

WILLIS LIMITED

(Registered Number 181116)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Directors

Executive Directors

AJC Rivers

DMA Samengo-Turner

JED Vickers

M O'Connor (appointed 1 October 2012)

N Perry

PA Owens

SE Wood

SP Hearn

Non-executive Directors

A Dickinson (appointed 5 April 2012)

D Paige

RP Baker-Bates (Chairman)

Sir Jeremy Hanley

Secretary

AC Peel

Registered Office

51 Lime Street

London EC3M 7DQ

Auditor

Deloitte LLP

London



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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

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

Principal activities and review of developments

The Company is a subsidiary of Willis Group Holdings plc ('the Group'). The Group is a leading global risk advisor, insurance and reinsurance broker.

The Company is regulated by the Financial Services Authority ("FSA") up to the 31st March 2013, thereafter by the Financial Conduct Authority ("FCA"), and provides risk management, insurance and reinsurance broking services to clients in the UK and worldwide. In addition to its presence in the UK retail and commercial markets, the Company's core specialty businesses include Aerospace, Energy, Marine, Construction, Financial and Executive Risks, Fine Art, Jewellery and Specie, Bloodstock, and Reinsurance.

During 2012, the Company acquired 100% of the shares of Glencairn Holdings UK Limited, whose only significant asset are 100% of the shares in Faber Global Limited (formerly Glencairn Limited). Faber Global Limited is the Group's UK based wholesale insurance business. Following the acquisition, the Company sold its facultative reinsurance business to Faber Global Limited. Subsequently in February 2013, the Company acquired all of the new or renewal business of Faber Global Limited.

Business Review

The Company's key financial and other performance indicators during the year were as follows:

	2012	2011	Movement	% Change
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	
Turnover	919	928	(9)	(1)%
Operating expenses - net of foreign exchange	(848)	(701)	147	21%
Profit before tax	202	278	(76)	(27)%
Shareholders' funds	759	934	(175)	(19)%
Current Assets as % of Current Liabilities	109%	115%		
Average number of employees (note 4)	3,556	3,496		

In 2012, the Company's turnover was \$919 million, a 1 percent decrease on 2011 (\$928 million). The decrease reflects organic growth of 4% offset by the sale of the facultative reinsurance business to another Group company and a 2% adverse movement in foreign currency exchange rates.

Operating expenses of \$848 million were \$147 million higher than in 2011. The 21% increase was mainly driven by higher incentive costs following a change in the Group's approach to award of annual bonuses which resulted in a \$142 million one-off additional charge in 2012. Excluding this charge, expenses increased by 1%.

Profit before tax of \$202 million was \$76 million lower than 2011 which reflects the \$142 million additional charge to incentives and lower finance income partly offset by the \$93 million profit on sale of the facultative reinsurance business and increased profitability in the underlying business.

Shareholders' funds fell by \$175 million to \$759 million reflecting the profit of \$181 million reduced by the dividend payment of \$290 million and actuarial losses in the pension scheme. The actuarial losses are primarily a result of lower discount rates increasing the value of the scheme liabilities. The Directors review the adequacy of the Company's capital relative to the risks it faces on a regular basis.

The \$20 million revolving credit facility, taken out in 2010 and secured against the Company's real estate assets, has not been drawn upon during 2012 or 2011.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)**Business Review (continued)***Going concern*

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements on page 14.

Dividends

An interim dividend of \$290 million was paid on 11 July 2012 (2011: \$nil). The Directors do not recommend the payment of a final dividend (2011: \$nil).

Future Developments

The Company is a leading provider of risk management, insurance and reinsurance broking services to clients in the UK and worldwide. These activities are expected to continue.

On 1 March 2013, the Faber business, was purchased by the Company for £82.0 million (\$124.5 million) from Faber Global Limited. Following the transaction the Faber business will be run within Willis Limited, with all historical balances being run off in Faber Global Limited.

To support the Company's growth, the Group is investing in the Willis Cause, as the embodiment of the Company's promise to our clients. We believe that the Willis Cause will continue to be an important differentiator for the Company in the years to come. Its components are:

- we thoroughly understand our clients' needs and their industries,
- we develop client solutions with the best markets, price and terms,
- we relentlessly deliver quality client service, and
- we get claims paid quickly.

With integrity

The Group manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group, which includes the Company, is discussed in the Group's financial statements which do not form part of this report.

Details of significant events since the balance sheet date are contained in note 30 to the financial statements on page 37.

Principal risks and uncertainties

The Company has an Enterprise Risk Management Committee that meets at least quarterly. This Committee advises the Board on risk matters including the assessment of risk appetite and monitoring of risk against that appetite.

The principal risks and uncertainties facing the Company are:

Exposure to the Group

The Company is a wholly-owned subsidiary of the Group. The Group is the third largest insurance broker in the world, is listed on the New York Stock Exchange and has net assets at 31 December 2012 of \$1.7 billion.

The Company is dependent upon its ultimate parent company and the Group for on-going support in a wide range of areas. The Group is also dependent upon the Company for its access to the London Market as well as the Company's development of employees for deployment around the Group.

The Directors expect the support from the Group to continue for the foreseeable future.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

Principal risks and uncertainties (continued)*Exposure to the Eurozone*

The credit and economic conditions within certain European Union countries remain poor and have contributed to the instability in the global credit and financial markets. While the outcome of the current credit and economic crisis cannot be predicted, it is possible that it could have a negative effect on the global economy as a whole, and our business, operating results and financial condition. If the Eurozone crisis continues or further deteriorates, there will likely be a negative effect on our European business (which constitutes approximately 40 percent of our business in terms of revenue), as well as the businesses of our European clients. If the Euro were to be withdrawn entirely, or the Eurozone were to be dissolved as a common currency area, the legal and contractual consequences for holders of Euro-denominated obligations would be determined by laws in effect at such time. A significant devaluation of the Euro would cause the value of our financial assets that are denominated in Euros to be significantly reduced. Any of these conditions could ultimately harm our overall business, prospects, operating results, financial condition and cash flows.

Economic Environment and Competition

The low level of growth in the UK economy reduces the volume of new clients to the UK insurance market. As a result our competitors are being very aggressive on new business which places significant pressure on our employees to retain clients and revenue. We expect the challenging economic circumstances and resulting competition will remain for the foreseeable future. We mitigate the risk through our focus on service and product quality.

People

The Company's people are often sought after by our competition. We mitigate that risk through long-term incentives, bonus and retention awards, salary increases in 2012 and continuing training and development.

Pension Risks

The Company's defined benefit pension scheme comprises assets of \$2.7 billion and net liabilities of \$2.5 billion as at 31 December 2012. The fund was closed to new members in January 2006 but continues to accrue future benefits for existing members. A large proportion of the scheme assets are held in Pound Sterling denominated assets which gives exposure to potential currency risks. Movements in various factors could result in significant fluctuations in the value of the future obligations under the scheme and the value of the scheme assets. These factors include equity and bond market returns, inflation rates, mortality assumptions, potential regulatory and legal changes and counterparty exposure in investments.

The Company maintains a proactive relationship with the Scheme Trustee with the objective of maintaining a sustainable and well-funded scheme. Whilst the UK GAAP net pension asset reported in the financial statements is \$139 million, the last actuarial valuation of the scheme performed on behalf of the Scheme Trustees as at 31 December 2010 shows a deficit of £206 million (\$319 million). The next actuarial valuation of the scheme will be performed as at 31 December 2013.

