenced to future distributions from CX Re to its shareholders. Deferred consideration related to the disposal has been recorded in the statement of financial position as an asset and is dependent on the net asset value of CX Re. Any adjustments to deferred consideration will be accounted for as adjustments to the profit on disposal, which is disclosed as "Profit/(loss) for the year from discontinued operations" in the income statement, in the years in which the adjustments to the deferred consideration arise.

The suitability of the Group's internal reporting is reviewed and monitored on a regular basis. Furthermore, IFRS requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group Chief Executive Officer in order to allocate resources and assess performance.

In order to provide more meaningful disclosures about associate CX Re, and to disclose segmental information which aligns with that reviewed internally by management, CX Re is shown as a separate reporting segment. The segmental reporting includes the results for associate CX Re in relation to all equity holders as an operating segment, whereas the financial statements show the results for CX Re as a non-operating activity; namely share of results of associate and loss for the year from discontinued operations. A reconciliation to the financial statements has been performed.

The other corporate activities segment includes corporate expenses, incubator costs and other activities not related to the core business segments and which are not reportable segments due to their immateriality. Certain expenses and taxes are not allocated across the segments.

6 Segmental information continued

a Segment income and results

The following is an analysis of the Group's revenue and result by reportable segment.

For the year ended 31 December 2012	Underwriting run-off and insurance $m	CX Re (associate) underwriting run-off $m	Service providers $m	Other corporate activities $m	Intra-group $m	Reconciliation to financial statements $m	Total $m
Continuing operations							
Income							
Insurance premium revenue	(0.2)	0.2	-	-	-	(0.2)	**(0.2)**
Insurance premium ceded to reinsurers	(0.1)	(0.4)	-	-	-	0.4	**(0.1)**
Commission income	-	-	-	1.1	-	-	**1.1**
Net earned premium revenue	(0.3)	(0.2)	-	1.1	-	0.2	**0.8**
Revenue from consultancy and run-off services	-	-	37.1	12.1	(16.2)	-	**33.0**
Investment return	7.4	4.5	0.2	0.1	-	(4.5)	**7.7**
Other income	2.7	-	8.1	0.3	-	-	**11.1**
Total other income	10.1	4.5	45.4	12.5	(16.2)	(4.5)	**51.8**
Total income	**9.8**	**4.3**	**45.4**	**13.6**	**(16.2)**	**(4.3)**	**52.6**
Insurance claims and loss adjustment expenses	(9.3)	(3.0)	-	-	-	3.0	(9.3)
Insurance claims and loss adjustment expenses recovered from reinsurers	(2.6)	(2.0)	-	-	-	2.0	**(2.6)**
Net insurance claims	(11.9)	(5.0)	-	-	-	5.0	**(11.9)**
Segment expenses	(3.6)	(0.1)	(45.9)	(23.5)	16.2	0.1	**(56.8)**
Segment results of operating activities before recognising negative goodwill	**(5.7)**	**(0.8)**	**(0.5)**	**(9.9)**	**-**	**0.8**	**(16.1)**
Negative goodwill recognised	-	-	-	0.3	-	-	**0.3**
Segment results of operating activities	**(5.7)**	**(0.8)**	**(0.5)**	**(9.6)**	**-**	**0.8**	**(15.8)**
Share of results of associate	-	-	-	(1.2)	-	-	**(1.2)**
Finance costs	(1.6)	-	-	(3.4)	-	-	**(5.0)**
Taxation	(2.3)	0.6	0.1	1.9	-	(0.6)	**(0.3)**
Loss for the period from discontinued operations	-	-	-	-	-	(0.2)	**(0.2)**
Segment loss for the year	**(9.6)**	**(0.2)**	**(0.4)**	**(12.3)**	**-**	**-**	**(22.5)**

6 Segmental information continued

For the year ended 31 December 2011	Underwriting run-off and insurance $m	CX Re (associate) underwriting run-off $m	Service providers $m	Other corporate activities $m	Intra-group $m	Reconciliation to financial statements $m	Total $m
Continuing operations							
Income							
Insurance premium revenue	58.6	-	-	-	-	-	**58.6**
Insurance premium ceded to reinsurers	(0.4)	-	-	-	-	-	**(0.4)**
Net earned premium revenue	**58.2**	**-**	**-**	**-**	**-**	**-**	**58.2**
Revenue from consultancy and run-off services	-	-	51.7	33.2	(49.5)	-	**35.4**
Investment return	10.7	10.2	-	0.3	-	(10.2)	**11.0**
Other income	1.0	-	4.1	0.5	-	-	**5.6**
Total other income	11.7	10.2	55.8	34.0	(49.5)	(10.2)	**52.0**
Total income	**69.9**	**10.2**	**55.8**	**34.0**	**(49.5)**	**(10.2)**	**110.2**
Insurance claims and loss adjustment expenses	(86.5)	(25.7)	-	1.9	-	25.7	**(84.6)**
Insurance claims and loss adjustment expenses recovered from reinsurers	21.6	3.5	-	-	-	(3.5)	**21.6**
Net insurance claims	(64.9)	(22.2)	-	1.9	-	22.2	**(63.0)**
Segment expenses	(5.5)	(2.3)	(49.8)	(47.5)	49.5	2.3	**(53.3)**
Segment results of operating activities before recognising negative goodwill	**(0.5)**	**(14.3)**	**6.0**	**(11.6)**	**-**	**14.3**	**(6.1)**
Negative goodwill recognised	-	-	-	1.5	-	-	**1.5**
Segment results of operating activities	**(0.5)**	**(14.3)**	**6.0**	**(10.1)**	**-**	**14.3**	**(4.6)**
Share of results of associate	-	-	-	-	-	(1.8)	**(1.8)**
Finance costs	(1.9)	-	-	(2.1)	-	-	**(4.0)**
Taxation	1.1	-	(1.7)	1.6	-	-	**1.0**
Loss for the period from discontinued operations	-	-	-	-	-	(12.5)	(12.5)
Segment (loss)/profit for the year	**(1.3)**	**(14.3)**	**4.3**	**(10.6)**	**-**	**-**	**(21.9)**

6 Segmental information continued

b Segment assets, liabilities and other information

The following is an analysis of the Group's net assets, capital expenditure, impairment losses, depreciation and amortisation by reportable segment:

As at 31 December 2012	Underwriting run-off and insurance $m	CX Re (associate) underwriting run-off $m	Service providers $m	Other corporate activities $m	Intra-group $m	Reconciliation to financial statements $m	**Total $m**
Segment assets	376.8	187.7	25.8	93.4	(15.1)	(186.7)	**481.9**
Segment liabilities	(228.4)	(148.8)	(15.9)	(74.2)	15.1	148.8	**(303.4)**
Segment net assets	**148.4**	**38.9**	**9.9**	**19.2**	**-**	**(37.9)**	**178.5**
Depreciation	-	-	(0.6)	-	-	-	**(0.6)**
Amortisation of intangible assets	-	-	(0.4)	-	-	-	**(0.4)**
Amortisation of risk premium	0.4	-	-	-	-	-	**0.4**

As at 31 December 2011	Underwriting run-off and insurance $m	CX Re (associate) underwriting run-off $m	Service providers $m	Other corporate activities $m	Intra-group $m	Reconciliation to financial statements $m	**Total $m**
Segment assets	412.5	219.9	26.0	75.8	(15.2)	(218.9)	**500.1**
Segment liabilities	(246.5)	(180.8)	(18.0)	(52.6)	15.2	180.8	**(301.9)**
Segment net assets	**166.0**	**39.1**	**8.0**	**23.2**	**-**	**(38.1)**	**198.2**
Depreciation	-	-	(0.6)	-	-	-	**(0.6)**
Amortisation of intangible assets	-	-	(0.8)	(0.2)	-	-	**(1.0)**
Amortisation of risk premium	1.9	-	-	-	-	-	**1.9**

For the purposes of monitoring segment performance and allocating resources between segments, the Group Chief Executive Officer monitors the tangible, intangible and financial assets and liabilities of each segment. All assets and liabilities are allocated to reportable segments.

c Revenue from major products and services

The Group's revenue from major products and services is disclosed in the segment income tables.

d Geographical information

The Group's revenue and information about its segment net assets by geographical location are as follows:

As at 31 December 2012	United Kingdom $m	United States of America $m	**Total $m**
Segment revenue	42.3	11.1	53.4
Segment net assets	87.6	90.9	178.5

As at 31 December 2011	$m	$m	**$m**
Segment revenue	45.9	64.3	**110.2**
Segment net assets	97.3	100.9	**198.2**

6 Segmental information continued

e Information about major customers

The Group does not derive revenue from an individual policyholder or intermediary that represents 10% or more of the Group's total revenue.

7 Revenue from consultancy, insurance and run-off services

Revenue comprises fees related to the provision of insurance run-off management and related consultancy services.

