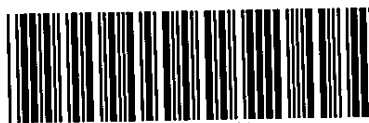


Registered number: 03116518

**REPORT OF THE DIRECTORS AND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012  
FOR  
HASTINGS INSURANCE SERVICES LIMITED**

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**HASTINGS INSURANCE SERVICES LIMITED**  
For the year ended 31 December 2012

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**HASTINGS INSURANCE SERVICES LIMITED**  
For the year ended 31 December 2012

**DIRECTORS AND OTHER INFORMATION**

<b>Directors</b>	E M Fitzmaurice G A Hoffman P Pavey M Lee T van der Meer R M Brewster N A Utley J Castagno T Ablett C Ryder
<b>Secretary</b>	A S Leppard
<b>Auditor</b>	KPMG Audit Plc 15 Canada Square London E14 5GL
<b>Banker</b>	Barclays Corporate Level 11 1 Churchill Place London E14 5HP
<b>Registered office</b>	Conquest House Collington Avenue Bexhill-on-Sea East Sussex TN39 3LW  Tel 01424 735735 Fax. 01424 735730
<b>Registered number</b>	03116518 (England and Wales)

## **HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

### **REPORT OF THE DIRECTORS**

The Directors submit their report and the audited financial statements of Hastings Insurance Services Limited ("the Company") for the year ended 31 December 2012

#### **PRINCIPAL ACTIVITY**

The principal activity of the Company during the year continued to be that of the provision of insurance broking services

#### **DIRECTORS**

The Directors who served during the year are listed below

E M Fitzmaurice	Chairman	
G A Hoffman		appointed 27 November 2012
M Adams		resigned 25 May 2012
P Pavay		
M Lee		
T van der Meer		
A Parry		resigned 31 January 2012
R M Brewster	Non-executive	
N A Utley	Non-executive	
J Castagno	Non-executive	
T Ablett	Non-executive	

The following Director was appointed after the year end date.

C Ryder	appointed 29 January 2013
---------	---------------------------

#### **Directors' and officers' liability insurance**

As permitted by the Companies Act 2006, the Company has maintained insurance cover for Directors and officers against liabilities arising in relation to the Company

#### **BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

There have been no significant changes in the underlying activities of the Company during the year. No significant changes in the nature of the business are expected in 2013

The Directors are extremely pleased to report a profit before tax for the period of £39.5m, which has been driven by a strong customer focused acquisition strategy and a continuous drive on cost management. Revenue has grown to £142.4m in the last 12 months to 31 December (comparative 12 months to 31 December 2011 £105.1m), which represents a 35% increase. Through effective cost control, EBITDA (Earnings before interest, tax, depreciation and amortisation) for the last 12 months has seen growth to £41.7m (12 months to 31 December 2011 £21.1m), which represents a 98% improvement. The Company's live customer policy base increased 17.8% from 972k to 1,145k during the year

During the year the Company has strengthened its board and senior management team with the recruitment of top quality candidates, these appointments reflect the Company's continuing growth in scale and profits, building on the corporate governance culture within the organisation

Investment in its people remains a key focus area. The Company is committed to identifying and nurturing talent with the launch of a new graduate training programme, in association with the University of Brighton, which mirrors the Company's own in-house leadership and development training programme

The Company undertakes a proactive role in helping local charities, making financial, professional and physical support available to the local community. This year the Company has made small monthly grants available to support local funding

The Company has maintained its multi-award winning status securing several prestigious awards including Customer Service Provider of the Year and Personal Lines Intermediary of the Year at the 2012 UK Broker Awards, the Personal Lines Broking Initiative of the Year at the British Insurance Awards and leading industry awards in IT and HR

## HASTINGS INSURANCE SERVICES LIMITED

For the year ended 31 December 2012

### REPORT OF THE DIRECTORS (continued)

The Company's "Standard" and "Premier" motor and bike insurance products, together with the Company's People's Choice car and bike insurance products, have been rated 5 Star for the second year running by independent rating company Defaqto. A Defaqto rating reflects the quality of a financial product, 5 stars being the highest rating a product can attain.

### PERFORMANCE AND KEY PERFORMANCE INDICATORS

The Directors use Key Performance Indicators (KPIs) to monitor the performance of the Company. The KPIs most relevant to the business are live customer policy count and a number of revenue and cost measures. The Directors review performance on a regular basis and take appropriate remedial action for any underperformance.

	2012	2011
	£'000	£'000
Revenue	142,439	105,091
EBITDA (Earnings before interest tax depreciation and amortisation)	41,748	21,106
Live customer policies ('000)	1,145	972

In addition, the board continues to look for opportunities to maximise shareholder return, add value to the business and support the continued growth of the business.

The Directors declared dividends of £31.8 million during the year (2011: £nil). The Directors do not recommend the payment of a final dividend (2011: £nil).

### FINANCIAL RISK MANAGEMENT

The Company's operations expose it to a number of financial risks as set out below.

The Company has in place a risk management process that seeks to limit the adverse effects of these risks on the financial performance of the Company.

#### *Competitive risk*

Competitive pressure in the UK is a continuing risk for the Company, which could result in it losing sales to its key competitors. The Company maintains a competitive panel of insurers and constantly reviews margins to ensure competitive pricing. Competitor reviews with market peers are also carried out on a regular basis to identify any emerging risks and opportunities. The Company further manages this risk by providing added value services to its customers, having fast response times not only in supplying products but also in handling all customer queries and by maintaining strong relationships with customers.

#### *Price risk*

The Company is exposed to price risk due to normal inflationary increases in the purchase price of goods and services it purchases in the UK.

#### *Credit risk*

The Company is exposed to credit risk on instalment sales from customers who pay monthly. The Company is further exposed to credit risk on cash and cash equivalents held by credit institutions and on loans receivable which are linked to London Interbank Offered Rate ("LIBOR"). These balances are monitored regularly.

#### *Liquidity risk*

The Company actively maintains a mixture of cash, current asset investments and intercompany loans that are designed to ensure the Company has sufficient available funds for its operations.

#### *Legislative, Regulatory and Solvency risk*

The Company actively monitors its compliance with the regulatory and solvency requirements of the Financial Services Authority and is proactive in establishing robust policies and procedures to ensure effective compliance.

From April 2013 the Legal Aid Sentencing and Punishment of Offenders Act 2012 (LASPO) will prohibit the payment or receipt of referral fees in claims for damages in cases of personal injury or death. The insurance market as a whole is looking at various models to remain competitive and ensure there are no negative impacts to their customers.