Errors and Omissions Exposures

As a consequence of the business sector the Company operates in, claims alleging professional negligence may be made against the Company. Some of these claims may have a material adverse impact on the Company's cash and capital position. The Company mitigates this risk through the implementation of the Willis Excellence Model which is designed to provide a consistent high level of service and quality to the Company's clients. In addition, the Company has taken out appropriate insurance cover.

Prior to 2012, the Company has made no separate provision potential claims and lawsuits for errors and omissions which had not been notified to it, nor for potential deterioration in claims where an existing provision was in place. During 2012 data sufficient to estimate these provisions for the Company was collected giving rise to a \$24m increase in the provision as at 31 December 2012.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

Principal risks and uncertainties (continued)

Regulatory, Legal and Conduct Risk

The Company is subject to regulation from the FCA in relation to its insurance mediation activities. The FCA has prescribed the methods by which the Company's insurance and reinsurance operations are to conduct business including the rules governing how the Company holds client assets. The FCA has a wide range of rule-making, investigatory and enforcement powers aimed at meeting its overall aim of ensuring firms deliver appropriate outcomes for consumers.

The change of regulator from the FSA to the FCA (on the 1st April 2013) signals a change in focus of regulation for the company. The new regulator's objectives are

- Securing an appropriate degree of protection for consumers
- Protecting and enhancing the integrity of the UK financial system
- Promoting effective competition in the interests of consumers

The Company faces increased regulatory risk as a result of this change in regulatory focus. The Company's failure, or that of its employees, to satisfy the FCA that we are in compliance with their requirements or the legal requirements governing our activities, can result in disciplinary actions, fines, reputational damage and financial harm.

The Company is also subject to rules and legislation governing money laundering, bribery and corruption and competition. The Company has established its procedures to ensure that it is in compliance with these rules. However, should the Company fail to comply with the requirements, this failure may result in disciplinary actions, fines, reputational damage and financial harm. These rules and legislation impact the Company's global operations. From time to time the rules and legislation are subject to which impacts the Company's operations.

To mitigate these risks the Company's legal, risk and compliance departments have established a framework to ensure compliance with all regulatory requirements which include detailed guidance on the standards to which employees must adhere. Reviews and audits of compliance with this guidance are carried out on a regular basis by both compliance and internal audit. The Company is maintaining close contact with the FCA in order to manage the increased risks faced due to the change in regulatory focus. The Company also monitors changes to the rules and legislation covering its operations and implements changes to its operations to reflect those changes.

Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient cash available to meet its obligations as they fall due. The Company assesses the potential scenarios in which this might take place and maintains significant cash and liquid funds to mitigate the risk. In the ordinary course of business the Company can also rely on the Group's liquidity.

Currency Risk

The Company conducts its business in multiple currencies, primarily US dollars, Pound Sterling, Euro and Japanese Yen, and is therefore exposed to currency risk in relation to revenue and the value of its assets and liabilities. The Board has established and monitors a policy with clear limits and processes to be followed to manage these risks.

The majority of this risk is mitigated through the matching of foreign currency assets and liabilities. The Company also buys currency forward where there is a known future mismatch.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)**Principal risks and uncertainties (continued)***Credit Risk*

Credit risk is the risk that counterparties may not be able to repay amounts in full when due. This risk arises in respect of amounts due from clients and insurers in respect of brokerage not yet received, funded claims and funded premiums. It also arises in respect of its cash and investment holdings.

Brokerage not yet received is monitored closely to minimise the time taken to collect. The risk of funded claims and premiums is mitigated by the Company's policy of only funding claims and premiums in exceptional circumstances and then through active collection of the debts created.

The failure of one or more banks may have an adverse impact on the Company. The Company holds its own and fiduciary cash in bank accounts and deposits. These accounts and deposits are spread across a number of banks. The Company does not place any funds in banks with a credit rating below Fitch Long Term A. Banks with which the Company has a credit exposure are monitored daily. In the event of a bank failure, the Financial Conduct Authority's CASS rules set out the mechanism by which any loss of client money should be administered. The Company has reviewed its processes for complying with these rules and continues to implement changes to further strengthen them. The Company mitigates its exposure to credit risk through the diversification of funds between approved banks and through a programme of reduction of fiduciary balances where possible.

Credit risk in respect of the Company's cash and investment holdings is mitigated by holding investments in entities with a suitable minimum credit rating and by limiting the amount which can be invested with a single issuer based upon each issuer's financial position.

The Board has established and monitors a policy with clear limits and processes to be followed to manage these risks.

Interest Rate Risk

The Company's investment portfolio is held over a variable maturity profile and therefore exposes the Company to interest rate risk. The Company mitigates this risk through active investment portfolio management.

Business Interruption Risk

The Company conducts its business in multiple locations across the world. The most significant of these are in London and Ipswich – United Kingdom and Mumbai – India. In addition, the Company relies on significant Group operations in Nashville – USA. These locations may be subject to natural and man-made catastrophes which may disrupt the Company's operations. The Company mitigates this risk through the documentation and testing of Business Continuity Plans, which include establishment of backup operational sites and procedures for re-establishment of operations. The Company has appropriate insurance cover for business interruption events.

The Company relies on information technology in the conduct of its business. As a result, the Company is exposed to a number of areas of risk relating to IT resilience, including, but not limited to, adequacy of IT resources, cyber-attack, failure of third party supplier and adequacy of controls surrounding the provision of IT services.

The Company has established a control framework around the provision of IT services which address the risks. These controls are subject to on-going review and testing.

The Company is also exposed to additional risks by virtue of being part of the wider Group. These risks have been discussed in the Group's financial statements which do not form part of this report.

Environment

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment on a location by location basis, and designs and implements policies to reduce any damage that might be caused by the Group's activities.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)**Employees**

Details of the number of employees and related costs can be found in note 4 to the financial statements on page 20

The Company is committed to the participation and involvement of employees in the Company's business and to facilitating their personal development to its maximum potential

Communication with employees concerning the objectives and performance of the Company is conducted through staff briefings and regular meetings, complemented by employee publications and video presentations. Feedback is continually sought from staff on a variety of business, management and human resources issues. These communication tools provide employees with the opportunity to contribute to the everyday running of the business and to support the achievement of the Company's vision and business strategy

It is the Group's policy, in keeping with the legislation in the countries in which it operates, to provide a working environment free from all forms of harassment and discrimination, including discrimination against disabled employees, with respect to employment continuity, training, career development and other employment practices

Directors

The current Directors of the Company are shown on page 1, which forms part of this report. JJ Trotti was appointed Director with effect from 26 January 2012 and subsequently resigned as Director on 22 June 2012. A Dickinson and M O'Connor were appointed with effect from 5 April 2012 and 1 October 2012 respectively. There were no other changes in Directors during the year or after the year end.