	31 Dec 2012 $m	31 Dec 2011 $m
Management fees	**0.4**	2.2
Consultancy and inspection fees	**29.6**	30.1
Expenses recharged	**3.0**	3.1
Revenue from consultancy, insurance and run-off services	**33.0**	35.4

8 Investment return

	31 Dec 2012 $m	31 Dec 2011 $m
Financial assets - Designated at fair value through profit or loss ("FVTPL")		
Debt securities		
Investment income	3.6	2.8
Realised gains/(losses)	0.7	1.7
Changes in fair value, unrealised gains	(0.8)	2.5
Cash and cash equivalents - interest income	2.2	2.0
Deposit contract income	1.4	1.4
Loans and receivables including insurance receivables - interest income	0.6	0.6
Investment return	7.7	11.0

9 Other income

	31 Dec 2012 $m	31 Dec 2011 $m
Debt purchase income	**6.7**	5.5
Other	**4.4**	0.1
Other income	**11.1**	5.6

10 Insurance claims, loss adjustment expenses and related reinsurance recoveries

	31 Dec 2012			31 Dec 2011		
	Gross $m	**Reinsurers' share $m**	**Net $m**	Gross $m	Reinsurers' share $m	Net $m
Insurance claims and loss adjustment expenses paid	(86.4)	18.9	(67.5)	(35.5)	8.5	(27.0)
Changes in technical provisions	86.1	(22.2)	63.9	(43.4)	10.8	(32.6)
Net insurance claims and loss adjustment expenses before discounting	(0.3)	(3.3)	(3.6)	(78.9)	19.3	(59.6)
Discounting	(9.3)	0.7	(8.6)	(7.9)	2.6	(5.3)
Amortisation of risk premium	0.3	-	0.3	2.2	(0.3)	1.9
Discounted insurance claims and loss adjustment expenses	(9.3)	(2.6)	(11.9)	(84.6)	21.6	(63.0)

11 Directors' emoluments

31 December 2012	Fees as Directors $m	Other emoluments $m	Company pension contributions $m	**Total $m**	Highest paid Director's emoluments $m
Services as Directors of the Company	0.4	1.2	0.2	**1.8**	0.7
Services as Directors of subsidiaries	-	-	-	**-**	-
Directors' emoluments	0.4	1.2	0.2	**1.8**	0.7

31 December 2011	Fees as Directors $m	Other emoluments $m	Company pension contributions $m	Total $m	Highest paid Director's emoluments $m
Services as Directors of the Company	0.9	2.5	0.2	3.6	1.3
Services as Directors of subsidiaries	-	-	-	-	-
Directors' emoluments	0.9	2.5	0.2	3.6	1.3

12 Auditor's remuneration

The following fees were incurred directly by the Group in respect of audit and related services set out below and paid to Mazars LLP:

	31 Dec 2012 $m	31 Dec 2011 $m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditors for audit of the Company's subsidiaries pursuant to legislation	**0.4**	0.4
Fees payable to the Company's auditors for audit of the Company's associate pursuant to legislation	**0.1**	0.1
Total audit fees	**0.6**	0.6
Other services	**-**	-
Total non-audit fees	**-**	-

13 Staff costs

The average monthly number of employees (including Executive Directors) was:

	31 Dec 2012	31 Dec 2011
Outsourcing	171	124
Consulting	49	33
Incubator	25	9
Actuarial	6	3
Executive & Management	36	36
Support	47	50
Number of employees	332	255

Their aggregate remuneration comprised:

	31 Dec 2012 $m	31 Dec 2011 $m
Wages and salaries	32.3	27.7
Social security costs	3.8	3.0
Other pension costs (see note 39)	3.5	2.9
Restructuring	2.7	0.4
Other costs	1.9	1.7
Staff costs	44.2	35.7

14 Finance costs

	31 Dec 2012 $m	31 Dec 2011 $m
Interest on corporate borrowings	3.2	2.1
Interest on debenture	0.4	0.4
Deposit contract charge	1.1	1.4
Other	0.3	0.1
Finance costs	5.0	4.0

15 Taxation

UK corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable UK profit for the year. The tax (credit)/charge for the periods presented varied from the stated rate of UK corporation tax as explained below:

	Continuing operations		Discontinued operation		Total	
	31 Dec 2012 $m	31 Dec 2011 $m	**31 Dec 2012 $m**	31 Dec 2011 $m	**31 Dec 2012 $m**	31 Dec 2011 $m
UK Corporation tax on loss for the year	**-**	-	**-**	-	**-**	-
Adjustments in respect of prior periods	**0.3**	1.0	**-**	-	**0.3**	1.0
Group relief recoverable at non-standard rates	**-**	-	**-**	-	**-**	-
Total taxation	**0.3**	1.0	**-**	-	**0.3**	1.0

	Continuing operations		Discontinued operation		Total	
	31 Dec 2012 $m	31 Dec 2011 $m	**31 Dec 2012 $m**	31 Dec 2011 $m	**31 Dec 2012 $m**	31 Dec 2011 $m
Loss before taxation	**(22.0)**	(10.4)	(0.2)	(12.5)	**(22.2)**	(22.9)
At standard corporation tax of 24.5% (2011: 26.5%)	**(5.4)**	(2.8)	-	(3.3)	**(5.4)**	(6.1)
Factors affecting taxation charge:						
Temporary differences	**(1.7)**	0.6	-	-	**(1.7)**	0.6
Income/expenses not taxable/deductible for tax purposes	**6.4**	1.0	-	3.3	**6.4**	4.3
Utilisation of tax losses in respect of which no deferred tax assets were provided	**1.0**	2.2	-	-	**1.0**	2.2
UK Corporation tax on profit for the year	0.3	1.0	-	-	**0.3**	1.0

At 31 December 2012 the Group has recognised deferred tax assets of $1.4 million (2011: $1.6 million). In addition the Group had unrecognised tax assets of $12.7million (2011: $2.4 million) in respect of tax losses carried forward.

16 Discontinued operations

Following the Group's disposal of the majority of its shareholding in CX Re, as referred to in note 5c (ii), any adjustments to the deferred consideration are accounted for as a profit/(loss) on sale of investment in the year in which the adjustments to the deferred consideration arise. Details of the discontinued operation are presented below.

	31 Dec 2012 $m	31 Dec 2011 $m
Loss on sale of investment	**(0.2)**	(12.5)
Loss for the year	**(0.2)**	(12.5)

17 Loss for the year

Loss for the year has been arrived at after crediting/(charging):

	31 Dec 2012 $m	31 Dec 2011 $m
Amortisation of risk premium	**0.4**	1.9
Depreciation of property, plant and equipment	**(0.6)**	(0.6)
Amortisation of intangible assets	**(0.4)**	(1.0)
Foreign exchange losses	**0.4**	(0.5)
Negative goodwill arising on acquisition	**0.3**	1.5

18 Dividends

No dividend was distributed in 2012 in relation to the results for the 2011 financial year. (2011: A total dividend for the year ended 31 December 2010 of $4.4million / £2.8 million).

19 Earnings per share

Earnings	31 Dec 2012 $m	31 Dec 2011 $m
Earnings for the purposes of basic earnings per share from continuing and discontinued operations being net (loss)/profit attributable to equity holders of the Group	(22.5)	(21.9)
Earnings for the purposes of basic earnings per share from continuing operations being net (loss)/profit attributable to equity holders of the Group	(22.3)	(9.4)

Number of shares	31 Dec 2012	31 Dec 2011
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	111,263,808	110,451,131
Effect of dilutive potential Ordinary Shares: Share options	-	-
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	111,263,808	110,451,131

There are no dilutive shares in 2012 as the Group incurred a loss. (2011: There were no dilutive shares as the Group incurred a loss).

Basic earnings per share	31 Dec 2012 US cents	31 Dec 2011 US cents
From continuing and discontinued operations		
Basic: Ordinary Shares (cents per share)	(20.22)	(19.83)
Diluted: Ordinary Shares (cents per share)	(20.22)	(19.83)
From continuing operations		
Basic: Ordinary Shares (cents per share)	(20.04)	(8.51)
Diluted: Ordinary Shares (cents per share)	(20.04)	(8.51)
From discontinued operations		
Basic: Ordinary Shares (cents per share)	(0.18)	(11.32)
Diluted: Ordinary Shares (cents per share)	(0.18)	(11.32)

20 Cash and cash equivalents

	31 Dec 2012 $m	31 Dec 2011 $m
Cash	56.8	37.0
Deposit contract cash	0.2	7.7
Cash at bank and in hand	57.0	44.7

Cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. In the normal course of business insurance company subsidiaries have deposited funds in respect of certain contracts which can only be released with the approval of the appropriate regulatory authority. Cash and cash equivalents of $39.4 million (2011: $37.8 million) belonging to regulated subsidiaries is not regarded as readily distributable within the Group.

20 Cash and cash equivalents continued

In accordance with normal market practice, Citibank N.A. has issued letters of credit for outstanding losses. The collateral against these letters of credit includes a pledge to the value of $4.0 million (2011: $4.0 million) against cash at bank and in hand.

The Group has deposited cash of $0.2 million (2011: $7.7 million) in a trust fund for the benefit of a counterparty. These contracts are treated as deposit contracts for accounting purposes with the related liabilities included within creditors arising out of reinsurance operations, note 34.

Cash and cash equivalents are classified as financial instruments - loans and receivables.

21 Financial assets - investments

Investments are designated at initial recognition as fair value through profit or loss. The fair values of these investments, disclosed in the table below, are based on bid market prices and fair value adjustments are made through the income statement.