## HASTINGS INSURANCE SERVICES LIMITED

For the year ended 31 December 2012

### REPORT OF THE DIRECTORS (continued)

In September 2012 the Office of Fair Trading referred the UK's private motor insurance market to the Competition Commission. The Competition Commission continue to investigate and a final report is expected in September 2014.

#### *Interest rate risk*

The Company is exposed to interest rate risk on its cash and cash equivalents and related party loans receivable.

### GOING CONCERN

After a full review of the Company's cash flows and forecasts, including analysis of its KPIs for the next 12 months and after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

### EMPLOYMENT POLICIES

The Directors seek to achieve a common awareness among its employees on matters of interest and concern to them and on matters affecting the Company's performance. Regular staff surveys are conducted throughout the year and the views of staff are widely sought and taken into account in making decisions which affect them. Information is conveyed through staff roadshows, meetings and the distribution of circulars.

The Company is an equal opportunities employer. The Company's equal opportunities policy is designed to treat all jobs applicants and employees equally, based on individual ability regardless of race, religion and belief, gender, age or disability. This principle applies to recruitment and selection, promotion, transfer, training, discipline and grievance and all terms and conditions of employment.

### ENVIRONMENT POLICY

The Company is committed to reducing its impact on the environment by

- Minimising energy, water and paper use,
- Optimising waste recycling by providing facilities and encouraging employees to recycle,
- Reducing travel, encouraging employees to communicate without travelling when practicable,
- Encouraging staff members to cycle to work and car share through its Travel Green Scheme,
- Ensuring appropriate regulatory compliance.

### PROVISION OF INFORMATION TO AUDITOR

Each of the persons who are Directors at the time when this Report of the Directors is approved has confirmed that

- so far as the Directors are aware, there is no relevant information of which the Company's auditor has not been made aware, and
- each Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditor in connection with preparing their report and to establish that the Company's auditor is aware of that information.

### AUDITOR

The auditor, KPMG Audit Plc, will be proposed for reappointment in accordance with section 487 of the Companies Act 2006.

Approved by the Board of Directors and signed on its behalf by:

E M Fitzmaurice  
Director

Date 9 APRIL 2013

Registered number: 03116518

**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE  
DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU 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 each of the financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS as adopted by EU; 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 its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HASTINGS INSURANCE SERVICES LIMITED**

We have audited the financial statements of Hastings Insurance Services Limited for the year ended 31 December 2012 set out on pages 8 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU.

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 the auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **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 IFRS as adopted by the EU, 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.



Timothy Butchart (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

9 April 2013

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**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2012**

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**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012 £'000	2011 £'000
Revenue	3	142,439	105,091
Operating expenses	4	(103,047)	(86,938)
Operating profit		<u>39,392</u>	<u>18,153</u>
Finance income	7	375	403
Finance costs	7	<u>(234)</u>	<u>(46)</u>
Profit before tax		39,533	18,510
Taxation expense	8	(11,758)	(3,927)
Total profit and comprehensive income for the year		<u><u>27,775</u></u>	<u><u>14,583</u></u>
Profit and total comprehensive income attributable to:			
Equity holders of the parents		27,775	14,583
Non-controlling interests		-	-
Total attributable profit and comprehensive income for the year		<u><u>27,775</u></u>	<u><u>14,583</u></u>

All profit for the year arose from continuing operations

The notes on pages 12 to 31 form an integral part of these financial statements

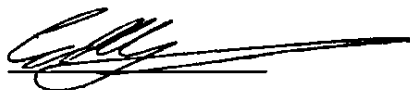
**HASTINGS INSURANCE SERVICES LIMITED**  
For the year ended 31 December 2012

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2012**

	Note	2012 £'000	2011 £'000
<b>Non-current assets</b>			
Other intangible assets	9	3,486	2,729
Property, plant and equipment	10	3,602	3,560
Investments	11	4,034	4,034
Investments in associate	12	300	-
Loans receivable	14	10,818	10,574
Deferred tax assets	16	1,063	1,717
		<u>23,303</u>	<u>22,614</u>
<b>Current assets</b>			
Trade and other receivables	13,19	146,848	137,753
Loan receivable	14	-	2,408
Prepayments		906	654
Cash and cash equivalents	15,19	42,268	33,958
		<u>190,022</u>	<u>174,773</u>
<b>TOTAL ASSETS</b>		<u>213,325</u>	<u>197,387</u>
<b>Equity</b>			
Share capital	20	22,980	22,980
Retained earnings	20	6,001	10,058
		<u>28,981</u>	<u>33,038</u>
<b>Non-current liabilities</b>			
Loans and borrowings	17,19	-	200
Deferred income	21	5,274	4,408
Provisions	22	849	1,510
		<u>6,123</u>	<u>6,118</u>
<b>Current liabilities</b>			
Loans and borrowings	17,19	162	487
Trade and other payables	18,19	152,698	142,375
Current tax		8,165	161
Deferred income	21	16,576	14,589
Provisions	22	620	619
		<u>178,221</u>	<u>158,231</u>
<b>TOTAL LIABILITIES</b>		<u>184,344</u>	<u>164,349</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>213,325</u>	<u>197,387</u>

The financial statements on pages 9 to 31 were approved by the Board of Directors and signed on its behalf by

E M Fitzmaurice  
Director



Date 9 APRIL 2013

Registered number 03116518

The notes on pages 12 to 31 form an integral part of these financial statements

**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	Share Capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2012	20	22,980	10,058	33,038
Total comprehensive income for the year		-	27,775	27,775
Dividends paid	25	-	(31,832)	(31,832)
Balance at 31 December 2012	20	<u>22,980</u>	<u>6,001</u>	<u>28,981</u>
Balance at 1 January 2011		22,980	(4,525)	18,455
Total comprehensive income for the year		-	14,583	14,583
Balance at 31 December 2011		<u>22,980</u>	<u>10,058</u>	<u>33,038</u>

