



24 March 2011

## Preliminary Results for the year ended 31 December 2010

Abbey Protection plc ("Abbey Protection" or the "Group"), the specialist supplier of legal and professional fees insurance products and services to UK small-to-medium sized enterprises, today announces preliminary results for the twelve months ended 31 December 2010.

### Highlights

- 9% increase in pre-tax profits to £9.6m
- Revenue up 6% (to £34.9m)
- Earnings per share up 8% to 6.97p
- Steady and profitable underwriting results with a claims ratio of 62.6%
- Shareholders' funds up 15% to £25.7m
- Second dividend of 2.3p, making total dividend in respect of the year ended 31 December 2010 of 4.0p per share (2009: total dividend 3.7p)
- Outlook positive, with ongoing demand for services and opportunities ahead of the deregulation of the legal services sector in 2011

### Colin Davison, Chief Executive Officer, commented:

"Against a backdrop of challenging market conditions, we are pleased to announce another solid set of full year results which display continued growth in both revenue and profits and demonstrate the resilience of our core business models. Heading into 2011, we are well positioned to expand both legal and tax related services, including the opportunities arising from the upcoming legal reform act."

### Tony Shearer, Chairman, commented:

"I'm delighted that Abbey Protection continues to deliver value-adding services to its clients and shareholder value with steady, long-term growth across market cycles. The second interim dividend which is payable on 25 March 2011 makes a total distribution in respect of 2010 of 4.0p per share."

### Financial Highlights

	Year ended 31 December 2010	Year ended 31 December 2009	Growth
Revenue	£34.9m	£32.9m	6%
EBITDA	£10.2m	£9.5m	8%
Profit before tax	£9.6m	£8.7m	9%
Profit after tax	£6.9m	£6.4m	8%
Basic earnings per share	6.97p	6.43p	8%
Dividend Per Share	4.0p	3.7p	8%

## Chairman's Statement

The results for 2010 show a 9% increase in profit before tax from £8.7m to £9.6m. These results are particularly pleasing, being achieved against a background of difficult trading conditions including, as anticipated, a significant reduction in revenue in our After The Event division and continued low investment income as interest rates remain suppressed.

Our principal Legal and Tax trading divisions both had excellent years with each increasing profit contribution by 11% in 2010.

Employment related calls to our legal advice line service reduced to "pre-recession" levels during the year and as a result we were able to benefit from some headcount savings. Tax related enquires were relatively consistent throughout the year as HM Revenue & Customs refocused their Enquiry units; we expect that the results of this refocusing will result in an increase in the level of tax related enquires in 2011, as well as from attempts to reduce so-called tax loopholes.

Our revenues in 2010 have benefited from an increasing number of our clients finding that our tax and employment consultancy services offer real value as we advise them on relatively straightforward ways of reducing their exposure to HMRC enquiries and to the repercussions of employment law.

Whilst expecting further growth in both revenues and profits, we see 2011 as being a challenging year in both our core activities as our clients face increasingly tough trading conditions, with pressures on their employment levels and taxable income. We will continue to explore opportunities for acquiring complementary businesses to supplement our organic growth, though we have not recently found any that meet our criteria for adding value to shareholders.

In October of this year we expect the first licences to be granted following the de-regulation of the legal services market. Our plans are well advanced and through a combination of scaling up our in-house capabilities and the possibility of taking an equity stake in a law firm, we are well positioned to take advantage of the opportunities in this market.

The Board is aware that we face many challenges, but we believe that our business models are sound and resilient. As a result, the members of the Board are approaching the coming year with confidence.

**Tony Shearer**  
**Chairman**

23 March 2011

# Chief Executive's Statement

2010 was a difficult year for our smaller trading divisions, so I am delighted to report an overall 9% increase in pre-tax profits to £9.6m, with revenues up 6% to £34.9m.

What is particularly significant is that these results demonstrate the resilience of our core business models and the benefits that can be gained by the application of strong risk management principles.

2010 was always going to be a tough year. Not only did we have the expected reduction in revenue from our After the Event division and the potential for an increase in recession induced employment claims, but a lack of HMRC investigation activity predicated a highly competitive environment for the tax related professional fees markets. Furthermore, as the year progressed, it was clear that there was to be no immediate upturn in investment income as interest rates remained suppressed.

It was also very pleasing to see the solid results of our captive reinsurance company, Ibex, as it became clear that our risk management controls, of employment claims in particular, had meant that we had avoided any significant impact from the recession led claims environment.

The investment the Group had made historically in its consultancy services (both legal and tax related) is now beginning to pay dividends, as significant elements of the growth achieved in 2010 came from these services. Although insurance will always be at the heart of what the Group does, consultancy services will become increasingly important in our development.