		Fair value
Carrying amount	**31 Dec 2012 $m**	31 Dec 2011 $m
Designated fair value through profit or loss ("FVTPL")		
Debt securities		
Foreign Government bonds	**78.3**	1116.1
Local Government bonds	**3.0**	3.9
Corporate bonds	**114.1**	73.0
Mortgaged backed	**38.2**	33.8
Equity Securities	**1.5**	1.5
Deposits with credit institutions	**14.8**	38.8
Balance at 31 December	**249.9**	267.1
Due within one year	**43.5**	64.8
Due after one year	**206.4**	202.3

A reconciliation of the carrying amount is below:

		Fair value
Movements in carrying amount	**31 Dec 2012 $m**	31 Dec 2011 $m
Balance at 1 January	**267.1**	229.6
Additions	**352.5**	1,144.8
Maturities and redemptions	**(137.6)**	(776.3)
Disposals	**(230.5)**	(336.8)
Reclassification on non cash movements	**(1.3)**	3.3
Fair value gains recorded in the income statement	**(0.8)**	2.5
Foreign exchange	**0.5**	-
Balance at 31 December	**249.9**	267.1

21 Financial assets - investments continued

At the year end, the duration of the Group's cash and investment portfolio was 2.6 years (2011: 2.7 years). The durations of the individual cash and investment portfolios of the Group's insurance subsidiaries are:

	31 Dec 2012 Duration (Yrs)	31 Dec 2011 Duration (Yrs)
HIR group of companies	**2.0**	n/a
Island Capital group of companies	**1.3**	1.9
KX Re	**5.4**	4.0
OX Re	**-**	-
PXRE	**2.1**	2.1
QX Re	**2.4**	2.6

In accordance with normal market practice, Citibank N.A. has issued letters of credit for outstanding losses. The collateral against these letters of credit includes a pledge to the value of $6.6 million (2011: $10.7 million) against an investment portfolio.

The Group has deposited investments of $52.3 million (2011: $42.8 million) in a trust fund for the benefit of a counterparty. These contracts are treated as deposit contracts for accounting purposes with the related liabilities included within creditors arising out of reinsurance operations, note 34.

22 Loans and receivables including insurance receivables

	31 Dec 2012 $m	31 Dec 2011 $m
Debtors arising out of reinsurance operations	**14.6**	15.3
Debtors arising out of insurance operations	**1.7**	2.2
Accrued income and prepayments	**2.5**	1.4
Other debtors	**40.2**	37.6
Total loans and receivables including insurance receivables	**59.0**	56.5
Due within one year	**27.2**	19.7
Due after one year	**31.8**	36.8

Other debtors include subrogation recoveries in respect of Island Capital Limited of $16.1 million (2011: $15.9 million), amounts due in respect of the KX Re debt purchase portfolio of $9.8 million (2011: $11.7 million) and amounts due or accrued in respect of services provided to clients by Pro of $5.3 million (2011: $4.8 million).

Debtors arising out of reinsurance operations past due are $18.7 million (2011: $17.6 million) and net of bad debts $5.2 million (2011: $4.7 million) which are considered recoverable. Ageing of debtors arising out of reinsurance and insurance operations are detailed below:

	0-6 months	6-12 months	12-14 months	>24 months
31 Dec 2012	7%	2%	8%	83%
31 Dec 2011	4%	4%	56%	36%

The Group holds no security or collateral against these balances.

Loans and receivables including insurance receivables are classified as financial instruments – loans and receivables.

23 Technical provisions

Carrying amount	**31 Dec 2012 $m**	31 Dec 2011 $m
Gross claims outstanding		
Provision for gross claims outstanding	**131.3**	183.5
Discount	**(15.8)**	(20.1)
	115.5	163.4
Claims handling provisions	**12.0**	13.1
	127.5	176.5
Risk premium adjustment	**3.2**	0.5
Total gross claims outstanding	**130.7**	177.0
Reinsurance		
Provision for reinsurance reserves outstanding	**31.2**	50.2
Discount	**(3.3)**	(3.9)
Total reinsurers' share of claims outstanding	**27.9**	46.3
Undiscounted claims outstanding, net of reinsurance	**115.3**	146.9
Discount	**(12.5)**	(16.2)
Total claims outstanding net of reinsurance	**102.8**	130.7
Security held for reinsurance		
Letters of credit held	**0.4**	2.4
Total collateral held	**0.4**	2.4

The technical provisions are all within the Group's insurance subsidiaries.

Whilst the Directors consider that the gross provision for claims and the related recoveries are fairly stated on the basis of the information currently available to them, due to the nature of the insurance industry there is inherent uncertainty in these estimates. This uncertainty is such that the ultimate liability, which will vary as a result of subsequent information and events, may result in adjustments to the amount provided. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made.

The liabilities for HIR's and KX Re's portfolios are subject to discounting. At 31 December 2012 HIR's portfolio had an average mean term of 10.1 years (2011: n/a) and the average effective rate of investment return used to discount net liabilities is 1.95% (2011: n/a). KX Re's portfolio had an average mean term of 10.1 years (2011: 10.3 years) and the average effective rate of investment return used to discount net liabilities is 1.95% (2011: 2.10%).

Reserve development

The Group's expected loss development is determined by the Group's internal actuaries based on historical claims analysis and projected trends. Actual reported losses may vary from expected loss development. Generally, as an underwriting year matures the level of newly reported claims decreases.

During the year the Group experienced improvement in the net reserves before discount excluding commutations of $0.1 million (2011: deterioration of $2.9 million, together with the take on claims in relation to QX Re $38.7 million). An increase in net reserves for QX Re of $15.8 million was offset by reductions in reserves for the other Group risk carriers KX Re and PXRE. Additional net reserves of $24.2 million were acquired through the purchase of HIR. After discount the overall decrease in net reserves during the year was $27.9 million (2011: increase of $38.8 million) net of reinsurance and commutations.

23 Technical provisions continued

The following table presents the development of the Group's outstanding claims and claims handling expense reserves net of reinsurance and after discounting.

Movements in carrying amount	31 Dec 2012 $m	31 Dec 2011 $m
Balance of net discounted reserves at 1 January	**130.7**	91.9
Acquisition of subsidiary	**24.2**	0.2
Take on claims of QX Re	**-**	38.7
Impact of changes in foreign exchange rates	**0.2**	(0.1)
Net claims paid	**(60.5)**	(7.9)
Decrease/(increase) in ultimate for net claims before discounting	**(0.1)**	2.9
Change in the impact of discounting	**8.6**	6.9
Risk premium released	**(0.3)**	(1.9)
Balance of net discounted reserves at 31 December	**102.8**	130.7

24 Property, plant and equipment

	Computer equipment		Fixtures and fittings		Total	
	31 Dec 2012 $m	31 Dec 2011 $m	**31 Dec 2012 $m**	31 Dec 2011 $m	**31 Dec 2012 $m**	31 Dec 2011 $m
Cost or valuation						
Balance at 1 January	9.0	8.2	2.6	2.4	11.6	10.6
Additions	0.1	0.8	-	0.2	0.1	1.0
Balance at 31 December	**9.1**	9.0	**2.6**	2.6	**11.7**	11.6
Accumulated depreciation and impairment						
Balance at 1 January	7.4	6.9	2.1	2.0	9.5	8.9
Charge for the year	0.5	0.5	0.1	0.1	0.6	0.6
Balance at 31 December	**7.9**	7.4	**2.2**	2.1	**10.1**	9.5
Carrying amount at 31 December	**1.2**	1.6	**0.4**	0.5	**1.6**	2.1

25 Deferred assets

Deferred assets relate to the consideration outstanding on the disposal of subsidiary CX Re, as described in note 5. Part of the deferred consideration is related to the net asset value of the company and is subject to net asset value adjustments through the income statement. Deferred consideration consists of $14.7 million (2011: $19.7 million) in respect of a transaction facilitation fee and $34.0 million (2011: $34.1 million) of proceeds on the disposal, a total of $48.7 million (2011: $53.8 million).

26 Subsidiaries

A list of the investments in subsidiaries, including the name, country of incorporation, proportion of ownership interest is given in note 50 to the Company's financial statements.

27 Interest in associate

CX Reinsurance Company Limited

Aggregated amounts relating to associate:

	31 Dec 2012 $m	31 Dec 2011 $m
Gross premiums written	-	-
Loss for the year	(0.2)	(14.3)
Group's share of associate's loss at 12.65%	**(0.0)**	(1.8)
Total assets	186.9	219.9
Total liabilities	(148.6)	(180.8)
Net assets	38.3	39.1
Group's share of associate's net assets at 12.65%	**4.8**	4.9

Details of the investment in associate, including the name, country of incorporation and proportion of ownership interest is given in note 51 to the Company's financial statements.

Asta Capital Limited

On 26 January 2012, a consortium comprising Tawa plc, Skuld, and Paraline Group Limited completed the acquisition of Whittington Insurance Markets Limited. The company has since been renamed Asta Insurance Markets Limited under a new holding company set up by the consortium named Asta Capital Limited ("Asta"). Tawa's share of associate as at 31 December 2012 is:

	31 Dec 2012 $m
Revenue	34.7
Loss for the year	(3.5)
Group's share of associate's loss at 33.33%	**(1.2)**
Total assets	51.4
Total liabilities	(24.2)
Net assets	27.2
Group's share of associate's net assets at 33.33%	**9.1**

Details of the investment in associates, including the name, country of incorporation and proportion of ownership interest is given in note 51 to the Company's financial statements.