Statement of Directors' responsibilities in relation to the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

Disclosure of information to the auditor

Each of the persons who is a Director at the date of approval of this report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

Auditor

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting



By Order of the Board

PA Owens
Director
51 Lime Street
London EC3M 7DQ

7 May

2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WILLIS LIMITED

We have audited the financial statements of Willis Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

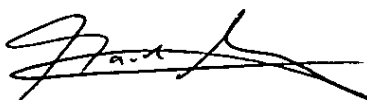
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Mark McIlquham (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London

United Kingdom



7 May 2013

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 \$m	2011 \$m
Brokerage and fees	2	900	911
Interest and investment income		19	17
Turnover		919	928
Operating expenses		(861)	(701)
Operating income – foreign exchange gain		13	-
Operating profit	3	71	227
Finance income, net	6	38	51
Profit on disposal of book of business	7	93	-
Profit on ordinary activities before taxation		202	278
Tax charge on profit on ordinary activities	8	(21)	(61)
Profit on ordinary activities after taxation		181	217

All activities derive from continuing operations

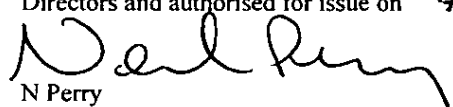
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 \$m	2011 \$m
Profit on ordinary activities after taxation	23	181	217
Actuarial loss relating to the pension scheme	24	(87)	(158)
UK deferred tax attributable to actuarial loss		20	40
UK deferred tax attributable to rate change on prior years actuarial losses		(11)	(5)
Net effects of exchange rates on pension movements	23	2	1
Net currency translation gain/(loss) on the UK retail business		1	(1)
Total recognised gains and losses for the financial year		106	94

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BALANCE SHEET AS AT 31 DECEMBER 2012

	Notes	2012 \$m	2011 \$m
Fixed assets			
Intangible assets – goodwill	10	72	85
Tangible assets	11	26	20
Investments	12	132	3
		<u>230</u>	<u>108</u>
Current assets			
Debtors			
Amounts falling due within one year	15	452	659
Amounts falling due after one year	15	10	28
		<u>462</u>	<u>687</u>
Fiduciary assets amounts falling due within one year	16	3,570	3,625
Fiduciary assets amounts falling due after one year	16	8	-
Deposits and cash held in fiduciary capacity	16	865	887
Deposits and cash		166	187
		<u>5,071</u>	<u>5,386</u>
Current liabilities			
Creditors amounts falling due within one year	18	(200)	(163)
Fiduciary liabilities amounts falling due within one year	19	(4,443)	(4,512)
		<u>(4,643)</u>	<u>(4,675)</u>
Net current assets		<u>428</u>	<u>711</u>
Total assets less current liabilities		<u>658</u>	<u>819</u>
Creditors amounts falling due after more than one year	20	(2)	(6)
Provisions for liabilities	21	(36)	(9)
Net assets excluding pension asset		<u>620</u>	<u>804</u>
Pension asset	24	139	130
Net assets		<u>759</u>	<u>934</u>
Capital and reserves			
Called up share capital	22	153	153
Profit and loss account	23	606	781
Shareholders' funds		<u>759</u>	<u>934</u>

The financial statements of Willis Limited, registered company number 181116, were approved by the Board of Directors and authorised for issue on *7 May* 2013 and signed on its behalf by


N Perry
Director

MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2012

Movements in shareholders' funds	2012 \$m	2011 \$m
Profit on ordinary activities after taxation	181	217
Other recognised gains / (losses) for the financial year		
Actual return less expected return on pension scheme assets	90	113
Experience losses arising on pension scheme liabilities	-	(43)
Changes in assumptions underlying the present value of the pension scheme liabilities	(177)	(228)
UK deferred tax attributable to actuarial loss and additional pension contribution	20	40
UK deferred tax attributable to rate change on prior years actuarial losses	(11)	(5)
Net effect of exchange rates on pension movements	2	1
Net currency translation gain/(loss) on the UK retail business	1	(1)
Total other recognised loss for the financial year	(75)	(123)
Share-based payments	9	15
Dividend paid	(290)	-
Net movements in shareholders' funds for the year	(175)	109
Shareholders' funds at beginning of year	934	825
Shareholders' funds at end of year	759	934

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**1 Accounting policies****Basis of preparation**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

The financial statements have been prepared

- under the historical cost convention, and
- in accordance with applicable law and accounting standards in the United Kingdom

The Company's business activities and the factors likely to affect its future development and position are set out in the Business Review section of the Directors' Report. The Company's financial projections indicate that it will generate positive cash flows on its own account for the foreseeable future. The Company deposits its excess own cash funds with the Group's centralised treasury function and so shares banking arrangements with its parent and fellow subsidiaries.

In accordance with their duties set out in the Financial Services and Markets Act and the FCA's 'Threshold Conditions – Appropriate Resources' the Directors have conducted enquiries into the nature and quality of the assets, liabilities, and cash that make up the Company's capital. Furthermore the Directors' enquiries extend to the Company's relationship with the Group and external parties on a financial and non-financial level. Having assessed the responses to their enquiries, the Directors have no reason to believe that a material uncertainty exists that may cast significant doubt upon the ability of the Willis Group to continue as a going concern or its ability to repay loans due to the Company from time to time.

As a consequence of the enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Parent undertaking and controlling party

The Company's

- immediate parent company and controlling undertaking is Willis Faber Limited, and
- ultimate parent company is Willis Group Holdings plc, a company incorporated in Ireland and listed on the New York Stock Exchange

In accordance with Section 400 of the Companies Act 2006, the Company is exempt from the requirement to produce group financial statements.

The largest and smallest group in which the results of the Company are consolidated is Willis Group Holdings plc, whose financial statements are available to members of the public from the Company Secretary, 51 Lime Street, London EC3M 7DQ.

Revenue recognition

Revenue includes insurance commissions, fees for services rendered, certain commissions receivable from insurance carriers and investment income earned on fiduciary balances.

Brokerage income and fees negotiated in lieu of brokerage are recognised at the later of policy inception date or when the policy placement is complete. Revenue is deferred if necessary for any post placement obligations. Commissions on additional premiums and adjustments are recognised as and when advised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

1. Accounting policies (continued)**Revenue recognition (continued)**

Fees for risk management and other services are recognised as the services are provided. Negotiated fee arrangements for an agreed period covering multiple insurance placements, the provision of risk management and/or other services are determined, contract by contract, on the basis of the relative fair value of the services completed and the services yet to be rendered.

Revenue is stated net of VAT where applicable.

Investment income earned on fiduciary balances is recognised on an accruals basis.

Finance income

Interest receivable and interest payable are accounted for on an accruals basis.

Final dividend income from subsidiary undertakings is recognised when the subsidiary undertaking has a legally binding obligation to make the distribution. Interim dividend income from subsidiary undertakings is accounted for on a receivable basis.

Foreign currency translation

The Company has two principal divisions:

- Global, which comprises its Global Specialties, Willis Faber & Dumas and Reinsurance operations, and
- Retail, its retail and commercial operations in the United Kingdom.

Global represents approximately three quarters of the Company's revenues and Retail approximately one quarter.

These financial statements are presented in US dollars which is the currency of the primary economic environment in which the Company operates ('the functional currency').

All non-Retail business foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or, in the case of forward contracts in respect of current year income, at the contracted rate. 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 profit and loss account.

The Company's Retail division operates, and is accounted for, as a separate branch with a Pound Sterling reporting currency. Consequently, for the purposes of reporting the Retail division within the Company's financial statements, the results of the Retail branch are translated into US dollars at the average exchange rate for the period. Translation gains or losses relating to the difference between translating Retail's results at average and closing rates and the translation at year end exchange rates of Retail's monetary assets and liabilities are recognised through reserves.