## Review of the Year

The combined revenues of our main trading divisions, Abbey Legal and Abbey Tax, together with Ibex, our captive reinsurance company, were up 7% to £30.4m and combined profit contributions were up 11% to £9.2m. These main trading divisions represent some 88% of Group revenue and 96% of Group pre-tax profits.

The tailing off of call volumes to our Legal Advice Centre in 2010, where they began to return to pre-recession levels, enabled Abbey Legal to benefit from headcount savings and with new business sales of just under £1m and solid renewal revenues, it meant a pre-tax profit contribution up 11% to £2.2m, even though revenues only increased by 6% to £9.6m.

The most pleasing aspect of the year was the control of employment led claim notifications, which actually reduced in 2010, but at the same time the Tribunals Services was announcing a 56% increase in employment tribunal claims for the last full year.

Revenue from employment related services increased 8% to £2.2m and now forms an increasingly important facet of the division.

Abbey Tax produced another excellent set of results with revenues and profit contributions both up 11% to £6.8m and £2.5m respectively. This does not tell the whole story, however, of what has been a challenging year. A reduction in the expected levels of investigations by HMRC in the latter half of 2009 and most of 2010 led to a highly competitive environment, with a number of our competitors engaging in significant price discounting.

Notwithstanding this competition, sales of our core fee protection product stood up well with renewal rates of 96% and new business sales of over £0.7m.

However, the success story of the year was our specialist consultancy areas including tax planning insurance and ReCap (our capital allowances product) where combined revenues increased by 145% to £1.3m. The division is currently looking to introduce additional services to make available to its accountancy client base in order to maintain this strong growth.

Our reinsurance company, Ibex, saw premium revenues increase 7% to £14m and most importantly we were able to maintain a claims ratio of 62.6% (2009: 63.2%), reflecting the risk management controls exercised on the employment claims and the reduction in HMRC tax enquiries. Overall profit contribution for Ibex was up 10% to £4.6m.

Investment income remains depressed at £0.5m and this is £1.5m less income than we enjoyed in the heady heights of 2008. However, we have maintained our risk adverse stance of capital preservation being the over-riding objective, so our portfolio continues to comprise of cash and short dated certificates of deposit.

Accountax had a challenging year with gains in the specialist consultancy services being outweighed by a reduction in income from the telesales marketing activities, undoubtedly a reflection of the harsh economic environment as accountants fight to retain their audit clients. The latter half of 2010 saw a re-focus of the tele-sales marketing operation and we look forward to seeing the benefit come to fruition in 2011 and beyond.

Cross selling opportunities with Abbey Tax and other Group divisions continued to flourish and we remain delighted with the Accountax acquisition and how it has integrated into the Group.

The After the Event division had to contend with the maturity of its material run-off services contracts and a resulting reduction in revenue of £0.4m. Added to this, there were also changes in the rules regarding Road Traffic Accident cases which impacted the revenue earnings on its Law Society endorsed Accident Line scheme. Although underlying policy sales increased by 14% in 2010, accounting treatment meant that profit contribution was largely static.

The Government's response is due in the Spring to the consultation exercise launched following the Jackson review and this will shape the future of personal injury compensation litigation. However, we anticipate further significant changes to the rules and remain ready to adapt our insurance product accordingly.

The launch of a Commercial After The Event insurance product was successful, with sales of over £0.6m and we look forward to seeing these sales develop significantly in the coming years.

Revenue was up 25% for Abbey HR, although the competitive environment kept margins tight and we need to maintain a constant focus on ensuring the division sources quality sales leads.

## **Dividend**

We recently announced a second dividend of 2.3p, which together with the dividend paid in October 2010, results in a total dividend for the year of 4.0p (2009: 3.7p), an 8% increase. This is in line with our progressive and sustainable dividend policy.

## **Current Trading and Outlook**

Although our current trading is solid, we remain wary of the challenging conditions that lay ahead in 2011. We are seeing signs that a number of our SME clients are beginning to feel the effects of the impending cuts in public sector services, with employment and redundancy led calls into our advice centre having increased again since the start of the year.

Our concern is how this might impact on membership numbers of our affinity groups and their insurance spend, in particular on ancillary services. We will be focusing our attention on ensuring these clients are aware of the benefits that these advisory services bring and how we can help them through these difficult times.

We remain encouraged by the continuing demand for our consultancy services, both in the legal and tax sectors and we remain confident that our business model is resilient to the challenges that lie ahead.

We have invested considerable time and energy in 2010 looking at a number of acquisition opportunities; sadly, we did not feel that any of them were at a level which would have added value to our shareholders. We remain committed to exploring the options for acquisition, but will remain cautious in our approach.

It is expected that the first of the Alternative Business Structure (ABS) licences will be granted this October and our plans are well advanced to take full advantage of this opportunity – both in building our in-house teams of lawyers and taking equity stakes in suitable law firms. Our activities will be focussed in and around those areas of law that will be most essential to our SME client base.