28 Other intangible assets

The intangible assets comprise software costs and other acquired intangible assets as disclosed in the table below:

	Software		Acquired intangible assets		Other development costs		Total	
	31 Dec 2012 $m	31 Dec 2011 $m	**31 Dec 2012 $m**	31 Dec 2011 $m	**31 Dec 2012 $m**	31 Dec 2011 $m	**31 Dec 2012 $m**	31 Dec 2011 $m
Cost								
Balance at 1 January	1.1	1.1	2.0	2.0	-	-	3.1	3.1
Additions	-	-	-	-	0.1	-	0.1	-
Balance at 31 December	**1.1**	1.1	**2.0**	2.0	**0.1**	-	**3.2**	3.1
Amortisation								
Balance at 1 January	(0.2)	(0.1)	(1.5)	(0.7)	-	-	(1.7)	(0.8)
Amortised to income statement	(0.2)	(0.2)	(0.2)	(0.8)	-	-	(0.4)	(1.0)
Balance at 31 December	**(0.4)**	(0.3)	**(1.7)**	(1.5)	**-**	-	**(2.1)**	(1.8)
Carrying amount at 31 December	**0.7**	0.8	**0.3**	0.5	**0.1**	-	**1.1**	1.3

Software intangible assets represent development costs and costs in respect of patents and trademarks relating to STRIPE® which is a proprietary web based platform that was launched in September 2010, allowing principal to principal processing of claims and other post placement transactions between ceding company and reinsurer. Software (development costs, patents and trademarks) are amortised on a straight line basis over 5 years.

The Group recognised an intangible asset of $2.0 million as part of a business combination in 2009. The acquired intangible asset comprises a contract-based intangible of $1.3 million and a customer-related intangible of $0.7 million. The acquired contract-based and customer-related intangible assets are amortised on a straight line basis over 2 and 5 years respectively.

During the year to 31 December 2012, staff costs in respect of further development of STRIPE® were capitalised. These will be amortised on a straight line basis over 5 years.

The amortisation charge for the year is included within total expenses in the income statement.

29 Goodwill

	31 Dec 2012 $m	31 Dec 2011 $m
Cost		
Balance at 1 January	**28.4**	28.1
Adjustment to deferred consideration	**(0.6)**	0.3
Balance at 31 December	**27.8**	28.4
Accumulated impairment losses		
Balance at 1 January	**(5.0)**	(5.0)
Balance at 31 December	**(5.0)**	(5.0)
Carrying amount at 31 December	**22.8**	23.4

29 Goodwill continued

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating units ("CGU"s) that are expected to benefit from that business combination, unless through a diversification of the Group a change is justified. Before recognition of impairment losses the carrying amount of goodwill has been allocated as follows:

	31 Dec 2012 $m	31 Dec 2011 $m
Tawa plc's acquisition of Tawa Associates Limited, which is now represented by the business of Tawa Management Limited, STRIPE Global Services Ltd, Q360 Limited, Lodestar Marine Limited and Pro's extraction fees	**18.2**	18.2
Tawa plc's acquisition of the Pro group of companies ("Pro"). The Pro group of companies comprise Pro Insurance Solutions Limited, and Pro IS, Inc	**9.6**	10.2
Total cost	**27.8**	28.4

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets and liabilities acquired. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to prices and costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

The Group prepares cash flow forecasts derived from the most recent financial budgets for the next four years and extrapolates cash flows for the following year based on an estimated growth rate of 3%. This rate does not exceed the average long term growth rate for relevant markets. The rate used to discount the forecast cash flows from Tawa Associates Limited is 10% and 15% for Pro.

30 Share capital

	31 Dec 2012		31 Dec 2011	
	Number	$m	Number	$m
Authorised:				
Ordinary Shares of £0.10	**200,000,000**	**40.0**	200,000,000	40.0
Total authorised	**200,000,000**	**40.0**	200,000,000	40.0
Allotted, called up and fully paid:				
Ordinary Shares of £0.10	**113,375,177**	**22.2**	112,987,164	22.2
Total allotted, called up and fully paid	**113,375,177**	**22.2**	112,987,164	22.2

On 19 April 2012 the Company issued 3,000,000 Ordinary Shares of 10p to the vendor as part of the consideration paid in the acquisition of Hamburger Internationale Rückversicherung AG.

The Directors had authority, under a shareholders' resolution of 23 June 2011, to purchase through the market 11,298,716 of the Company's Ordinary Shares at prices ranging between £0.05 and £1.26 per share. On 21 June 2012, 2,611,987 shares acquired pursuant to that resolution and held in treasury were cancelled.

31 Share Premium

	31 Dec 2012 $m	31 Dec 2011 $m
Balance at 1 January	**111.4**	111.4
Premium arising on issue of equity shares	**1.4**	-
Own shares cancelled in the period	**(2.2)**	-
Balance at 31 December	**110.6**	111.4

32 Other reserves

Share based payments reserve (1)	31 Dec 2012 $m	31 Dec 2011 $m
Balance at 1 January	**3.7**	3.2
Share based payments	**0.4**	0.5
Balance at 31 December	**4.1**	3.7

Own shares reserve (2)	31 Dec 2012 $m	31 Dec 2011 $m
Balance at 1 January	**(2.6)**	(1.1)
Acquired in the period	**-**	(1.5)
Cancelled in the period	2.6	-
Balance at 31 December	**-**	(2.6)

Translation reserve (3)	31 Dec 2012 $m	31 Dec 2011 $m
Balance at 1 January	**(1.3)**	(0.5)
Currency translation differences	**0.6**	(0.8)
Balance at 31 December	**(0.7)**	(1.3)
Combined other reserves	**3.4**	(0.2)

(1) Share-based payments reserve: As detailed in the Corporate Governance report, the Company operates a Performance Share Plan providing for the grant of awards over Ordinary Shares. Awards are recorded in this reserve.

(2) Own shares reserve: As detailed in the Report of the Directors, the Directors had authority, under a shareholders' resolution to purchase through the market, subject to the specified conditions, the Company's Ordinary Shares. On 21 June 2012, 2,611,987 shares acquired pursuant to that resolution and held in treasury were cancelled.

(3) Translation reserve: In accordance with the Group's accounting policy 3d, exchange differences relating to the translation of results and net assets of all the Group entities that have a functional currency different from the presentation currency, are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

33 Retained earnings

	31 Dec 2012 $m	31 Dec 2011 $m
Balance at 1 January	**63.8**	89.8
(Loss)/profit for the year	**(22.5)**	(21.6)
Dividends paid	**-**	(4.4)
Balance at 31 December	**41.3**	63.8

No dividend was distributed in 2012 in relation to the results for the 2011 financial year. (2011: A total dividend for the year ended 31 December 2010 of $4.4million / £2.8 million).

The Directors do not recommend any dividend to be paid in 2013 relating to the results for 2012.

34 Creditors arising out of insurance operations

	31 Dec 2012 $m	31 Dec 2011 $m
Creditors arising out of reinsurance operations	**18.3**	7.9
Deposit contracts	**52.9**	51.0
Balance at 31 December	**71.2**	58.9
Due within one year	**18.3**	7.9
Due after one year	**52.9**	51.0

Prior to becoming a subsidiary of the Group, PXRE entered into a small number of finite contracts that do not contain significant risk transfer. These contracts are treated as deposit contracts for accounting purposes with the related investments included within financial assets, note 21, and deposited cash included within cash and cash equivalents, note 20.

Creditors arising out of insurance operations are classified as financial instruments – financial liabilities. The carrying amounts of the financial liabilities in the financial statements approximate to their fair value.

35 Other liabilities

	31 Dec 2012 $m	31 Dec 2011 $m
Accruals	**5.5**	9.0
Deferred consideration	**10.8**	11.9
Defined benefit obligation	**14.7**	-
Other creditors	**10.0**	8.5
Balance at 31 December	**41.0**	29.4
Due within one year	**35.6**	19.9
Due after one year	**5.4**	36.6

Other liabilities are classified as financial instruments – financial liabilities. The carrying amounts of the financial liabilities in the financial statements approximate to their fair value.

36 Financial liabilities - borrowings

	31 Dec 2012 $m	31 Dec 2011 $m
Bank loan falling due after one year	**60.5**	36.6
Financial liabilities - borrowings	**60.5**	36.6

At the end of the year, the Group had two loan facilities with Natixis Bank and a debenture through the acquisition of Island Capital Limited.

At the beginning of the year, the Group had an outstanding balance of $27.2 million on the $50.0 million facility set up originally to finance the creation of QX Re. A second facility was set up during the year and $23.3 million (£15.0 million) was drawn down during 2012 to fund the Group's investment in its new associate Asta, Chiltington and the incubators.

The first bank loan from Natixis is due to be repaid in full on 31 March 2015. The margin above LIBOR for interest payments is determined by the asset cover for QX Reinsurance Company Limited. During the year the interest rate varied between 4.11% and 5.32% (2011: 3.99% and 5.18%) . The principal covenant of the loan is to ensure the Debt Cover Ratio shall not be less than 1.8:1.