Intangible assets – goodwill

Goodwill represents the difference between the fair value of the consideration paid for a business or book of business and the aggregate of the fair value of the identifiable assets and liabilities acquired.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life, which is determined on the individual circumstances of each business acquired but limited to a maximum period of 20 years. Goodwill is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

1 Accounting policies (continued)**Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is calculated on a straight-line basis to write off the cost of such assets over their estimated useful economic lives as follows

Freehold buildings	2 per cent per annum
Freehold land	Not depreciated
Software	Straight line over 7 years

Expenditure for improvements is capitalised, repairs and maintenance are charged to expenses as incurred

Tangible fixed assets are reviewed for impairment when events or changes in circumstance indicate that the carrying amount may not be recoverable. Any impairment in the value of tangible fixed assets is charged to the profit and loss account in the period in which the impairment occurs

Fixed asset investments

Investments in subsidiaries and associates are carried at cost less provision for impairment

Current asset investments

Current asset investments are stated at the lower of cost and net realisable value

Fiduciary assets and fiduciary liabilities

The Company collects premiums from insureds and, after deducting its commissions, remits the premiums to the respective insurers, the Company also collects claims or refunds from insurers on behalf of insureds

Balances arising from insurance brokerage transactions are reported as separate assets or liabilities

Fiduciary assets

Uncollected premiums from insureds and uncollected claims or refunds from insurers ('fiduciary debtors') are recorded as fiduciary assets on the Company's balance sheet. In certain instances, the Company advances premiums, refunds or claims to insurance underwriters or insureds prior to collection. Such advances are made from fiduciary funds and are reflected in the Company's balance sheet as fiduciary assets

Fiduciary liabilities

The obligations to remit these funds to insurers or insureds are recorded as fiduciary liabilities on the Company's balance sheet. The period for which the Company holds such funds is dependent upon the date the insured remits the payment of the premium to the Company and the date the Company is required to forward such payment to the insurer

Deposits and Cash held in fiduciary capacity ("fiduciary funds")

Unremitted insurance premiums and claims are recorded within fiduciary funds. Fiduciary funds are generally required to be kept in certain regulated bank accounts subject to guidelines which emphasise capital preservation and liquidity. Such funds are not available to service the Company's debt or for other corporate purposes. Notwithstanding the legal relationships with clients and insurers, the Company is generally entitled to retain interest and investment income earned on fiduciary funds in accordance with agreements with insureds and insurers and in accordance with industry custom and practice where these agreements are not in place

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

1 Accounting policies (continued)

Pension costs

The Company has a defined benefit pension scheme and a defined contribution pension scheme. The defined benefit scheme was closed to new entrants in January 2006. New entrants are now offered the opportunity to join the defined contribution scheme.

Defined benefit scheme

A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Company's defined benefit scheme is funded, with the assets of the scheme held separately from those of the Company, in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the Company's balance sheet.

Current service costs and gains and losses on settlements and curtailments are charged to operating profit, net of the amounts borne by fellow subsidiary undertakings, and are included within staff costs within 'Operating expenses'. The interest cost and the expected return on assets are charged as a net amount to 'Finance income, net'.

Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses and are measured on an actuarial basis using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate and the expected long-term rate of return on plan assets. Other material assumptions include rates of participant mortality, the expected rate of increase in salaries and pensions and rates of employee termination. Gains and losses occur when the actual experience differs from actuarial assumptions and are recorded within the statement of total recognised gains and losses.

Defined contribution scheme

A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

The costs of the defined contribution scheme in which the Company participates are charged to the profit and loss account as part of employee costs in the period in which they fall due. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Share-based payments

The Company's ultimate parent company, Willis Group Holdings plc, issues equity-settled share-based payments to certain employees of the Company. These equity-settled share-based payments are measured at fair value 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.

Fair value is measured by use of the Black-Scholes pricing model. The expected life of options granted used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

1. Accounting policies (continued)

Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more or less tax, at a future date, at rates expected to apply when they reverse based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Certain reclassifications have been made to prior year amounts to conform to current year presentations.

Derivative financial instruments

The Company uses derivative financial instruments for other than trading purposes to alter the risk profile of an existing underlying exposure. Forward foreign currency exchange contracts are used to manage currency exposures arising from future income. Gains or losses based on the contracted rate are recognised on maturity of the contract. The Company does not use derivative financial instruments speculatively.

Errors and omission provisions

Provisions comprise estimates for liabilities (net of anticipated recoveries from insurers) which may arise from actual and potential claims for errors and omissions.

Prior to 2012, the Company has made no separate provision for potential claims and lawsuits for errors and omissions which had not been notified to it, nor for potential deterioration in claims where an existing provision was in place. During 2012 data sufficient to estimate these provisions for the Company was obtained allowing the calculation of a provision as at 31 December 2012 (page 28).

Post placement service provisions

Provisions comprise an estimate of future liabilities that could arise from claims work obliged to be undertaken through the Company's involvement in the placement of policies in this year and from prior years and is distinct from such activity taken on for client investment.

Effective 31 December 2011, the Company changed the presentation of its post placement services provisioning on the balance sheet to increase transparency of the provision, the calculation methodology has not been altered. The post placement provision, previously held in the revenue deferral creditor, is now reported as a separate category within the Provisions for liabilities note 21 (page 28).

Cash flow statement

Under FRS1 'Cash flow statements' the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is a 90 percent or more owned subsidiary undertaking and the consolidated cash flow statement that is prepared at Group level is publicly available.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

2. Brokerage and fees

The table below analyses the Company's brokerage and fees by the accounting address of the client from whom the business is derived. This does not necessarily reflect the original source or location of the business. Brokerage and fees are attributable to continuing operations.

Brokerage and fees	2012 \$m	2011 \$m
United Kingdom	337	300
North America	148	149
Rest of the world	415	462
	900	911

No further segmental analysis has been provided as the Directors of the Company are of the opinion that the profit before taxation and the net assets of the business cannot be allocated between geographical areas on a meaningful basis. In addition no further analysis of turnover between external and associated clients has been provided as the Directors of the Company are of the opinion that such analysis would not be meaningful.

3 Operating profit	2012 \$m	2011 \$m
Operating profit is stated after charging/(crediting)		
Depreciation of owned tangible fixed assets	2	1
Amortisation of goodwill	13	13
2011 Operational review charge	-	36
Current service cost of pension schemes		
- defined benefit scheme	35	36
- defined benefit scheme curtailment	-	(10)
- defined contribution scheme	14	13
Currency translation adjustments	(13)	-

The 2011 Operational review charge of \$36 million in the year ended 31 December 2011 includes severance costs of \$10 million.

The foreign exchange gain of \$13 million (2011: nil) shown in the profit and loss account is mainly attributable to the fluctuation in the value of pound sterling and the Euro to the US dollar during the year in relation to intercompany assets and liabilities.

Auditor's remuneration of £540,000 (\$880,000) (2011: £540,000 (\$866,000)) was borne by another Group company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

4. Employee costs	2012 \$m	2011 \$m
Salaries and incentives	589	421
Social security costs	39	41
Pension costs		
- defined benefit scheme	35	36
- defined benefit scheme curtailment	-	(10)
- defined contribution scheme	14	13
Gross employee costs	677	501
Amounts borne by fellow subsidiary undertakings	(96)	(91)
Net employee costs	581	410

Number of employees – average for the period	2012 Number	2011 Number
Producer	662	680
Client services	1,863	1,797
Management/administration services	1,031	1,019
	3,556	3,496

Cash retention awards

For the past several years, Willis Group Holdings plc ('the Group') made annual cash retention awards to its employees under its annual incentive programs. Employees were required to repay a proportionate amount of these awards if they voluntarily left the Group's employ (other than in the event of retirement or permanent disability) before a certain time period, typically up to three years. The Group made cash payments to its employees in the year it granted these retention awards and recognised these payments ratably over the period they were subject to repayment, beginning in the quarter in which the award was made. The unamortised portion of cash retention awards was recorded within prepayments and accrued income.

The following table sets out the amount of cash retention awards made and the related amortisation of those awards for the years ended 31 December 2012 and 2011.