The notes on pages 12 to 31 form an integral part of these financial statements

**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012 £'000	2011 £'000
<b>Cash flows from operating activities</b>			
Profit after tax		27,775	14,583
Adjustments			
Depreciation of property, plant and equipment	10	1,746	1,852
Amortisation of intangible assets	9	610	1,082
Income tax expense	8	11,758	3,927
Impairment of property, plant and equipment		126	256
Impairment of intangible assets		115	119
Net finance income	7	(141)	(357)
		<u>41,989</u>	<u>21,462</u>
 Increase in trade and other receivables		(9,714)	(46,446)
Increase in trade and other payables	17,18,21	13,176	31,020
Decrease in provisions	22	(660)	(830)
Taxation paid		<u>(3,100)</u>	<u>(2,323)</u>
<b>Net cash flows from operating activities</b>		<u>41,691</u>	<u>2,883</u>
 <b>Cash flows from investing activities</b>			
Investment in associate		(300)	-
Acquisition of property plant and equipment	10	(1,910)	(2,091)
Acquisition of intangible assets	9	(1,486)	(1,708)
Dividends paid		(29,057)	-
Interest received	7	375	403
<b>Net cash flows used in investing activities</b>		<u>(32,378)</u>	<u>(3,396)</u>
 <b>Cash flows from financing activities</b>			
Repayment of borrowings	17	(525)	(440)
Interest paid	7	(234)	(46)
Loan received/(paid) between related entity	14	(244)	300
Payment of finance lease liabilities		-	(6)
<b>Net cash flows used in financing activities</b>		<u>(1,003)</u>	<u>(192)</u>
 <b>Net increase/(decrease) in cash and cash equivalents</b>		<u>8,310</u>	<u>(705)</u>
 Cash and cash equivalents at beginning of year	15	33,958	34,663
Cash and cash equivalents inflow/(outflow) for the year		8,310	(705)
<b>Cash and cash equivalents at end of year</b>	15	<u>42,268</u>	<u>33,958</u>

All cash flows for the year and for prior year arose from continuing operations

The notes on pages 12 to 31 form an integral part of these financial statements

**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

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## **HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

### **NOTES TO THE FINANCIAL STATEMENTS**

Hastings Insurance Services Limited (the 'Company') is a company incorporated in England and Wales. Its registered office is at Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex TN39 3LW. The financial statements comprise the results of the Company for the year ended 31 December 2012 and comparative figures for the year to 31 December 2011.

#### **1 SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of preparation**

##### **a) Statement of compliance with IFRS**

The Company has prepared its financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) as adopted in the European Union that are in effect as at 31 December 2012.

##### **b) Overall consideration**

The financial statements have been prepared on the historical cost basis, except for where adopted IFRS require an alternative treatment. Historical cost is generally based on the fair value of the consideration given in exchange for acquired assets or issued liabilities.

The significant accounting policies that have been applied in the preparation of these financial statements are outlined below. The accounting policies have been used consistently throughout all years presented in the financial statements.

##### **c) Going concern**

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the primary statements and described in the notes to the accounts.

Having considered the foregoing items for the next 12 months and beyond, and after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

##### **d) Basis of measurement**

The functional currency is sterling and the financial statements are presented in sterling. Amounts are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

The company is a wholly owned subsidiary whose parent company Hastings (Holdings) Limited prepares consolidated financial statements which are publicly available. The company is exempt from itself preparing consolidated financial statements under section 400 of the Companies Act 2006.

## **HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

### **1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **e) Standards and Interpretations issued but not yet effective**

The Company has not early adopted the following standards which have been issued and endorsed by the EU, but are not yet effective

<b>Standard</b>	<b>Effective date</b>
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures	1 January 2014
IFRS 10 Consolidated financial statements	1 January 2014
IFRS 11 Joint Arrangements	1 January 2014
IFRS 12 Disclosure of Interest in Other Entities	1 January 2014
IFRS 13 Fair Value Measurement	1 January 2013
IAS 27 Separate Financial Statements (as revised in 2011)	1 January 2014
IAS 28 Investments in associates and joint ventures (as revised in 2011)	1 January 2014
IAS 19 Employee Benefits (as revised in 2011)	1 January 2013
Amendments to IAS 1 - Presentation of items of other comprehensive income	1 July 2012
Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to IFRS 7 Disclosures- Offsetting Financial Assets and Financial Liabilities	1 January 2013

The expected impact of the standard issued but not yet effective is still being assessed, however, the Company does not anticipate that the above standard will have a significant impact in the period of initial application

#### **f) Presentation of financial statements in accordance with IAS 1**

The financial statements are prepared in accordance with IAS 1 'Presentation of Financial Statements' The Company has elected to present a single Statement of Comprehensive Income

#### **g) Adoption of new International Financial Reporting Standards**

The accounting policies below, developed in accordance with the standards effective under IFRS for the year ended 31 December 2012, have been applied consistently to all years presented in these financial statements There have been no changes to accounting policies during the year

#### **Accounting policies**

##### **a) Revenue recognition**

Revenue consists principally of brokerage, interest, fees and other commissions relating to the provision of insurance broking and related services All revenue arises within the UK and is recorded net of sales tax.

Total commission entitlement is recognised when effective with a deferral of revenue as follows:

A portion of revenue is deferred which is calculated as the expected loss of revenue which will be incurred as a result of future cancellations on policies in existence at the statement of financial position date Additionally where there is an expectation of future servicing, an element of income is deferred to cover the expected costs of contractual obligations together with a reasonable profit on those services

Policy fees include brokerage fees and fees on cancellations and mid-term adjustments These are all recognised when effective

Interest earned on instalment sales is recognised over the term of the related agreement using the effective interest method

Any adjustments to revenue are recognised when effective Other income is recognised on an accruals basis

**HASTINGS INSURANCE SERVICES LIMITED**  
For the year ended 31 December 2012

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) Intangible assets**

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses.

Purchased computer software is initially recorded at cost which is the fair value of consideration provided plus directly attributable costs incurred in order to prepare the asset for its intended use.

Internally developed computer software is only recognised when costs can be measured reliably, completion is technically and financially feasible, future economic benefits are probable and there is intention to use the asset. Other research and development expenditure is recognised in the income statement as incurred.

Amortisation is provided on all computer software, including those held under finance lease, at rates calculated to write off the cost of the assets less their estimated residual value over their expected useful lives.

Amortisation is calculated using the straight line method and recorded in other operating expenses in the Statement of Comprehensive Income.

Expected useful economic lives and residual values are reviewed at each year end and, where necessary, changes are accounted for prospectively.

The expected useful economic lives are as follows:

Computer software 3 – 6 years

Carrying amounts are reviewed at each year end to determine if there are indications of impairment. If there are indications of impairment the asset's recoverable amount is estimated and compared to the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the asset's value in use. Impairment losses are recognised in the income statement.

Software is de-recognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. On de-recognition any gain or loss arising is calculated as the difference between the net disposal proceeds and the carrying amount of the item. This is recognised in the income statement in the period of de-recognition.