36 Financial liabilities - borrowings continued

The second Natixis facility is due to be repaid on 18 January 2015. The rate for interest payments during the year was 6 month LIBOR plus a margin of 4.5%. During the year the interest rate has varied between 5.56% and 5.89%. The principal covenants comprise minimum net assets and maximum gearing for the Group, as defined in the agreement.

As part of the acquisition of ICG in 2010, the Group took on $10.0 million of that company's debentures repayable in 2035 with an interest rate of LIBOR +3.75%.

Borrowings are classified as financial instruments - other liabilities. The carrying amounts of the other liabilities in the financial statements approximate to their fair value.

37 Cash used in operating activities

	31 Dec 2012 $m	31 Dec 2011 $m
Operating loss for the year	**(15.8)**	(4.6)
Adjustments for:		
- negative goodwill	**(0.3)**	(1.5)
- share of loss in associate	**1.2**	-
- taxation credit	**(0.3)**	1.0
- investment return for the year transferred to investing activities	**(7.8)**	(6.8)
- realised gains on investments	**(0.5)**	(1.7)
- unrealised losses /(gains) on investments	**0.6**	(2.5)
- depreciation	**0.6**	0.6
- share based payment expense	**0.4**	0.5
- amortisation of risk premium	**(0.3)**	(1.9)
- amortisation of intangible asset	**(0.4)**	(1.0)
- adjustment to amortised cost	**0.2**	2.3
- other gains and losses	**(6.4)**	0.7
	(28.8)	(14.9)
Change in operating assets and liabilities		
Net (decrease)/increase in insurance receivables and liabilities	**(37.2)**	55.4
Net increase in loans and receivables	**(3.7)**	(6.7)
Net decrease in other operating liabilities	**(4.5)**	(4.7)
Cash used in operations	**(74.2)**	29.0
Finance costs	**(2.2)**	(3.2)
Net cash (used in)/generated by operations	**(76.4)**	25.9

38 Share based payments

Share awards

The Company now operates a single share plan that was introduced in 2007, being the Performance Share Plan which is designed to align the interests of senior management and shareholders to deliver outstanding results. There were no new awards granted in 2012.

The Deferred Share Bonus Plan previously operated by the Company ceased when the final tranche of shares under the Plan vested in September 2010 and with future payments being made in three cash tranches.

The performance and vesting conditions associated with these awards are fully detailed in the Corporate Governance Report on page 23.

38 Share based payments continued

Details of the shares outstanding under the Tawa Performance Share Plan during the year are as follows:

	31 Dec 2012 Number of share awards	31 Dec 2011 Number of share awards
Outstanding at the beginning of the year	**5,219,610**	4,899,294
Granted during the year	**-**	1,514,658
Forfeited during the year	**(66,449)**	(236,962)
Vested during the year	**-**	-
Lapsed during the year	**(2,591,452)**	(957,380)
Outstanding at the end of the year	**2,561,709**	5,219,610

No share options were exercisable at the end of the year (2011: $nil).

As stated above, there were no new awards granted in 2012. In respect of the 2011 Performance Share Plan ("PSP"), the inputs into the stochastic valuation models are as follows:

	31 Dec 2011	
	PSP TSR Tranche	PSP NAV Tranche
Weighted average share price	69 pence	69 pence
Weighted average exercise price	Nil	Nil
Expected volatility	40.5%	n/a
Expected life	3 years	3 years
Risk-free rate	1.44%	n/a
Expected dividend yield	0.0%	0.0%

Expected volatility was determined by calculating the median volatilities of similar entities to Tawa plc over the last three years. The historic volatility of the companies within the following groups was analysed:

- FTSE Fledging and AIM Non-Life Insurers;
- FTSE Small Cap Non-Life Insurers; and
- The whole FTSE Small Cap.

The Group recognised total expenses of $0.4 million (2011: $0.5 million) related to share based payments in 2012.

39 Retirement benefit scheme

Defined contribution schemes

The employees of the Group are covered by defined contribution schemes, the costs of which are charged to the income statement when incurred. The total cost of retirement benefits for the Group in the year ended 31 December 2012 was $3.2 million (2011: $2.9 million).

The amount owing at the year end was $nil (2011: $0.4 million).

39 Retirement benefit scheme continued

Following the acquisition of HIR, the Group has assumed an employer-sponsored defined benefit pension obligation.

Within the HIR Group there are two schemes:

- Under the scheme for the former employees of HIR, direct pension promises were made to 25 employees. This number comprises 1 active employee, 1 former employee and 23 pensioners;
- The second scheme relates to the former shareholder of HIR, Volksfürsorge Deutsche Sachversicherung Aktiengesellschaft. This scheme covers 5 former employees and 40 pensioners or their widows/widowers.

The schemes are administered according to German regulations and use the standard assumptions for German pension schemes called “Richttafeln 2005 G von Klaus Heubeck”.

The individual pension obligation per person are based on the expected cash flows and transition probabilities and calculated as the present value of the individual cash flows, using a discount rate of 5.05%.

Specific investments have not been allocated to the pension scheme and the annual investment return is based upon a rate of return of 5.05%.

The most recent actuarial valuation of the present value of the defined benefit obligations of both schemes were carried out by Mercer Deutschland GmbH in December 2012.

Some significant amendments of the German Commercial Code were made in 2009/2010 which is commonly referred to as BilMoG. This has resulted in significantly higher pension liability valuations although companies were able to choose between an immediate increase of their pension liabilities and an increase over a period of 15 years. HIR chose to increase its liabilities over the 15 year period. To align with IFRS valuation principles, a fair value adjustment has been made to incur the full BilMoG impact at acquisition. This has resulted in an additional liability of $0.9 million.

At 31 December 2012, the defined benefit obligation of the combined schemes is $14.7 million.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at **31 Dec 2012** %
Discount rate	5.05
Expected return on scheme assets	5.05
Expected rate of salary increases	0.0
Future pension increases	1.0

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	31 Dec 2012 **$m**
Expected return on plan assets	**0.5**
Actuarial gains/(losses) recognised in the year	**(0.5)**
Exchange differences on foreign plans	**(0.5)**
Total loss for the year	**(0.5)**

39 Retirement benefit scheme continued

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of the defined benefit scheme is:

	31 Dec 2012 $m
Present value of funded defined benefit obligation	-
Fair value of plan assets	-
Deficit	-
Present value of unfunded defined benefit obligation	14.7
Net liability arising from defined benefit obligation	14.7

Movements in the present value of the defined benefit obligation in the current year were as follows:

	31 Dec 2012 $m
Opening defined benefit obligation	14.7
Current service cost	(1.0)
Actuarial (gains)/losses	0.5
Exchange differences on foreign plans	0.5
Closing defined benefit obligation	14.7

The major categories of plan assets, and the expected rate of return at the end of the period for each category, are as follows:

	Expected return	Fair value of plan assets
	31 Dec 2012	31 Dec 2012
	%	$m
Debt instruments	5.05	14.7
Weighted average expected return	5.05	-

The overall expected rate of return is the weighted average of the expected returns of the various categories of plan assets held. The actual return on plan assets was $0.5 million.

40 Business combinations

Hamburger Internationale Rückversicherung AG

On 19 April 2012 the Group acquired 100% of the issued share capital of Hamburger Internationale Rückversicherung AG ("HIR"). HIR is the parent company of a group of companies detailed below which are involved in reinsurance, management and advisory services:

Chiltington Holdings Limited
Chiltington International Limited
Professional Resources Limited
C.I.R.A.S. Limited
Stopstart Limited
Chiltington International Holdings Limited
Chiltington International Holding GmbH
Chiltington International Inc
Chiltington International GmbH
Chiltington Internacional S.A.
Professional Resources S.A.
Chiltington Internacional S.A. de CV
Chiltington Internacional S.L
Pavant International Re S.A.
Hamburg International Reinsurance Limited
PlusPunkt Marketing AG (in Liquidation)

This transaction has been accounted for by the purchase method of accounting. The initial accounting for the business combination is incomplete and the amounts recognised in these financial statements are provisional. The fair values of the acquired intangible assets are provisional pending the final valuations of these assets.

40 Business combinations continued

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Book value $m	Fair value adjustments $m	**Fair value on acquisition $m**
Assets			
Cash and cash equivalents	13.7	-	**13.7**
Financial assets - investments	32.9	0.2	**33.1**
Loans and receivables including insurance receivables	6.0	-	**6.0**
Reinsurers' share of technical provisions	0.6	-	**0.6**
Property, plant and equipment	0.1	-	**0.1**
Liabilities			
Creditors arising out of insurance operations	(5.1)	-	**(5.1)**
Other liabilities	(14.8)	(1.2)	**(16.0)**
Technical provisions	(26.7)	2.0	**(24.7)**
	6.7	1.0	**7.7**
Consideration paid in cash			**4.5**
Consideration paid in shares			**1.8**
Deferred consideration payable			**1.0**
Consideration paid net of cash and cash equivalents			**(9.1)**
Negative goodwill arising on acquisition			**(0.3)**

The initial accounting for the business combination is incomplete and the amounts recognised in these financial statements are provisional.

The negative goodwill upon acquisition has been recognised in the consolidated income statement for the period. The deferred consideration of $1.0 million has been taken into account in the calculation of the negative goodwill and is included in other liabilities in the consolidated statement of financial position and has no impact on the Group surplus.