	2012 \$m	2011 \$m
Cash retention awards made	80	72
Amortisation of cash retention awards included in salaries	64	65

In December 2012, the Group decided to eliminate the repayment requirement from the past annual cash retention awards and, as a result, the Company wrote off the unamortised balance of past awards of \$68 million, leaving a balance of \$7 million at 31 December 2012 (2011: \$68 million), which is specific to off-cycle awards with a fixed guarantee attached for which the Company has not waived the repayment requirement.

The Group has replaced annual cash retention awards with annual cash bonuses which will not include a repayment requirement. The Company has accrued an additional \$74 million for these 2012 cash bonuses to be paid in 2013.

Pension costs for the defined benefit scheme include only those items included within operating expenses. Further details of those items and those recorded in net finance charges and the statement of total recognised gains and losses are presented in note 24 on page 30.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

4. Employee costs (continued)

A number of the Company's employees are seconded to other subsidiary undertakings within the Group. The employment costs of those employees, including salaries, social security and pension costs, are borne and accounted for by those subsidiary undertakings. The costs borne by those subsidiary undertakings increased from \$91 million in 2011 to \$96 million in 2012.

The Company recognised total expense in 2012 of \$9 million (2011: \$15 million expense) related to equity-settled share-based payment transactions to employees (these are included within salaries above). Further details are presented in note 29 on page 35.

5. Directors' remuneration	2012 \$000	2011 \$000
Emoluments, (excluding pension contributions, benefits and long-term incentive awards)	7,464	8,508
Benefits	55	82
Pension contributions	532	542
	8,051	9,132
Highest paid Director		
Emoluments, (excluding pension contributions and long-term incentive awards)	1,587	1,759
Pension contributions	98	44
	1,685	1,803
Accrued annual defined benefit pension relating to highest paid Director	-	56
	2012 Number	2011 Number
Directors exercising share options	2	2
Directors receiving shares under long-term incentive plans	8	6
Directors eligible for defined benefit pension schemes	4	5

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

	2012 \$m	2011 \$m
6. Finance income, net		
<i>Interest and investment income</i>		
Income from shares in subsidiary undertakings	10	-
<i>Interest payable and similar charges</i>		
Interest payable to Group undertakings	(1)	-
<i>Other finance income/(charges)</i>		
Expected return on pension scheme assets (note 24)	135	155
Interest on pension scheme liabilities (note 24)	(106)	(104)
	29	51
 Finance income, net	 38	 51

7 Profit on the disposal of book of business

On 20 February 2012, Glencairn UK Holdings Limited, a subsidiary undertaking of Willis Group Holdings plc, was purchased by the Company for £22 million (\$34 million). Following this purchase the Company then sold its Facultative business for £60 million (\$95 million) to Faber Global Limited (formerly 'Glencairn Limited'), a wholly owned subsidiary of Glencairn UK Holdings Limited. The Company recorded a profit on the sale of £59 million (\$93 million).

	2012 \$m	2011 (recast, see note 1) \$m
8. Tax on profit on ordinary activities		
<i>(a) Analysis of charge for the year</i>		
Current tax:		
UK corporation tax on profit at 24.5% (2011: 26.5%)	10	43
Adjustments in respect of prior periods	4	(3)
	14	40
Foreign tax	-	1
Total current tax (note 8(b))	14	41
Deferred tax:		
Origination and reversal of timing differences	25	29
Adjustment in respect of rate change	(15)	(11)
Adjustments in respect of prior periods	(3)	2
Total deferred tax (note 17)	7	20
 Tax on profit on ordinary activities	 21	 61

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

8. Tax on profit on ordinary activities (continued)	2012 \$m	2011 \$m
<i>(b) Factors affecting current tax for the year</i>		
The tax assessed for the year is lower (2011: lower) than the standard rate of corporation tax in the UK (24.5%) (2011: 26.5%). The differences are explained below:		
Profit on ordinary activities before taxation	202	278
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	50	73
Effects of:		
Permanent differences – Expenses (primarily goodwill amortisation)	6	5
Permanent differences – Dividends received	(2)	-
Permanent differences – Profit on the disposal of book of business (note 7)	(23)	-
Adjustment in respect of employee share benefit scheme	(1)	(4)
Timing difference on general provision	2	-
Timing difference on pension contributions	(24)	(31)
Adjustment in respect of prior periods	4	(3)
Other adjustment including effects of exchange rates	2	1
Total current tax charge for the year (note 8(a))	14	41

(c) Circumstances affecting current and future tax charges

The Government announced on 23 March 2011 that it intended to reduce the rate of UK corporation tax from 28% to 23% over four years. Consequently the Finance Act 2011, which was substantively enacted on 5 July 2011, included provisions to reduce the rate of UK corporation tax to 26% with effect from 1 April 2011 and to 25% with effect from 1 April 2012.

On 21 March 2012, the Government proposed further legislation to reduce the rate of UK corporation tax to 22% by 2014. Consequently, the Finance Act 2012 which was substantively enacted on 3 July 2012, included provisions to reduce the rate of UK corporation tax to 24% with effect from 1 April 2012 and 23% from 1 April 2013. The rate reduction to 23% had been substantively enacted prior to 31 December 2012 and therefore has been reflected in the financial statements.

The Government has subsequently proposed that from 1 April 2014 the rate will be 21% rather than the previously announced 22% and that the rate will be further reduced to 20% from 1 April 2015. These changes to the main tax rate have not been substantively enacted at the Balance Sheet date, and, therefore, are not included in these financial statements.

9 Dividends paid	2012 \$m	2011 \$m
Interim paid 11 July 2012	290	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

10 Intangible assets – goodwill	2012 \$m
<i>Cost or valuation</i>	
1 January 2012 and 31 December 2012	<u>201</u>
<i>Amortisation</i>	
1 January 2012	116
Charge for the year	<u>13</u>
31 December 2012	<u>129</u>
<i>Net book value 31 December 2012</i>	<u>72</u>
<i>Net book value 31 December 2011</i>	<u>85</u>

11. Tangible fixed assets

	Freehold land and buildings \$m	Software \$m	Total tangible fixed assets \$m
<i>Cost or valuation</i>			
1 January 2012	23	-	23
Additions	<u>7</u>	<u>1</u>	<u>8</u>
31 December 2012	<u>30</u>	<u>1</u>	<u>31</u>
<i>Depreciation</i>			
1 January 2012	3	-	3
Provision for the year	<u>2</u>	<u>-</u>	<u>2</u>
31 December 2012	<u>5</u>	<u>-</u>	<u>5</u>
<i>Net book value 31 December 2012</i>	<u>25</u>	<u>1</u>	<u>26</u>
<i>Net book value 31 December 2011</i>	<u>20</u>	<u>-</u>	<u>20</u>

Software costs incurred in the year were related to the development of the Eclipse broking system, in order to enable it to process broking transactions of the Reinsurance business

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

12. Investments held as fixed assets

	Subsidiary undertakings (note 13) \$m	Associate undertaking (note 14) \$m	Total \$m
<i>Cost</i>			
1 January 2012	2	1	3
Additions (see below)	129	-	129
31 December 2012	131	1	132

In the opinion of the Directors, the value of the shares in the subsidiary and associate undertakings is not less than the amount shown in the balance sheet

On 20 February 2012, the Company purchased Glencairn UK Holdings Limited for £22 million (\$34 million). Following this purchase the Company then sold its Facultative business for £60 million (\$95 million) to Faber Global Limited (formerly 'Glencairn Limited'), a wholly owned subsidiary of Glencairn UK Holdings Limited. The Company recorded a profit on the sale of £59 million (\$93 million).