**c) Employee benefits**

The Company operates a defined contribution pension scheme. The amount charged to the income statement in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position. The Company has no legal or constructive obligation to make any further payments to the plans other than the contributions due.

**d) Financial instruments**

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and liabilities carried at fair value through profit or loss, which are measured initially at fair value. Financial assets and liabilities are measured subsequently as described below.

**• Available for sale financial assets**

Available for sale financial assets are identified as those equity investments over which the Company does not have significant influence. Available for sale financial investments are carried at fair value and changes in fair value are recognised in other comprehensive income whilst an investment is held, and are subsequently transferred to the income statement upon sale or de-recognition of the investment.

## **HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

### **1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **• Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any impairment losses. Loans and receivables comprise trade and other receivables, intercompany loans and related party loans.

#### **• Cash and cash equivalents**

Cash and cash equivalents include current accounts at banks and money market funds. Money market funds are funds which have a redemption period of no more than 1 day. Cash and cash equivalents are designated on initial recognition as at fair value through profit or loss.

#### **• Financial liabilities**

The Company's financial liabilities include intercompany loans, external borrowings, trade and other payables and related entity payables. Borrowings, trade and other payables are initially measured at fair value plus transaction costs and subsequently measured at amortised cost.

#### **• Impairment of financial assets**

Management assess at each year end date whether there is objective evidence that a financial asset is impaired, only loans and receivables are subject to impairment reviews, with any losses on assets held at fair value through profit or loss recognised through an adjustment to fair value. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of management about the following events:

- (i) significant financial difficulty of the issuer or debtor;
- (ii) a breach of contract, such as a default or delinquency in payments,
- (iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation,

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as 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 interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income for the period.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved profitability of the debtor), the previously recognised impairment loss is reversed and the amount of the reversal is recognised in the statement of comprehensive income for the period.

#### **e) Leases**

In accordance with IAS 17 'Leases', leases are classified as finance leases, where the Company assumes substantially all the risks and rewards of ownership. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the balance outstanding.

The asset subject to the finance lease is depreciated over the shorter of its useful life and the lease term. The corresponding rental obligations, net of finance charges, are included as a liability.

All other leases are treated as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term. Incentives provided by the lessor are credited to the income statement on a straight-line basis over the full lease term.

## **HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

### **1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **f) Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation and less any recognised impairment losses. Cost is the fair value of consideration provided plus incidental costs incurred to bring an asset to the condition and location necessary for its intended use.

Subsequent costs incurred which relate to the initial production or improvement of an asset are added to its cost and depreciated over the asset's useful economic life. Costs incurred significantly later than the initial production of the asset are treated as a separate asset if they meet the criteria of IAS 16 or else expensed as incurred.

Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost of fixed assets less their estimated residual value over their expected useful lives. Depreciation is calculated using the straight line method.

The expected useful economic lives are as follows:

Fixtures and fittings	5 years
Leasehold improvements	4 - 10 years
Computer equipment	3 years

Expected useful economic lives and residual values are reviewed at each year end and, where necessary, changes are accounted for prospectively.

Carrying amounts are reviewed at each year end to determine if there are indications of impairment. If there are indications of impairment the asset's recoverable amount is estimated and compared to the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the asset's value in use. Impairment losses are recognised immediately in the income statement.

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. On de-recognition any gain or loss arising is calculated as the difference between the net disposal proceeds and the carrying amount of the item. This is recognised in the income statement in the year of de-recognition.

#### **g) Taxation**

Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates for the UK, and any adjustment to tax payable in respect of previous financial years. Deferred tax expense is the change in deferred tax assets and liabilities between the reporting periods.

Deferred tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

## **HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

### **1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **h) Insurance intermediary assets and liabilities**

Insurance brokers normally act as agents in placing the insurable risks of their customers with insurers and as such, generally, are not liable as principals for the amounts arising from such transactions. Notwithstanding such legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities in recognition of the fact that the insurance broker is entitled to retain investment income on any cash flows arising from such transactions.

#### **i) Share capital**

Ordinary shares are classified as equity. Share premium is the difference between the nominal value of the shares issued and the value of the consideration received.

#### **j) Investment in associate**

Investments in associates are investments over which the Company exercises a significant influence. Such investments are held at cost, which is the fair value of consideration provided. Carrying amounts are reviewed at each year end to identify any indications of impairment.

### **2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make judgements and assumptions that affect the reported amounts of assets and liabilities and the reported income and expense during the reported periods as well as the content of any disclosures. Although these judgements and assumptions are based on the Directors' best knowledge of the amount, event or actions, actual results may differ from these estimates.

The estimates, assumptions and judgements that have a significant effect on the carrying amounts of Company's assets and liabilities are:

#### **a) Property, plant and equipment and intangible assets**

Assets are carried at historical cost less depreciation calculated to write off the cost of such assets over their estimated useful lives. Management determines the estimated useful lives and residual values. The estimated useful life is reviewed annually and the depreciation charge is revised where useful lives or residual values are subsequently found to be different to those previously estimated.

#### **b) Impairment of assets**

Assets not measured at fair value in the statement of financial position are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset exceeds its recoverable amount. Management judgement is required to establish indicators of impairment based upon knowledge of the business strategy and results and upon expected future cash flows.

#### **c) Provisions**

The Company measures provisions at the Directors' best estimate of expenditure required to settle the obligation at the financial position date. Estimates are made taking account of information available and different possible outcomes.

#### **d) Deferred income**

A portion of income is deferred where the Company retains the obligation to handle claims on policies placed. The amount of income deferred is calculated as the forecast associated costs of claims handling on live policies at the statement of financial position date. In addition, an amount of revenue is deferred to reflect anticipated cancellations of contracts by customers.

#### **e) Deferred tax asset**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The tax rates used are the current rates anticipated to be effective at the date the taxable profits would be recognised. These are subject to any changes in tax laws and rates effective at that date.