Deferred consideration payable as reserved dividends are due to the sellers as illustrated in the table below:

		Maximum settlements per annum $m
Dividends paid by HIR prior to 31 Mar 2012	100%	3.8
Dividends paid by HIR between 1 Apr 2012 - 31 Dec 2012	90%	3.4
Dividends paid by HIR between 1 Apr 2013 - 31 Dec 2013	75%	2.8
Dividends paid by HIR between 1 Apr 2014 - 31 Dec 2014	60%	2.3
Dividends paid by HIR between 1 Apr 2015 - 31 Dec 2015	45%	1.7
Dividends paid by HIR between 1 Apr 2016 - 31 Dec 2016	30%	1.1
Dividends paid by HIR between 1 Apr 2017 - 31 Dec 2017	15%	0.6

Tawa's actuaries have computed an expected fair value of $1.0 million.

The contingent consideration was measured at the fair value at the time of the consolidation and is detailed below. As the additional consideration payable is cash any changes to the deferred consideration are to be recognised in the profit or loss. If the amount of consideration changes because of new information about the fair value of the amount of consideration at acquisition date (rather than because of a post-acquisition event) then a retrospective restatement is required.

40 Business combinations continued

Period End	Expected dividends €	FX rate	Expected divdends $	% Distributed as reserved dividends to Sellers	Distributed as reserved dividends to Sellers	High		Mid		Low	
31/12/2012	0.8	1.2555	1.0	90%	0.9	100%	1.0	20%	0.3	0%	-
31/12/2013	1.6	1.2555	2.0	75%	1.5	100%	1.3	20%	0.3	0%	-
31/12/2014	7.0	1.2555	8.8	60%	5.3	100%	0.9	25%	0.9	10%	0.4
31/12/2015	0.9	1.2555	1.1	45%	0.5	100%	-	30%	0.1	15%	-
31/12/2016	0.7	1.2555	0.9	30%	0.3	100%	-	35%	-	20%	-
31/12/2017	0.7	1.2555	0.9	15%	0.1	100%	-	40%	-	25%	-
							3.2		1.6		0.4
					Probability		5%		35%		60%
					Weighted value		0.2		0.5		0.3
								Best Estimate			1.0

Since acquisition the HIR group of companies has contributed a profit of $0.6 million after the elimination of intra-group income and expenses, comprising a profit of $1.4 million from the risk carriers offset by a loss of $0.8 million from the service division. If the acquisition of the HIR group of companies had been completed on the first day of the financial year, Group profit attributable to equity holders of the parent would have increased by $0.1 million.

On 5 June 2012 Swiss Re transferred 74% of its shares of ASS Assekuranz Service-und Sachverständigen GmbH ("ASS") to Chiltington International Holding GmbH (73%) and Pro Insurance Solutions Limited (1%). ASS is a specialised service provider in disability claims handling. Swiss Re will retain 26% of the shares.

41 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associate are disclosed below. Transactions between the Company and its subsidiaries are disclosed in note 60.

Trading transactions

Four of the Company's subsidiaries, Tawa Management Limited, Pro Insurance Solutions Ltd, Pro IS, Inc and Tawa Consulting Limited, provide insurance run-off management services to CX Re, an associate of the Group in which the Company has a 12.65% share and a 49.95% voting interest.

Run-off services are provided on a negotiated fee basis, the terms and pricing of which are at arm's length. Run-off management expenses are recharged at cost by Tawa Management Limited, Pro Insurance Solutions Ltd and Pro IS, Inc.

During the year Group companies entered into the following transactions with related parties who are not members of the Group:

	Group income received	
	31 Dec 2012 $m	31 Dec 2011 $m
From associate CX Reinsurance Company Limited for a management fee	**0.5**	2.5
From associate CX Reinsurance Company Limited for expenses recharged	**4.4**	6.5
	4.9	9.0

There were no amounts outstanding at the end of the year.

41 Related party transactions continued

Remuneration of key management personnel

The Group considers its key management personnel to include its Executive and Non-Executive Directors and those members of management reporting directly to its Board that have executive management responsibility for Group-wide operations. The remuneration of key management is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of the individual Directors is provided in the Directors' remuneration report on pages 21 and 22.

	31 Dec 2012 $m	31 Dec 2011 $m
Short-term employee benefits	3.4	5.1
Post-employment benefits	0.4	0.5
Share based payments	0.3	0.5
Management remuneration	4.1	6.1

No dividends were paid in the year in respect of Ordinary Shares held by the Company's Directors (2011: $0.1 million). As at 31 December 2012, the Group had no loans outstanding to key management (2011: $nil).

Immediate and ultimate parent

In the opinion of the Directors, the immediate and ultimate parent is Financière Pinault S.C.A., a Société en commandite par actions based in France. The group financial statements of Financière Pinault S.C.A. may be obtained from the Tribunal de Commerce de Paris, 1 Quai de Corse, 75004 Paris, France.

42 Operating lease

Costs in respect of operating leases are charged on a straight line basis over the term of the lease. The Group has four lease agreements all of which contain rent free periods. The benefit received relating to the rent free period is allocated over the life of the lease term. The rent payable per year for Bruton Court is $0.5 million (2011: $0.5 million) and expires in March 2013; the Isis Building is $0.5 million (2011: $0.5 million) and expires in March 2014; Walsingham House, 6th Floor is $0.2 million (2011: $0.2 million) and the Ground Floor is $0.1 million (2011: $0.1 million), with both leases expiring in December 2015.

The amount recognised as an expense in the year is:

	31 Dec 2012 $m	31 Dec 2011 $m
Land and buildings	**1.3**	1.3

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments in respect of operating leases, which fall due as follows:

Land and buildings	**31 Dec 2012 $m**	31 Dec 2011 $m
Expiring within one year	**0.9**	1.3
Expiring during years two to five inclusive	**0.7**	1.5
Financial commitments and guarantees	**1.6**	2.8

43 Contingent liabilities

Some of the Group's subsidiaries are routinely involved in litigation or potential litigation related primarily to the settlement of insurance claims liabilities. However, none of such actual or proposed litigation that had not been provided for met the definition of a contingent liability. Consequently, the Group had no insurance related, or other, contingent liabilities as at 31 December 2012 (2011: no contingent liabilities).

44 Events after the reporting period

There are no events to report.

Company income statement

For the year ended 31 December 2012

	Notes	31 Dec 2012 $m	31 Dec 2011 $m
Continuing operations			
Investment return	46	**0.1**	0.1
Dividends from subsidiaries	60	**47.8**	11.8
Other income		**4.1**	5.0
Total income		**52.0**	16.9
Administrative expenses		**(51.2)**	(12.6)
Loss on sale of investment		**(0.2)**	(12.5)
Results of operating activities		**0.6**	(8.2)
Finance costs	47	**(1.9)**	(0.5)
Loss before taxation		**(1.3)**	(8.7)
Taxation	48	**2.6**	1.6
Profit/(loss) for the year	49	**1.3**	(7.1)

The notes on pages 93 to 100 form part of these financial statements.

	Notes	31 Dec 2012 $m	31 Dec 2011 $m
Profit/(loss) for the year		**1.3**	(7.1)
Other comprehensive losses	54		
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		**0.3**	(0.1)
		0.3	(0.1)
Total comprehensive (losses)/income for the period		**1.6**	(7.2)

The notes on pages 93 to 100 form part of these financial statements.

Company statement of financial position

As at 31 December 2012

	Notes	31 Dec 2012 $m	31 Dec 2011 $m
Assets			
Cash and cash equivalents		**4.6**	0.4
Investment in subsidiaries	50	**126.3**	126.9
Investment in associate	51	**14.0**	3.9
Loans and receivables	52	**33.4**	9.9
Deferred assets		**48.7**	53.8
Total assets		**227.0**	194.9
Equity			
Share capital	53	**22.2**	22.2
Share premium	53	**110.6**	111.4
Other reserves	54	**3.8**	0.5
Retained earnings	55	**35.1**	33.8
Total equity attributable to equity holders		**171.7**	167.9
Liabilities			
Other liabilities	56	**17.2**	12.6
Financial liabilities - borrowings	57	**38.1**	14.4
Total liabilities		**55.3**	27.0
Total liabilities and equity		**227.0**	194.9

The notes on pages 93 to 100 form part of these financial statements.