13. Shares in subsidiary undertakings

The principal subsidiary undertakings at 31 December 2012 were

	Percentage of share capital held	Class of share	Country of incorporation
<i>Insurance Broking</i>			
Special Contingency Risks Limited *	100%	Ordinary of £1 each	United Kingdom
Glencairn UK Holdings Limited *	100%	See note (i) below	United Kingdom
Faber Global Limited	100%	Ordinary of £1 each	United Kingdom

* owned directly by Willis Limited, all other undertakings are indirectly held. All undertakings operate principally in the country of their incorporation.

(i) The investment in Glencairn UK Holdings Limited consists of a 100% holding of the following shares

Type of share	Number of shares
Ordinary share of £1 each	3,177,001
Ordinary share of £1,500 each	1,000
"B" Class Share of 0.01p each	32,500
"C" Class Share of 0.01p each	10,000
"D" Class Share of 0.01p each	500,000
"E" Class Share of 0.01p each	49,000
"F" Class Share of 0.01p each	40,000
"G" Class Share of 0.01p each	3,000

The Company is exempt from the obligation to prepare group financial statements in accordance with Section 400 of the Companies Act 2006 as the Company is a wholly-owned subsidiary of Willis Group Holdings plc, in whose financial statements it is consolidated. These financial statements relate to the Company only and not to its Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

14. Shares in associate undertaking

The principal associate undertaking at 31 December 2012 was

	Percentage held	Country of incorporation
<i>Insurance Broking</i>		
Erimus Holdings Teesside Limited *	25%	United Kingdom
Teesside Insurance Consultants Limited	25%	United Kingdom

* Held directly by Willis Limited, all other undertakings are indirectly held. All undertakings operate principally in the country of their incorporation.

The Company is exempt from the obligation to prepare group financial statements in accordance with Section 400 of the Companies Act 2006 as the Company is a wholly-owned subsidiary of Willis Group Holdings plc, in whose financial statements it is consolidated. These financial statements relate to the Company only and not to its Group.

15. Debtors	2012 \$m	2011 \$m
<i>Amounts falling due within one year:</i>		
Trade debtors	196	188
Amounts owed by Group undertakings	181	345
Other debtors	-	2
Prepayments and accrued income	69	73
Retention awards	5	43
Deferred tax asset (note 17)	1	8
	452	659
<i>Amounts falling due after more than one year:</i>		
Trade debtors	-	2
Retention awards	2	25
Deferred tax asset (note 17)	8	1
	10	28
	462	687

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

16. Fiduciary assets, deposits and cash	2012 \$m	2011 \$m
<i>Amounts falling due within one year:</i>		
Trade debtors	2,792	2,833
Amounts owed by Group undertakings	773	758
Amounts owed by associate undertakings	5	34
	<u>3,570</u>	<u>3,625</u>
Deposits and cash held in fiduciary capacity	865	887
	<u>4,435</u>	<u>4,512</u>
<i>Amounts falling due after more than one year:</i>		
Trade debtors	8	-

Accrued interest on deposits and cash is recorded within prepayments and accrued income

17. Deferred tax	2012 \$m	2011 \$m
Deferred tax has been provided in full in respect of assets/liabilities arising from the following timing differences		
Included in debtors (note 15)	9	9
Included in pension asset (note 24)	(42)	(44)
	<u>(33)</u>	<u>(35)</u>
Deferred tax consists of		
Timing difference on pension asset	(42)	(44)
Timing difference on share-based payments	3	7
Timing difference on general provisions	6	2
	<u>(33)</u>	<u>(35)</u>
At 1 January	(35)	(48)
Deferred tax charge in profit and loss account (note 8(a))	(7)	(20)
Deferred tax credit in statement of recognised gains and losses	9	35
Exchange adjustment	-	(2)
At 31 December	<u>(33)</u>	<u>(35)</u>

Deferred tax assets have been recognised to the extent they are regarded as more likely than not as being recoverable either against the Company's own future profits or by way of group relief against those future profits of fellow UK Group companies

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

18. Creditors: amounts falling due within one year	2012 \$m	2011 \$m
Trade creditors	58	29
Amounts owed to Group undertakings	2	10
Amounts owed to Group undertakings in respect of group relief	8	43
Other creditors	13	5
Accruals and deferred income	119	76
	<u>200</u>	<u>163</u>

The increase in accruals and deferred income reflects the additional accrual made for incentives payable in 2013 for the 2012 performance year

19 Fiduciary liabilities: amounts falling due within one year	2012 \$m	2011 \$m
Trade creditors	4,194	4,258
Amounts owed to Group undertakings	241	245
Amounts owed to associate undertakings	8	9
	<u>4,443</u>	<u>4,512</u>

20 Creditors: amounts falling due after more than one year	2012 \$m	2011 \$m
Trade creditors	-	6
Accruals and deferred income	2	-
	<u>2</u>	<u>6</u>

21. Provisions for liabilities	Post placement services \$m	Claims and lawsuits \$m	Total \$m
1 January 2012	8	1	9
Additional provisions made	1	26	27
31 December 2012	<u>9</u>	<u>27</u>	<u>36</u>

Errors and omissions provision

The provision comprises estimates for liabilities that may arise from actual and potential claims and lawsuits for errors and omissions net of anticipated recoveries from the Company's insurers

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

21. Provisions for liabilities (continued)

Errors and omissions provision (continued)

Prior to 2012, the Company has made no separate provision for potential claims and lawsuits for errors and omissions which had not been notified to it, nor for potential deterioration in claims where an existing provision was in place. During 2012 data sufficient to estimate these provisions for the Company was obtained allowing the calculation of a \$24m provision as at 31 December 2012.

Post placement services provision

The provision comprises an estimate of the future liabilities that arise from the placement of policies in this year and from previous years. The provision is based upon three key assumptions:

- the length of time we are obliged to provide post placement services,
- the number of claims we are likely to process in that time, and
- the average cost per claim

The Company seeks to limit its exposure to such liabilities through the use of appropriately worded 'Terms of Business Agreements' with clients.

	2012 \$m	2011 \$m
22. Called up share capital		
Allotted, called up and fully paid		
105,000,000 (2011: 105,000,000) ordinary shares of £1 each	153	153

	Profit and loss account \$m
23. Profit and loss reserve	
1 January 2012	781
Profit on ordinary activities after taxation	181
Dividend payments	(290)
Actuarial loss on the pension scheme (net of tax)	(67)
Pension STRGL UK deferred tax adjustment due to rate change	(11)
Net effect of exchange rate movements on pension	2
Net currency translation gain on the UK retail business	1
Share-based payments	9
31 December 2012	606
	\$m
<i>Net of pension asset</i>	
Profit and loss reserve excluding pension asset	467
Amount relating to defined benefit pension scheme asset, net of related deferred tax (note 24)	139
Profit and loss reserve	606

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

24. Pensions

Defined Benefit Scheme

The Company operates a defined benefit pension scheme in the UK on behalf of its employees and employees working for or seconded to other subsidiary companies of Willis Group Holdings plc. This scheme was closed to new entrants in January 2006. A full actuarial valuation was carried out at 31 December 2010 and updated to 31 December 2012 by a qualified actuary. The major assumptions used for the actuarial valuation were:

	2012	2011	2010
	%	%	%
Rate of increase in salaries	2.3	2.1	2.6
Rate of increase in pensions in payment (LPI 5%)	3.0	3.1	3.5
Rate of increase in pensions in payment (LPI 2.5%) ⁽ⁱ⁾	1.9	1.8	2.2
Discount rate ⁽ⁱⁱ⁾	4.4	4.8	5.5
Inflation assumption (RPI)	3.0	3.1	3.6
Inflation assumption (CPI)	2.2	2.1	2.8
Mortality ⁽ⁱⁱⁱ⁾	90%/105% PNA00 for males/females, CMI 2012, 1% long-term improvement	90%/105% PNA00 for males/females, CMI 2011, 1% long-term improvement	PNA00 YoB MC

(i) Based on CPI inflation

(ii) Duration based methodology from 2011

(iii) PNA00 represents a mortality table, CMI represents assumed improvement in mortality

As an indication of longevity assumed, the Company's calculations assume that a UK male retiree aged 65 at 31 December 2012 would have a life expectancy of 24 years.