**HASTINGS INSURANCE SERVICES LIMITED**  
For the year ended 31 December 2012

**3 REVENUE**

	2012	2011
	£'000	£'000
Brokerage and fees	105,972	77,961
Interest income	35,320	26,472
Other income	1,147	658
<b>Total revenue</b>	<b>142,439</b>	<b>105,091</b>

**4 OPERATING EXPENSES**

	2012	2011
	£'000	£'000
Depreciation of property, plant and equipment	1,746	1,852
Amortisation of intangible assets	610	1,082
Auditor's remuneration - statutory audit work	50	50
Auditor's remuneration - taxation services	-	16
Operating lease rentals - land and buildings	849	538
Operating lease rentals - other	6	15
Staff costs	38,858	30,330
Other administration and distribution costs	60,928	53,055
	<b>103,047</b>	<b>86,938</b>

**5 EMPLOYEES' COSTS, HEADCOUNT AND DIRECTORS' EMOLUMENTS**

	2012	2011
	£'000	£'000
Employees' costs		
Salaries	34,676	27,135
Social security costs	3,646	2,783
Pension costs	536	412
	<b>38,858</b>	<b>30,330</b>
Average full time equivalent employees during the year	2012	2011
Customer facing employees	962	837
Non-customer facing employees	337	304
	<b>1,299</b>	<b>1,141</b>

The Directors' emoluments, excluding pension contributions, during the year amounted to £2,392,967 (2011 £1,666,314) The remuneration of the highest paid Director during the year was £455,952 (2011 £509,038)

Directors' participation in the Company's defined contribution pension scheme during the year amounted to £69,972 (2011 £61,863)

**6 RETIREMENT BENEFIT OBLIGATIONS**

The Company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the Company in an independently administered fund The pension cost charge represents contribution payable by the Company to the fund and amounted to £535,976 for the year (2011 £412,445)

**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

**7 FINANCE INCOME AND FINANCE COSTS**

<b>Finance income</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Interest from external sources	108	92
Interest from related entity	267	311
	<u>375</u>	<u>403</u>
<b>Finance costs</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Interest payable	234	46

**8 TAXATION EXPENSE**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Tax expense comprises</b>		
<b>Current year tax:</b>		
Current tax on profits for the year	9,780	3,587
Adjustment for prior years	1,324	(1,103)
	<u>11,104</u>	<u>2,484</u>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	20	1,105
Impact of change in the UK tax rate	121	338
Adjustment for prior years	513	-
	<u>654</u>	<u>1,443</u>
<b>Total taxation charge</b>	<u>11,758</u>	<u>3,927</u>
<b>Reconciliation:</b>		
<b>Profit before tax</b>	<b>39,533</b>	<b>18,510</b>
Tax calculated at effective corporation tax rate 24.5% (2011: 26.49%)	9,685	4,903
<b>Tax effects of:</b>		
Income not taxable for tax purposes	-	(47)
Expenses not deductible for tax purposes	115	69
Temporary differences not recognised in the computation	-	(58)
Group relief claimed	-	(109)
Impact of change in the UK tax rate	121	272
Adjustment in respect of previous years - current tax	1,324	(1,103)
Adjustment in respect of previous years - deferred tax	513	-
<b>Tax charge reported in the Statement of Comprehensive Income</b>	<u>11,758</u>	<u>3,927</u>

**HASTINGS INSURANCE SERVICES LIMITED**  
For the year ended 31 December 2012

**9 OTHER INTANGIBLE ASSETS**

	<b>Computer software £'000</b>	<b>Work in progress £'000</b>	<b>Total £'000</b>
<b>As at 31 Dec 2012</b>			
<b>Cost</b>			
Balance at 1 Jan 2012	9,089	630	9,719
Additions	842	644	1,486
Transfers	932	(936)	(4)
Derecognitions	(4,096)	(26)	(4,122)
Balance at 31 Dec 2012	<u>6,767</u>	<u>312</u>	<u>7,079</u>
<b>Amortisation and impairment loss</b>			
Balance at 1 Jan 2012	6,990	-	6,990
Amortisation	610	-	610
Derecognitions	(4,007)	-	(4,007)
Balance at 31 Dec 2012	<u>3,593</u>	<u>-</u>	<u>3,593</u>
<b>As at 31 Dec 2011</b>			
<b>Cost</b>			
Balance at 1 Jan 2011	8,588	175	8,763
Additions	1,073	635	1,708
Transfers	172	(172)	-
Derecognitions	(744)	(8)	(752)
Balance at 31 Dec 2011	<u>9,089</u>	<u>630</u>	<u>9,719</u>
<b>Amortisation and impairment loss</b>			
Balance at 1 Jan 2011	6,541	-	6,541
Amortisation	1,082	-	1,082
Derecognitions	(633)	-	(633)
Balance at 31 Dec 2011	<u>6,990</u>	<u>-</u>	<u>6,990</u>
<b>Carrying amount</b>			
At 31 Dec 2012	3,174	312	3,486
At 31 Dec 2011	2,099	630	2,729

Work in progress includes assets in production which are considered to fulfil the criteria for recognition outlined in IAS 38 but which have not yet reached the state where they are ready for their intended use. As such no amortisation has yet been charged on these assets.

**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

**10 PROPERTY, PLANT AND EQUIPMENT**

	<b>Fixtures &amp; fittings £'000</b>	<b>Computer equipment £'000</b>	<b>Leasehold improvements £'000</b>	<b>Work in progress £'000</b>	<b>Total £'000</b>
<b>As at 31 Dec 2012</b>					
<b>Cost</b>					
Balance at 1 Jan 2012	3,410	9,093	3,478	682	16,663
Additions	182	810	274	644	1,910
Transfers	375	10	523	(904)	4
Derecognitions	(2,845)	(4,589)	(2,243)	(61)	(9,738)
<b>Balance at 31 Dec 2012</b>	<b>1,122</b>	<b>5,324</b>	<b>2,032</b>	<b>361</b>	<b>8,839</b>
<b>Accumulated depreciation</b>					
Balance at 1 Jan 2012	3,068	7,120	2,915	-	13,103
Depreciation	193	1,260	293	-	1,746
Derecognitions	(2,815)	(4,584)	(2,213)	-	(9,612)
<b>Balance at 31 Dec 2012</b>	<b>446</b>	<b>3,796</b>	<b>995</b>	<b>-</b>	<b>5,237</b>
<b>As at 31 Dec 2011</b>					
<b>Cost</b>					
Balance at 1 Jan 2011	3,320	8,105	3,817	-	15,242
Additions	145	1,123	141	682	2,091
Derecognitions	(55)	(135)	(480)	-	(670)
<b>Balance at 31 Dec 2011</b>	<b>3,410</b>	<b>9,093</b>	<b>3,478</b>	<b>682</b>	<b>16,663</b>
<b>Accumulated depreciation</b>					
Balance at 1 Jan 2011	2,954	5,973	2,738	-	11,665
Depreciation	131	1,274	447	-	1,852
Derecognitions	(17)	(127)	(270)	-	(414)
<b>Balance at 31 Dec 2011</b>	<b>3,068</b>	<b>7,120</b>	<b>2,915</b>	<b>-</b>	<b>13,103</b>
<b>Carrying amount</b>					
<b>At 31 Dec 2012</b>	<b>676</b>	<b>1,528</b>	<b>1,037</b>	<b>361</b>	<b>3,602</b>
<b>At 31 Dec 2011</b>	<b>343</b>	<b>1,973</b>	<b>562</b>	<b>682</b>	<b>3,560</b>

Work in progress includes assets in production and which are considered to fulfil the criteria for recognition outlined in IAS 16 but which have not yet reached the state where they are ready for their intended use. As such no depreciation has yet been charged on these assets.