The financial statements of Tawa plc (4200676) were approved by the Board of Directors and authorised for issue on 20 March 2013 and were signed on its behalf on 28 March 2013 by:

Colin Bird
Chairman

Gilles Erulin
Chief Executive Officer

	Share capital $m	Share premium reserve $m	Share based payments reserve $m	Own shares reserve $m	Translation reserve $m	Retained earnings $m	Total Equity $m
Balance at 1 January 2011	**22.2**	**111.4**	**3.2**	**(1.1)**	**(0.5)**	**45.3**	**180.5**
Comprehensive income							
Loss for the year	-	-	-	-	-	(7.1)	(7.1)
Other comprehensive loss							
Currency translation differences	-	-	-	-	(0.1)	-	(0.1)
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**(0.1)**	**(7.1)**	**(7.2)**
Transactions with owners							
Share based payments	-	-	0.5	-	-	-	0.5
Dividends paid	-	-	-	-	-	(4.4)	(4.4)
Own shares acquired in the period	-	-	-	(1.5)	-	-	(1.5)
Total transactions with owners	**-**	**-**	**0.5**	**(1.5)**	**-**	**(4.4)**	**(5.4)**
Balance at 31 December 2011	**22.2**	**111.4**	**3.7**	**(2.6)**	**(0.6)**	**33.8**	**167.9**
Balance at 1 January 2012	**22.2**	**111.4**	**3.7**	**(2.6)**	**(0.6)**	**33.8**	**167.9**
Comprehensive income							
Profit for the year	-	-	-	-	-	1.3	1.3
Other comprehensive income							
Currency translation differences	-	-	-	-	0.3	-	0.3
Total comprehensive profit for the year	**-**	**-**	**-**	**-**	**0.3**	**1.3**	**1.6**
Transactions with owners							
Issue of share capital	0.4	1.4	-	-	-	-	1.8
Share based payments			0.4	-	-	-	0.4
Dividends paid				-	-	-	-
Own shares cancelled in the period	(0.4)	(2.2)	-	2.6	-	-	-
Total transactions with owners	**-**	**(0.8)**	**0.4**	**2.6**	**-**	**-**	**2.2**
Balance at 31 December 2012	**22.2**	**110.6**	**4.1**	**-**	**(0.3)**	**35.1**	**171.7**

The notes on pages 93 to 100 form part of these financial statements.

Tawa plc Company statement of cash flows

For the year ended 31 December 2012

	Note	31 Dec 2012 $m	31 Dec 2011 $m
Net cash used in operating activities	58	**(59.7)**	(25.1)
Investing activities			
Cash payments to acquire debt securities		**-**	14.3
Dividends received		**47.8**	11.8
Cash receipts from interest		**0.1**	0.1
Acquisition of subsidiary		**0.6**	(3.7)
Acquisition of investment in associate		**(10.1)**	-
Cash generated from investing activities		**38.4**	22.5
Financing activities			
Dividends paid		**-**	(4.4)
Own shares purchased		**-**	(1.5)
Proceeds from issue of equity shares		**1.8**	-
Proceeds from financial borrowings		**23.7**	6.1
Cash flows generated from financing activities		**25.5**	0.2
Net increase/(decrease) in cash and cash equivalents		**4.2**	(2.4)
Cash and cash equivalents at beginning of year		**0.4**	2.8
Effects of exchange rate changes on the balance of cash held in foreign currencies		**-**	-
Cash and cash equivalents at end of year		**4.6**	0.4

45 Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Investments in subsidiaries and associates are stated at cost less, where appropriate, provisions for impairment.

46 Investment return

	31 Dec 2012 $m	31 Dec 2011 $m
Interest receivable	**0.1**	0.1
Investment return	**0.1**	0.1

47 Finance costs

	31 Dec 2012 $m	31 Dec 2011 $m
Interest on borrowings	**1.9**	0.5
Finance costs	**1.9**	0.5

48 Taxation

UK corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable UK profit for the year. The tax charge for the periods presented varied from the stated rate of UK corporation tax as explained below:

	31 Dec 2012 $m	31 Dec 2011 $m
UK Corporation tax on loss for the year	**-**	-
Group relief recoverable at non-standard rates	**2.6**	1.6
Total taxation	**2.6**	1.6
Loss on ordinary activities before taxation	**(1.3)**	(8.7)
Standard corporation tax of 24.5% (2011: 26.5%)	**(0.3)**	(2.3)
Factors affecting taxation charge:		
Income/expenses not taxable/deductible for tax purposes	**2.1**	1.9
Exchange difference on translation to USD	**(1.9)**	(0.3)
Group relief surrendered for a charge	**0.1**	0.7
Group relief recoverable at non-standard rates	**2.6**	1.6
UK Corporation tax on (loss)/profit for the year	**2.6**	1.6

49 (Loss)/profit for the year

The auditor's remuneration for audit and other services is disclosed in note 12 to the consolidated financial statements. (Loss)/profit for the year has been arrived at after charging:

	31 Dec 2012 $m	31 Dec 2011 $m
Foreign exchange gain/(loss)	**0.3**	(0.2)

50 Investment in subsidiaries

	31 Dec 2012 $m	31 Dec 2011 $m
Balance at 1 January	**126.9**	113.2
Additions during the year	**49.0**	13.7
Disposals during the year	**(6.5)**	-
Impairment of investments during the year	**(42.4)**	-
Other changes during the year	**(0.7)**	0.1
Balance at 31 December	**126.3**	126.9

Impairment losses in the subsidiaries KX Re Holdings Limited ("KXH") of $32.5 million, and Pocono Holdings Limited ("Pocono") of $9.9 million, were recognised by the Company in the year.

The value of the investment KXH held in KX Re was transferred to the Company, by way of dividend in specie, prior to KXH being placed into liquidation. As a result, the investment the Company has in KXH has been reduced to nil.

The value in investment in Pocono has been reduced to its NAV at 31 December 2012. This follows impairment of Pocono's own investment in its subsidiary QX Re as a result of the claims deterioration in the year.

The consolidated financial information presents the financial record of the Group for the year ended 31 December 2012. A list of all investments in Group subsidiaries, including the name and country of incorporation is given below:

Name of subsidiary	Place of incorporation (or registration) and operation	Portion of ownership interest	Portion of voting power power held
Amberley Alternative Assets Limited (Tawa Managing Agency Limited)	Great Britain	100.00%	100.00%
Chiltington Holdings Limited	Great Britain	100.00%	100.00%
Chiltington Internacional S.A.	Argentina	98.00%	98.00%
Chiltington Internacional S.A de CV	Mexico	85.00%	85.00%
Chiltington Internacional S.L.	Spain	100.00%	100.00%
Chiltington International Limited	Great Britain	100.00%	100.00%
Chiltington International Holding GmbH	Germany	100.00%	100.00%
Chiltington International Holdings Limited	Great Britain	100.00%	100.00%
Chiltington International GmbH	Germany	100.00%	100.00%
Chiltington International Inc	United States	100.00%	100.00%
C.I.R.A.S Limited	Great Britain	100.00%	100.00%
Hamburg International Reinsurance Limited	Great Britain	100.00%	100.00%
Hamburger Internationale Rückversicherung AG	Germany	100.00%	100.00%
ICL Holdings Incorporated	United States Delaware	100.00%	100.00%
Island Capital Limited	Bermuda	94.30%	94.30%
Island Capital (Europe) Limited	Great Britain	94.30%	94.30%
KX Re Holdings Limited (in Liquidation)	Great Britain	100.00%	100.00%
KX Reinsurance Company Limited	Great Britain	100.00%	100.00%
Lodestar Marine Limited	Great Britain	100.00%	100.00%
OX Reinsurance Company Limited	Great Britain	100.00%	100.00%
Pavant International Re S.A.	France	100.00%	100.00%
PlusPunkt Marketing AG (in Liquidation)	Germany	51.00%	51.00%

50 Investment in subsidiaries continued

Name of subsidiary	Place of incorporation (or registration) and operation	Portion of ownership interest	Portion of voting power power held
Pocono Holdings Limited	Great Britain	100.00%	100.00%
Pro Insurance Solutions Limited	Great Britain	100.00%	100.00%
Pro IS, Inc	United States Delaware	100.00%	100.00%
Professional Resources Limited	Great Britain	100.00%	100.00%
Professional Resources SA	Argentina	85.00%	85.00%
PXRE Reinsurance Company	United States Connecticut	100.00%	100.00%
QX Reinsurance Company Limited	Bermuda	100.00%	100.00%
Q360 Limited	Great Britain	100.00%	100.00%
Q360, Inc	United States Delaware	100.00%	100.00%
Stopstart Limited	Great Britain	100.00%	100.00%
STRIPE Global Services Limited	Great Britain	100.00%	100.00%
Tawa Associates Limited	Great Britain	100.00%	100.00%
Tawa Consulting Limited	Great Britain	100.00%	100.00%
Tawa Management (Bermuda) Limited	Bermuda	100.00%	100.00%
Tawa Management Limited	Great Britain	100.00%	100.00%
WT Holdings Incorporated	United States Delaware	100.00%	100.00%

The investments in subsidiaries are stated at cost.

51% of LGIC Holdings, LLC was acquired during 2011. It has not been consolidated as a subsidiary for the reasons set out in note 4d to the consolidated financial statements.

51 Investment in associate

	31 Dec 2012 $m	31 Dec 2011 $m
Balance at 1 January	**3.9**	3.9
Additions during the year	**10.1**	-
Balance at 31 December	**14.0**	3.9

Name of associate	Renamed	Place of incorporation (or registration) and operation	Portion of ownership interest	Portion of voting power power held
CX Reinsurance Company Limited	-	Great Britain	12.65%	49.95%
Marcelli (Newco) Limited	Asta Capital Limited	Great Britain	33.33%	33.33%
Whittington Insurance Markets Limited	Asta Insurance Markets Limited	Great Britain	33.33%	33.33%
Whittington Capital Management Limited	Asta Managing Agency Limited	Great Britain	33.33%	33.33%
Whittington Insurance Services Limited	Asta Insurance Services Limited	Great Britain	33.33%	33.33%
Whittington Management Services Limited	Asta Management Services Limited	Great Britain	33.33%	33.33%
WCM Underwriting Services Limited	Ama Underwriting Services Limited	Great Britain	33.33%	33.33%
Bricome Limited	-	Great Britain	33.33%	33.33%

The investment in associate is stated at cost.