Analysis of the amount charged to operating profit

	2012	2011
	\$m	\$m
Current service cost	35	36
Curtailments	-	(10)
	35	26

Analysis of the amount credited to net finance charges

	2012	2011
	\$m	\$m
Expected return on pension scheme assets	135	155
Interest on pension scheme liabilities	(106)	(104)
	29	51

Analysis of the actuarial loss in the statement of total recognised gains and losses

	2012	2011
	\$m	\$m
Actual return less expected return on pension scheme assets	90	113
Experience gains and losses arising on the scheme liabilities	-	(43)
Changes in assumptions underlying the present value of the scheme liabilities	(177)	(228)
	(87)	(158)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

24. Pensions (continued)

Defined Benefit Scheme (continued)

The cumulative amount of actuarial losses recognised in the statement of total recognised gains and losses since the adoption of FRS 17 is \$676 million (2011 \$589 million)

Analysis of amounts included in the balance sheet:

	2012	2011
	\$m	\$m
Fair value of scheme assets	2,716	2,354
Present value of scheme liabilities	(2,535)	(2,180)
Surplus	181	174
Related deferred tax liability (note 17)	(42)	(44)
Net pension asset	139	130

Movements in fair value of scheme assets during the year:

	2012	2011
	\$m	\$m
At 1 January	2,354	2,085
Expected return on pension scheme assets	135	155
Contributions from the Company	92	92
Contributions from the scheme members	2	2
Benefits paid	(77)	(72)
Actuarial gain	90	113
Exchange adjustments	120	(21)
At 31 December	2,716	2,354

Movements in present value of scheme liabilities during the year:

	2012	2011
	\$m	\$m
At 1 January	2,180	1,871
Service cost	35	36
Interest cost	106	104
Contributions from the scheme members	2	2
Benefits paid	(77)	(72)
Settlements and curtailments	-	(10)
Actuarial loss	177	271
Exchange adjustments	112	(22)
At 31 December	2,535	2,180

Analysis of scheme assets and expected return:

	Expected return		Fair value of assets	
	2012	2011	2012	2011
	%	%	\$m	\$m
Equity instruments	6.72	6.87	1,558	1,345
Debt instruments	2.32	2.47	727	681
Other	4.07	4.65	431	328
	5.50	5.60	2,716	2,354

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

24. Pensions (continued)

Defined Benefit Scheme (continued)

The actual return on scheme assets for the year ended 31 December 2012 was a gain of \$225 million (2011 gain of \$268 million)

Where investments are held in bonds and cash, the expected long-term rate of return is taken to be the yields generally prevailing on such assets at the measurement date. Expected returns on equities, hedge funds and property funds reflect the Company's view of a risk premium above long-term risk-free rates. The overall expected long-term rate of return on assets is the average of these rates taking into account the actual assets held at the reporting date.

History of experience of gains and losses.

	2012	2011	2010	2009	2008
	\$m	\$m	\$m	\$m	\$m
Fair value of scheme assets	2,716	2,354	2,085	1,880	1,497
Present value of scheme liabilities	(2,535)	(2,180)	(1,871)	(1,780)	(1,364)
Surplus	181	174	214	100	133
Actual return less expected return on plan assets					
Amount (\$m)	90	113	103	137	(761)
Percentage of scheme assets	3%	5%	5%	7%	(51%)
Experience gains and losses on scheme liabilities					
Amount (\$m)	-	(43)	-	(3)	11
Percentage of the present value of the scheme liabilities	0%	(2%)	0%	1%	1%

The contribution paid by the Company for 2012 (excluding salary sacrifice contributions) was £50 million (\$81 million), comprising £14 million regular contributions and £36 million towards funding the deficit.

In accordance with the new funding strategy implemented for 2012, the Company has agreed with the Trustee of the UK Pension Scheme that contributions towards on-going accrual of benefits would be equivalent to 15.9% of members' pensionable salaries (£14 million for 2012) and contributions towards funding the deficit would be £36 million per annum.

In addition, under the proposed new funding strategy, for the six years ended 31 December 2017, the Company will make contingent contributions

- based on a 20% share of the Group's EBITDA exceeding a threshold of \$900 million, and
- based on 10% of any exceptional returns made by the Group to stockholders, including share buybacks.

Accordingly, the Company also made further contributions in respect of 2012 amounting to £6 million (\$10 million) on 28 February 2013 relating to the \$100 million shares bought back by the Group in 2012.

Total deficit-funding contributions for the six years to 31 December 2017 excluding those relating to share buybacks, shall not exceed a total of £312 million (\$514 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

24. Pensions (continued)

Defined Contribution Scheme

The Company has operated a defined contribution scheme for new entrants since 1 January 2006. The Company recognised an expense in 2012 of \$14 million (2011: \$13 million) representing contributions payable to the scheme.

25 Forward sale of currency

The Company earns revenue in a number of different currencies, principally US dollars, Pound Sterling, Euros and Japanese Yen, but incurs expenses almost entirely in Pounds Sterling.

The Company hedges the risk as follows:

- To the extent that forecast Pound Sterling expenses exceed Pound Sterling revenues, the Group limits its exposure to this exchange rate risk by the use of forward contracts matched by specific, clearly identified cash outflows arising in the ordinary course of business, and
- The UK operations of the Group also earn significant revenues in Euros and Japanese Yen. The exposure to changes in the exchange rate between the US dollar and these currencies is limited by the use of forward contracts matched to a percentage of forecast cash inflows in specific currencies and periods.

The Company participates in the Group's risk management activities in relation to foreign exchange risk. Forward contracts for the purchase/sale of foreign currencies are entered into by another subsidiary undertaking. The Company then enters into back-to-back contracts with that subsidiary undertaking. At 31 December 2012 the Company has entered into back-to-back forward contracts for the purchase/sale of foreign currencies in accordance with this policy. The fair value of the forward contract assets were \$9 million and for the liabilities was \$nil (2011: \$11 million and \$11 million respectively).

These forward contracts are summarised below:

Contracts maturing:	Purchase GBP Mill/Rate to USD	Sale Euros Mill/Rate to USD	Sale JPY Mill/Rate to USD
1 January 2013 to 31 December 2013	105.0m/0.630	40.0m/0.732	1,750m/81.768
1 January 2014 to 31 December 2014	55.0m/0.624	-	800m/79.049

26 Contingent liabilities

Claims, lawsuits and other proceedings

The Company is subject to various actual and potential claims, lawsuits and proceedings relating principally to alleged errors and omissions in connection with the placement of insurance and reinsurance in the ordinary course of business.