**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

**11 INVESTMENTS**

	2012	2011
	£'000	£'000
Investment	<u>4,034</u>	<u>4,034</u>

The investment relates to 11 nil par Ordinary Shares in Lucky JV Limited and 4,033,561 Preference shares of £1 each in the entity (representing an 11% interest in that entity)

The investment is carried at fair value, that being the fair value of its preference shares and the rights to future profits that the Company may have

**12 INVESTMENT IN ASSOCIATE**

	2012	2011
	£'000	£'000
Investment in associate	<u>300</u>	<u>-</u>

Consisting of the following shareholdings.

Company	Company number	Interest held	Capital and reserves £	Loss for the year £
E Touch Solutions Limited (Registered in England and Wales)	7501618	25%	95,970	53,040

On 6 September 2012 the Company acquired a 10% investment in E Touch Solutions Limited amounting to 111 ordinary shares for the cash consideration of £100,000. On 4 December 2012 this investment was increased by 222 ordinary shares for the cash consideration of £200,000 bringing the total holding to 333 shares constituting 25% ownership of the associate

The associate is a software production company which creates mobile based software for use by the insurance market

Upon initial recognition the asset was accounted for as an available for sale financial asset, being an investment in equity instruments which are not held for trading. As such the asset was initially recognised at fair value plus any incremental transaction costs with subsequent movements in the fair value of the asset being recognised in equity

On 4 December 2012 the investment became an associate when the fair value of the initial shareholding was £100,000. Within the separate financial statements the investment in associate has been accounted for at cost with subsequent impairment reviews carried out

**13 TRADE AND OTHER RECEIVABLES**

	2012	2011
	£'000	£'000
Due within one year		
Receivables from related entities	23,010	21,334
Other trade receivables	<u>123,838</u>	<u>116,419</u>
	<u>146,848</u>	<u>137,753</u>

The following table sets out trade receivables which are not overdue as well as an analysis of overdue amounts impaired and provided for

Fees charged to customers at the point of cancellation are deferred until received and so are not included in the provision for impairment but are instead recognised as deferred income

**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

**13 TRADE AND OTHER RECEIVABLES (continued)**

	Trade Receivables	Provision for impairment	Net trade receivables	Portion as deferred income
	£'000	£'000	£'000	£'000
<b>At 31 December 2012</b>				
Current	145,663	(849)	144,814	216
Overdue	6,616	(4,582)	2,034	1,877
	<u>152,279</u>	<u>(5,431)</u>	<u>146,848</u>	<u>2,093</u>
<b>At 31 December 2011</b>				
Current	136,356	(621)	135,735	197
Overdue	7,356	(5,338)	2,018	1,881
	<u>143,712</u>	<u>(5,959)</u>	<u>137,753</u>	<u>2,078</u>

Movements on the Company's provision for impairment are as follows

	2012 £'000	2011 £'000
At beginning of the year	5,959	10,139
Utilised	(6,083)	(11,227)
Increase in provision	5,555	7,047
At end of the year	<u>5,431</u>	<u>5,959</u>

**14 LOANS RECEIVABLE**

	2012 £'000	2011 £'000
<b>Due in more than one year</b>		
Loan receivable from related entity	<u>10,818</u>	<u>10,574</u>
<b>Due within one year</b>		
Intercompany loan receivable	<u>-</u>	<u>2,408</u>

**15 CASH AND CASH EQUIVALENTS**

	2012 £'000	2011 £'000
Cash at bank and in hand	11,429	26,137
Money market funds	30,839	7,821
Cash and cash equivalents	<u>42,268</u>	<u>33,958</u>

Cash and cash equivalents at the end of the year include deposits with banks of £28,994,339 (2011 £25,455,412) relating to cash held on behalf of insurers

**16 DEFERRED TAX ASSETS**

a) Composition	2012 £'000	2011 £'000
Accelerated capital allowances	1,063	1,201
Provisions	-	516
	<u>1,063</u>	<u>1,717</u>

**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

**16 DEFERRED TAX ASSETS (continued)**

<b>b) Movements</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
At beginning of year	1,717	3,160
Accelerated capital allowances	(138)	(21)
Provisions	(516)	(289)
Tax losses carried forward	-	(1,133)
<b>At end of year</b>	<b>1,063</b>	<b>1,717</b>

There are no unrecognised deferred tax assets at the statement of financial position date nor in the comparative year

The Finance Act 2012 enacted the reduction in corporation tax rate to 24% with effect from April 2012 and 23% from April 2013. The UK government announced in December 2012 that the corporation tax rate would further reduce to 21% from April 2014. Other than the enacted changes to 25% and 23%, the effects of the announced changes are not reflected in the financial statements for the year ended 31 December 2012 as they were not enacted (or substantively enacted) at the statement of financial position date

**17 LOANS AND BORROWINGS**

<b>a) Current loans and borrowings</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Related party loans	162	487
<b>b) Non-current loans and borrowings</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Related party loans	-	200
<b>c) Loans maturity analysis</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Amounts repayable within one year	162	487
In the second year	-	200
<b>Total loans and borrowings</b>	<b>162</b>	<b>687</b>

**18 TRADE AND OTHER PAYABLES**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Due within one year:</b>		
Payables to related entity	127,765	115,170
Trade creditors	14,258	15,554
Other payables	10,675	11,651
	<b>152,698</b>	<b>142,375</b>

**19 FINANCIAL INSTRUMENTS, CAPITAL MANAGEMENT AND RELATED DISCLOSURES****a) Financial assets and liabilities**

The Company's financial instruments held at amortised cost can be analysed as follows

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Financial Assets:</b>		
Loan receivable	10,818	12,982
Trade and other receivables	146,848	137,753
	<b>157,666</b>	<b>150,735</b>

**HASTINGS INSURANCE SERVICES LIMITED**

For the year ended 31 December 2012

**19 FINANCIAL INSTRUMENTS, CAPITAL MANAGEMENT AND RELATED DISCLOSURES (continued)**

	2012 £'000	2011 £'000
<b>Financial Liabilities:</b>		
Loans and borrowings non-current	-	200
Loans and borrowings current	162	487
Trade and other payables	<u>152,698</u>	<u>142,375</u>
	<u>152,860</u>	<u>143,062</u>

The carrying value of financial instruments held at amortised cost is considered to be an approximation of fair value.