52 Loans and receivables

At the statement of financial position date amounts receivable from fellow Group companies of $16.2 million (2011: $9.9 million) were outstanding. The carrying amount of these assets approximates their fair value. There are no past due impaired balances (2011: $nil).

53 Share capital and share premium

The movements on these items are disclosed in notes 30 and 31 to the consolidated financial statements.

54 Other reserves

Share based payments reserve (1)	31 Dec 2012 $m	31 Dec 2011 $m
Balance at 1 January	3.7	3.2
Share based payments	0.4	0.5
Balance at 31 December	4.1	3.7

Own shares reserve (2)	31 Dec 2012 $m	31 Dec 2011 $m
Balance at 1 January	(2.6)	(1.1)
Acquired in the period	-	(1.5)
Cancelled in the period	2.6	-
Balance at 31 December	-	(2.6)

Translation reserve (3)	31 Dec 2012 $m	31 Dec 2011 $m
Balance at 1 January	(0.6)	(0.5)
Currency translation differences	0.3	(0.1)
Balance at 31 December	(0.3)	(0.6)
Combined other reserves	3.8	0.5

(1) Share-based payments reserve: As detailed in the Corporate Governance report, the Company operates a Performance Share Plan providing for the grant of awards over Ordinary Shares. Awards are recorded in this reserve.

(2) Own shares reserve: As detailed in the Report of the Directors, the Directors had authority, under a shareholders' resolution of 23 June 2011, to purchase through the market 11,298,716 of the Company's Ordinary Shares at prices ranging between £0.05 and £1.26 per share. On 21 June 2012, 2,611,987 shares acquired pursuant to that resolution and held in treasury were cancelled.

(3) Translation reserve: In accordance with the Group's accounting policy 3d, exchange differences relating to the translation of results and net assets of all the Group entities that have a functional currency different from the presentation currency, are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

55 Retained earnings

	31 Dec 2012 $m	31 Dec 2011 $m
Balance at 1 January	33.8	45.3
Profit/(loss) for the year	1.3	(7.1)
Dividends paid	-	(4.4)
Balance at 31 December	**35.1**	43.8

No dividend was distributed in 2012 in relation to the results for the 2011 financial year. (2011: A total dividend for the year ended 31 December 2010 of $4.4 million / £2.8 million).

The Directors do not recommend any dividend to be paid in 2013 relating to the results for 2012.

56 Other liabilities

	31 Dec 2012 $m	31 Dec 2011 $m
Deferred consideration payable	9.8	11.9
Amounts payable to Group companies	6.9	0.7
Accruals	0.5	-
Balance at 31 December	**17.2**	12.6
Due within one year	7.4	0.7
Due after one year	9.8	11.9

57 Borrowings

On 30 June 2009 KX Re entered into a facility agreement with the Company. This facility was available until 31 March 2012. On 1 October 2009 the Company utilised $7.9 million under the terms of this facility agreement and on 22 August 2011 it utilised a further $6.5 million. The loan has been rolled forward for an additional 36 months and is subject to interest equal to one year LIBOR plus a margin of 250 basis points.

The Company has a loan facility with Natixis Bank which was set up during the year and $23.3 million (£15.0 million) was drawn down during 2012 to fund the Company's investment in its new associate Asta, Chiltington and the incubators.

The facility is due to be repaid on 18 January 2015. The rate for interest payments during the year was 6 month LIBOR plus a margin of 4.5%. During the year the interest rate has varied between 5.56% and 5.89%. The principal covenants comprise minimum net assets and maximum gearing for the Group, as defined in the agreement.

58 Cash used in operating activities

	31 Dec 2012 $m	31 Dec 2011 $m
Profit/(loss) for the year	**1.3**	(7.1)
Adjustments for:		
- Investment return for the year transferred to investing activities	**(47.9)**	(11.9)
- Profit on sale of investment	**0.2**	12.5
- finance costs	**1.9**	0.5
- share based payment expense	**0.4**	0.5
- other gains and losses	**5.2**	0.1
	(38.9)	(5.4)
Change in operating assets and liabilities		
Net increase in loans and receivables	**(20.9)**	(3.3)
Net decrease in other liabilities	**4.7**	(14.3)
Cash used in operations	**(55.2)**	(23.0)
Finance costs	**(1.9)**	(0.5)
Taxation	**(2.6)**	(1.6)
Net cash used in operating activities	**(59.6)**	(25.1)

59 Financial instruments

All financial assets and financial liabilities of the Company are carried at amortised cost. There are no significant differences between the book value and the fair value of financial assets and financial liabilities of the Company. The Company has only a limited exposure to interest rate risk relating to cash and borrowings. A 1% increase/decrease in interest rates would result in an approximate $0.1 million loss/profit. The maximum exposure of the Company to credit risk is limited to cash, intercompany balances and a deferred asset (see note 25). In addition, refer to the financial instrument disclosures of the Group where these are also applicable to the Company.

60 Related party transactions

Transactions between the Company and its subsidiaries are included below.

Trading transactions

A proportion of the costs attributable to the Company's senior management team is re-charged to other Group subsidiaries at cost.

During the year the following transactions between Tawa plc and related parties occurred:

	Group income received	
	31 Dec 2012 $m	31 Dec 2011 $m
From associate CX Reinsurance Company Limited for expenses recharged	**0.5**	0.8
From subsidiary Island Capital Limited for expenses recharged	**0.1**	-
From subsidiary KX Reinsurance Company Limited for expenses recharged	**0.5**	0.7
From subsidiary OX Reinsurance Company Limited for expenses recharged	**0.1**	-
From subsidiary PXRE Reinsurance Company for expenses recharged	**0.4**	0.7
From subsidiary Pro Insurance Solutions Limited for expenses recharged	**0.4**	1.3
From subsidiary Pro IS, Inc for expenses recharged	**0.3**	-
From subsidiary WT Holdings Incorporated for expenses recharged	**0.3**	0.8
	2.6	4.3

60 Related party transactions continued

The following amounts were outstanding at the statement of financial position date:

	Amounts owed (to) / from related parties	
	31 Dec 2012	31 Dec 2011
	$m	$m
Intercompany loan to Amberley Alternative Assets Limited from Tawa plc	**0.2**	-
Intercompany loan to Lodestar Marine Limited from Tawa plc	**0.7**	-
Intercompany loan to Island Capital Limited from Tawa plc	**0.1**	-
Intercompany loan to KX Re Holdings from Tawa plc	**0.2**	1.0
Intercompany loan to Pocono Holdings Limited from Tawa plc	**4.0**	2.1
Intercompany loan to Pro Insurance Solutions Limited from Tawa plc	**(0.6)**	1.0
Intercompany loan to Pro IS, Inc from Tawa plc	**0.2**	-
Intercompany loan to Q360 Limited from Tawa plc	**4.0**	-
Intercompany loan to QX Reinsurance Company Limited from Tawa plc	**0.1**	0.1
Intercompany loan to Stripe Global Services Limited from Tawa plc	**0.3**	-
Intercompany loan to Tawa plc from Tawa Management Limited	**1.6**	(0.8)
Intercompany loan to WT Holdings Inc from Tawa plc	**4.8**	4.6

Other related party transactions

During the current year the following dividends were received from related parties:

	31 Dec 2012	31 Dec 2011
	$m	$m
Dividend paid from KX Re Holdings Limited to Tawa plc	42.2	-
Dividend paid from OX Reinsurance Company Limited to Tawa plc	2.4	-
Dividend paid from Tawa Associates Limited to Tawa plc	**-**	8.6
Dividend paid from Pro Insurance Solutions Limited to Tawa plc	**3.2**	3.2
Total dividend paid to the Company	**47.8**	11.8

Loans to related parties

On 30 June 2009 KX Re entered into a facility agreement with the Company. This facility was available until 31 March 2012. On 1 October 2009 the Company utilised $7.9 million under the terms of this facility agreement and on 22 August 2011 it utilised a further $6.5 million. The loan has been rolled forward for an additional 36 months and is subject to interest equal to one year LIBOR plus a margin of 250 basis points.

Key management personnel

The Company considers its key management personnel to include its Executive and Non-Executive Directors and those members of management reporting directly to its Board that have executive management responsibility for Group-wide operations. The remuneration of key management is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	31 Dec 2012	31 Dec 2011
	$m	$m
Short-term employee benefits	**3.4**	5.1
Post-employment benefits	**0.4**	0.5
Share based payments	**0.4**	0.5
Management remuneration	**4.2**	6.1

No dividends were paid in the year in respect of Ordinary Shares held by the Company's Directors (2011: $0.1 million). As at 31 December 2012, the Group had no loans outstanding to key management (2011: $nil).

60 Related party transactions continued

Immediate and ultimate parent

In the opinion of the Directors, the immediate and ultimate parent is Financière Pinault S.C.A., a Société en commandite par actions based in France. The group financial statements of Financière Pinault S.C.A. may be obtained from the Tribunal de Commerce de Paris, 1 Quai de Corse, 75004 Paris, France.

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Gilles Erulin
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Independent Non-Executive Director

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