Most of the claims, lawsuits and proceedings arising in the ordinary course of business are covered by professional indemnity or other appropriate insurance. In respect of insurance deductibles the Company has established provisions against these items which are believed to be adequate in the light of current information and legal advice, and the Company adjusts such provisions from time to time according to developments. On the basis of current information, the Company does not expect that the ultimate outcome of the actual claims, lawsuits and proceedings

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

26. Contingent liabilities (continued)*Claims, lawsuits and other proceedings (continued)*

to which the Company is subject, or potential claims, lawsuits or proceedings, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, results of operations or liquidity

As of 1 April 2011 Willis Ltd has been joined in its parent company's, Willis Group Holdings plc, ongoing litigation in the Federal Court in Texas with Stanford Financial Group. The Company disputes any allegations and intends to defend itself vigorously against all actions. The outcome of these actions, however, including losses or other payments that may occur as a result, cannot be predicted at this time and no provision has been made.

27. Directors' interests in contracts

The Company and other insurance broking subsidiary undertakings of Willis Group Holdings plc place risks with syndicates in which the Directors or connected persons (as defined in Section 252 of the Companies Act 2006) participate in the normal course of their broking activities on the same basis as they do with other Lloyd's syndicates.

28 Related party transactions

During the year the Company transacted in the ordinary course of business brokerage with associated undertakings listed below. Amounts owed by and to Group associated undertakings are disclosed in notes 16 and 19. These amounts all relate to trading.

	2012 \$m	2011 \$m
Gras Savoye SA	3	4
Al Futtaim Willis LLC	2	2
Willis Saudi Arabia Company LLC	1	1
	<u>6</u>	<u>7</u>

FRS8 (paragraph 3(c)) exempts the reporting of transactions between group companies in the financial statements of companies that are wholly owned within the Group. The Company has taken advantage of this exemption. There are no other transactions requiring disclosure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

29. Share-based payments*Share-based Plans*

On 31 December 2012, Willis Group Holdings plc, the ultimate parent company of Willis Limited, had a number of open share-based compensation plans, which provide for the grant of time-based and performance-based options, restricted stock units and various other share-based grants to employees of Willis Limited. The objectives of these plans include attracting and retaining the best personnel, motivating management personnel by means of growth-related incentives to achieve long-range goals and providing employees with the opportunity to increase their share ownership in Willis Group Holdings plc.

The Company recognised total operating expense in 2012 of \$9 million (2011: \$15 million) related to equity-settled share-based payment transactions.

2001 Share Purchase and Option Plan

This plan, which was established on 3 May 2001, provides for the granting of time-based options, restricted stock units and various other share-based grants at fair market value to employees of the Group. There are 25,000,000 shares available for grant under this plan. Options are exercisable on a variety of dates, including from the first, second, third, sixth or eighth anniversary of grant, although for certain options the exercisable date may accelerate depending on the achievement of certain performance goals. The 2001 Plan (and all sub-plans) expired 10 years after the date of its adoption. That termination will not affect the validity of any grant outstanding at that date.

2008 Share Purchase and Option Plan

This plan, which was established on 23 April 2008, provides for the granting of time and performance based options, restricted stock units and various other share-based grants at fair market value to employees of the Group. There are 8,000,000 shares available for grant under this plan. Options are exercisable on a variety of dates, including from the third, fourth and fifth anniversary of grant. Unless terminated sooner by the Board of Directors of Willis Group Holdings plc, the 2008 Plan will expire 10 years after its adoption. That termination does not affect the validity of any grant outstanding at that date.

2012 Equity Incentive Plan

This plan, which was established on 25 April 2012, provides for the granting of ISOs, time-based or performance-based nonstatutory stock options, share appreciation rights ('SARs'), restricted shares, time-based or performance-based restricted share units ('RSUs'), performance-based awards and other share-based grants or any combination thereof (collectively referred to as 'Awards') to employees, officers, directors and consultants ('Eligible Individuals') of the Company and any of its subsidiaries (the 'Willis Group'). The Board of Directors also adopted a sub-plan under the 2012 plan to provide an employee sharesave scheme in the UK.

There are 13,776,935 shares available for grant under this plan. In addition, Shares subject to awards that were granted under the Willis Group Holdings 2008 Share Purchase and Option Plan, that terminate, expire or lapse for any reason will be made available for future Awards under this Plan. Options are exercisable on a variety of dates, including from the second, third, fourth or fifth anniversary of grant. Unless terminated sooner by the Board of Directors, the 2012 Plan will expire 10 years after the date of its adoption. That termination will not affect the validity of any grants outstanding at that date.

Option Valuation Assumptions

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of Willis Group Holdings plc's shares. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

29. Share-based payments (continued)

	2012	2011
Weighted average share price	\$33.81	\$41.26
Weighted average exercise price	\$33.88	\$39.40
Expected volatility	33%	32%
Expected dividends	3.2%	2.5%
Expected life (years)	5	5
Risk-free interest rate	0.88%	2.15%

A summary of option activity under the plans at 31 December 2012 and 2011, and changes during the years then ended is presented below

	2012		2011	
	Number of options	Weighted Average Exercise Price ⁽¹⁾	Number of options	Weighted Average Exercise Price ⁽¹⁾
(Options in thousands)				
Time-based options				
Outstanding at 1 January	4,776	\$33.55	5,600	\$33.40
Granted	1,028	\$33.88	133	\$29.70
Exercised	(667)	\$31.05	(603)	\$31.43
Forfeited	(100)	\$31.91	(266)	\$33.80
Expired	(35)	\$27.30	(88)	\$31.92
Outstanding at 31 December	5,002	\$34.03	4,776	\$33.55
Exercisable at 31 December	4,856	\$34.17	4,607	\$33.77
Performance-based options				
Outstanding at 1 January	3,134	\$31.24	3,869	\$31.44
Granted	-	-	629	\$41.45
Exercised	(297)	\$26.77	(55)	\$29.51
Forfeited	(144)	\$37.72	(1,309)	\$36.79
Outstanding at 31 December	2,693	\$31.39	3,134	\$31.25
Exercisable at 31 December	2,235	\$31.17	2,644	\$31.39

⁽¹⁾ Certain options are exercisable in Pounds Sterling and are converted to dollars using the exchange rate at 31 December 2012 or 2011, respectively

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2012 was \$36.65

Details of the range of exercise prices and the weighted average contractual life of share options outstanding at 31 December 2012 are as follows

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

29. Share-based payments (continued)

	Options outstanding (thousands)	Weighted average remaining contractual life
Range of exercise prices ⁽¹⁾		
\$22 67 - \$26 90	1,302	4 2 years
\$27 22 - \$28 90	892	4 8 years
\$30 42 - \$34 90	2,819	3 7 years
\$35 07 - \$39 96	1,749	2 7 years
\$40 04 - \$43 66	933	4 9 years
	<u>7,695</u>	<u>3 8 years</u>

⁽¹⁾Certain options are exercisable in Pounds Sterling and are converted to dollars using the exchange rate at 31 December 2012 or 2011, respectively

A summary of restricted stock unit activity under the plans at 31 December 2012, and changes during the year then ended is presented below

	Shares (thousands)	Weighted average grant date fair value
Non-vested shares (restricted stock units)		
Outstanding at 1 January 2012	241	\$28 45
Granted	615	\$33 67
Vested	(173)	\$27 16
Lapsed	(1)	\$27 22
Outstanding at 31 December 2012	<u>682</u>	<u>\$33 49</u>

30 Events after the balance sheet date

On 1 March 2013, the new and renewal Faber business, was purchased by the Company for £82 0 million (\$124 5 million) from Faber Global Limited. Following the transaction the Faber business will be run within Willis Limited, with all historical balances being run off in Faber Global Limited.