The Company's financial instruments held at fair value can be analysed as follows

	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>As at 31 December 2012</b>			
<b>Financial Assets:</b>			
Investment	-	-	4,034
Cash and cash equivalents	<u>42,268</u>	<u>-</u>	<u>-</u>
	<u>42,268</u>	<u>-</u>	<u>4,034</u>
<b>As at 31 December 2011</b>			
<b>Financial Assets:</b>			
Investment	-	-	4,034
Cash and cash equivalents	<u>33,958</u>	<u>-</u>	<u>-</u>
	<u>33,958</u>	<u>-</u>	<u>4,034</u>

Level 3 non-current financial assets constitute an investment for the purposes of making loans to Directors of the Company and its parent. The fair value of this investment is determined by reference to its recoverable value, being the recoverable value of the loans which is equivalent to its carrying value.

Fair value hierarchy level is determined by the methods used in establishing the value of financial assets and liabilities.

Assets and liabilities held at level 1 are those for which valuations can be obtained by reference to identical assets or liabilities traded on an active market.

Assets and liabilities held at level 2 are defined by having inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Assets and liabilities held at level 3 are defined by having inputs that are not observable.

All trade and other receivables are due within 12 months of the Financial Position date.

**b) Objectives, policies and procedures for managing financial assets and liabilities**

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk for the Company are credit risk, market risk and liquidity risk.

## HASTINGS INSURANCE SERVICES LIMITED

For the year ended 31 December 2012

### 19 FINANCIAL INSTRUMENTS, CAPITAL MANAGEMENT AND RELATED DISCLOSURES (continued)

#### *Credit Risk*

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The main areas where the Company is exposed to credit risk are brokerage not yet received, investments, loans and receivables and cash and cash equivalent holdings

The Company manages its exposure to credit risk by establishing investments only in money market funds with credit ratings of AA or above. The credit rating of the Company's bank is monitored on a regular basis along and where there is adverse movement appropriate action would be determined by the risk committee. As at 31 December 2012 the credit ratings of the institutions and funds holding the Company's cash and cash equivalents were as follows

	Rating	2012 £'000	2011 £'000
Money market funds	AAA	30,839	7,821
Bank current account	AA	11,429	26,137
		<u>42,268</u>	<u>33,958</u>

In addition, the Company has investment guidelines that restrict the amount of the investment portfolio that can be placed with a single counterparty other than members of the Hastings Insurance Group

The Company has an investment in Lucky JV limited. Since the purpose of this investment is to provide loans to Directors of the Company the major credit risk associated with this investment is the ability of the Directors to repay these loans on demand. Assurances are regularly sought around the liquidity of Directors personal funds and their ability to repay. At the year end the loans were considered to be recoverable in full.

Brokerage and fee receivables are monitored closely with a view to minimising the collection period of those items.

The Company's maximum exposure to credit risk at 31 December 2012 is £88,089,055 (2011 £79,306,976), being the carrying value of brokerage and fee receivables, investments, cash and cash equivalents and loans receivable. The exposure is not hedged by the use of derivatives or similar instruments. Bad debt expense exposure relating to policyholder debt charged to the income statement and the value of past due financial assets are disclosed in note 13.

#### *Market Risk*

The only significant Market Risk the Company is exposed to is interest rate risk.

Interest rate risk is defined by the Company as the impact of unfavourable movements in market interest rates which consequently could produce adverse result on the values of financial assets and liabilities, or the future cash flows from them. This is applicable to cash and cash equivalents and related party loans receivable.

Cash and cash equivalent balances are held in current accounts or in short term money market instruments, these are generally less than 60 days in duration, considerably reducing sensitivity to significant movements in interest rates compared to longer duration assets.

Loan receivable relates to a balance owed by Advantage Global Holdings Limited. Interest is paid on this balance on a LIBOR plus basis. The impact of a rise of 100 bps in interest rates at the reporting date, on an annualised basis, would have increased equity and profit by £100,756 (2011 £379,010).

## HASTINGS INSURANCE SERVICES LIMITED

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### 19 FINANCIAL INSTRUMENTS, CAPITAL MANAGEMENT AND RELATED DISCLOSURES (continued)

#### *Liquidity Risk*

Liquidity risk is the risk that cash may not be available to meet obligations when due. The Company maintains significant holdings in liquid funds to mitigate this risk. The Company makes use of detailed forecasts and budgets to monitor and control its cash flow and working capital requirements

Financial liabilities – trade and other payables, are settled in line with agreed payment terms and managed in accordance with cash availability and inflow expectations. All financial liabilities except loans and borrowings are due within 12 months. Loans and borrowings fall due as outlined in the maturity analysis contained in note 17

Liquidity risk is thus not considered to be significant

#### c) Objectives, policies and procedures for managing capital

The Company's capital largely constitutes loans from related entities and residual profit from its broking activities

The Directors regularly review the amount of capital of the Company through monitoring of the financial performance of the business. Daily cash flows are produced to accurately predict when the Company's liabilities will fall due. Trends against these forecasts are used to more accurately predict the maturity of short and long term liabilities

The Company as an insurance intermediary is also subject to a minimum capital requirement under FSA rules. The Company exceeded that minimum capital requirement at all times

### 20 SHARE CAPITAL AND RESERVES

	2012	2011
	£'000	£'000
Share capital	22,980	22,980
Retained earnings	6,001	10,058
Total equity	<u>28,981</u>	<u>33,038</u>
	2012	2011
	Issued share	Issued share
	capital	capital
	£'000	£'000
Allotted, called up and fully paid	22,980	22,980
Ordinary shares of £1 each	<u>22,980</u>	<u>22,980</u>

#### Rights in relation to shares

All shares in issue at 31 December 2012 are of a single class with common rights in relation to distribution, return of capital and voting

### 21 DEFERRED INCOME

	2012	2011
	£'000	£'000
Due within one year:		
Deferred income	<u>16,576</u>	<u>14,589</u>
	2012	2011
	£'000	£'000
Due in more than one year:		
Deferred income	<u>5,274</u>	<u>4,408</u>

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**22 PROVISIONS**

	Lease commitments £'000	Dilapidations £'000	Total provisions £'000
<b>Due within one year:</b>			
At 1 Jan 2012	619	-	619
Utilised	(604)	-	(604)
Transfer from non-current provision	605	-	605
<b>At 31 Dec 2012</b>	<b>620</b>	<b>-</b>	<b>620</b>
At 1 Jan 2011	406	-	406
Utilised	(646)	-	(646)
Transfer from non-current provision	859	-	859
<b>At 31 Dec 2011</b>	<b>619</b>	<b>-</b>	<b>619</b>
<b>Due in more than one year:</b>			
At 1 Jan 2012	1,444	66	1,510
Amounts written off	(56)	-	(56)
Transfer to current provision	(605)	-	(605)
<b>At 31 Dec 2012</b>	<b>783</b>	<b>66</b>	<b>849</b>
At 1 Jan 2011	2,303	250	2,553
Amounts written off	-	(184)	(184)
Transfer to current provision	(859)	-	(859)
<b>At 31 Dec 2011</b>	<b>1,444</b>	<b>66</b>	<b>1,510</b>
<b>Total due:</b>			
<b>At 31 Dec 2012</b>	<b>1,403</b>	<b>66</b>	<b>1,469</b>
<b>At 31 Dec 2011</b>	<b>2,063</b>	<b>66</b>	<b>2,129</b>

The above relates to a property lease in Manchester which became onerous when the Company closed its call centre there. Since then the Company has been unable to sub-let the vacant space.

The provision relating to dilapidations was established to cover the costs relating to returning the Manchester offices to the condition agreed with the Landlord at the end of the lease.

**23 CONTINGENT LIABILITIES**

The Company may become subject to claims and lawsuits that arise in the ordinary course of business consisting principally of alleged errors and omissions in connection with the placement of insurance and reinsurance. Some of these claims and lawsuits seek damages including punitive damages in amounts which are not expected to be significant.

**24 COMMITMENTS**

**a) Operating leases**

At 31 December 2012 the Company was committed to making the following payments under operating leases in the following years:

	2012		2011	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
<b>Operating leases</b>				
Rentals are payable as follows				
Within one year	849	3	849	6
Years 2 through 5 combined	1,954	9	2,428	12
Over 5 years	3,625	-	4,000	-
	<b>6,428</b>	<b>12</b>	<b>7,277</b>	<b>18</b>

## HASTINGS INSURANCE SERVICES LIMITED

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### 24 COMMITMENTS (continued)

#### b) Other commitments

	2012	2011
	£'000	£'000
IT transaction and support costs	<u>2,819</u>	<u>3,974</u>

The above represents amounts committed under an IT contract which expires in September 2014

### 25 DIVIDENDS

Dividends for the period amounted to £31,832,000 (2011 £nil), made up of the following

	Dividend paid £'000	Dividend pence per share
10 April 2012	13,000	56.6
25 September 2012	3,432	14.9
27 November 2012	<u>15,400</u>	<u>67.0</u>
	<u>31,832</u>	<u>138.5</u>

### 26 RELATED PARTY TRANSACTIONS

The Company considers parties to be related where they or their close family members, either individually or through virtue of their influence over another entity which does not form a part of the Company, exert significant influence or control over the Company and where parties form a part of the key management personnel of the Company.

- Conquest House Limited and Advantage Insurance Company Limited are related parties of the Company by virtue of the common ownership by their ultimate parent undertaking Hastings Insurance Group Limited
- Commission earned by the Company in the year in respect of policies sold that were underwritten by Advantage Insurance Company Limited was £41,214,581 (2011 £24,128,894) Amounts owed to related companies include a balance relating to premiums on policies sold due to Advantage Insurance Company Limited of £124,210,498 (2011 £115,146,832) relating to the net of premiums and IPT payable and commissions receivable on policies sold due to Advantage Insurance Company Limited
- During a prior period, Advantage Insurance Company Limited provided a loan to Hastings Insurance Services Limited on which interest is charged at 5% per annum. Interest in the year was £20,400 (2011 £45,849) The value of this loan as at 31 December 2012 was £161,844 (2011 £686,579)
- Rent payable by the Company to Conquest House Limited during the year amounted to £375,000 (2011 £375,000)
- During a prior period the Company provided a loan facility to Advantage Global Holdings Limited Interest on the loan is charged at 1.5% over LIBOR (London Interbank Offered Rate) Interest receivable on this loan in the year was £243,984 (2011 £235,018) The value of this loan as at 31 December 2012 was £10,817,812 (2011 £10,573,828) and it is repayable on 2 February 2014
- During a prior year the Company provided a loan facility to Hastings (UK) Limited Interest on the loan was charged at 2% over LIBOR. Interest receivable on this loan in the year was £23,386 (2011 £76,247) The value of this loan as at 31 December 2012 was £nil (2011 £2,408,182)
- The Company has a balance receivable from Hastings (Holdings) Limited of £19,455,364 (2011 £21,172,030) relating to payments made on its behalf
- During the year a Director of the Company was a member of the key management personnel of Premier Occupational Healthcare Limited Invoices received by the Company from this entity in the year totalled £31,386 (2011 £24,331) Amounts owing to the entity as at 31 December 2012 were £nil (2011 £1,489)

## **HASTINGS INSURANCE SERVICES LIMITED**

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### **26 RELATED PARTY TRANSACTIONS (continued)**

- At the end of the year Lucky JV Limited, an investment of the Company had loans receivable from Directors of the Company totalling £7,940,434 (2011: £7,956,532)
- The Company has a balance receivable from its ultimate controlling party Hastings Insurance Group of £nil (2011 £139,088)
- During the year a Director of the Company was a member of the key management personnel of Larkins Farm LLP. Invoices received by the Company from this entity in the year totalled £20,417 (2011: £35,000). No amounts were owed to the entity at the end of the year (2011: £nil)
- During the year a Director of the Company was a member of the key management personnel of Age UK. Invoices received by the Company from this entity in the year totalled £3,000 (2011: £3,000). No amounts were owed to the entity at the end of the year (2011: £nil)

### **27 ULTIMATE CONTROLLING PARTY**

As at 31 December 2012, the Company's immediate parent company is Hastings (UK) Limited, whose registered office is at Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex, TN39 3LW

The Ultimate controlling party by virtue of shareholding is Hastings Insurance Group Limited

### **28 SUBSEQUENT EVENTS**

On 26 March 2013 the Directors approved for share capital of £14.9m to be reclassified to distributable reserves to improve the flexibility of the capital structure of the Company