## **Directors**

I would like to thank my fellow main board directors for their input and guidance, as well as my fellow executive directors on our trading company board whose contribution has been invaluable.

## **Staff and Shareholders**

It is because of our dedicated staff that I look forward to what will undoubtedly be a challenging twelve months, with enthusiasm and confidence. It is the hard work and professionalism of our employees which ensures that we remain the leading supplier of legal and professional fees insurance to UK SME's. My thanks to them all!

Finally, a word about our shareholders. Although over 50% of the shareholding in Abbey Protection plc lies with senior management, we are committed to expanding the shareholder base. Indeed, we have been delighted by the encouragement that we are given by our institutional and private client investors alike. Thank you all for your support.

**Colin Davison**  
**Chief Executive**

## Analyst Presentation

There will be an analyst presentation to discuss the results at 9.30am today at FD, 26 Southampton Buildings, London WC2A 1PB.

Those analysts wishing to attend are asked to contact Nick Henderson or Ed Berry at Financial Dynamics on +44 20 7269 7114 or at [nick.henderson@fd.com](mailto:nick.henderson@fd.com) / +44 020 7269 7297 or at [edward.berry@fd.com](mailto:edward.berry@fd.com)

Abbey Protection's annual report for the year ended 31 December 2010 can be viewed and downloaded from Abbey Protection's website <http://www.abbeyprotectionplc.com>

## Enquiries

**Abbey Protection plc** +44 (0)845 217 8293  
Minories House  
2-5 Minories  
London  
EC3N 1BJ

Colin Davison  
Chris Ward  
Adrian Green

**PricewaterhouseCoopers LLP** +44 (0)20 7583 5000  
Simon Boadle  
Jon Raggett

**Financial Dynamics**  
Nick Henderson +44 (0)20 7269 7114  
Ed Berry +44 (0)20 7269 7297

## About Abbey Protection PLC

Abbey Protection plc is an integrated specialist insurance and consultancy group, and the UK's leading supplier of legal and professional fees insurance products and services to small-to-medium sized enterprises. The Group's principal products provide protection against costs incurred as a result of legal actions and HM Revenue & Customs investigations.

Founded in 1992, the Group operates from offices in London, Rugby, Croydon and Milton Keynes and had 237 employees as at 31st December 2010. Abbey Protection distributes its products and services through the following divisions: Abbey Legal Protection, Abbey Legal Services, Abbey Tax Protection, Abbey HR, Accountax and After The Event Services.

Visit the Abbey Protection website at [www.abbeyprotectionplc.com](http://www.abbeyprotectionplc.com) for more information.

## Financial review

As presented in note 5 to the financial statements, the Group has four principal operating segments, (Abbey Legal Protection, Abbey Tax Protection, Accountax and Insurance Underwriting) with the aggregate results of Abbey HR and ATE services presented as "Other".

### Revenue, Expenses and Claims costs

Group revenue before investment income for 2010 at £34.4m was up some £1.9m over 2009 representing an increase of nearly 6%.

Investment income at £0.5m was in line with prior year experience and consistent with the low interest rate environment which has persisted throughout the year. Cash and investment balances remain under a conservative and risk adverse strategy and as a consequence, the Group is well placed to benefit from the inevitable unwinding of the current monetary policy.

Whilst acquisition costs (associated with Ibex Reinsurance Limited) fell 5.0% to £0.9m (2009: £1.0m), other operating and administrative expenses increased by 5.0% to £15.7m (2009: £14.9m). Average headcount has increased marginally to 234 (2009: 231) but staff costs have increased by 6% recognising the need to maintain a fair and focused remuneration strategy. Staff costs including associated expenses represent circa 75.1% (2009: 74.6%) of operating and administration expenses. An analysis of average headcount by division is included in note 12 to the financial statements.

Claims incurred, including provision for claims "Incurred But Not Reported" ("IBNR") across all underwriting years represented 62.6% (2009: 63.2%) of net earned premiums. The underwriting business (comprising a quotashare reinsurance treaty covering business administered by Abbey Legal Protection and Abbey Tax protection) has continued to grow since the formation of Ibex Reinsurance Limited, the Group's Guernsey based captive reinsurance subsidiary, in 2003. This growth has been supplemented by the increase in the inward quotashare reinsurance treaty to a 90% participation (formerly 80%) from 1 January 2008. A summary of the development of each underwriting year is shown in the tables within note 4(i) to the financial statements.

### Profit and dividends

The Group produced an increase in profit before taxation of 9.2% to £9.6m (2009: £8.7m). A total dividend of four pence per share has been declared for 2010 representing a payout ratio of 57% (dividend cover of 1.7 times).

### EBITDA

EBITDA has pleasingly exceeded the £10m mark for the first time in 2010. EBITDA at £10.2m was up 8.2% from £9.5m in 2009.

### Taxation

The effective rate of corporation tax was marginally higher than prior year at 27.7% (2009: 27.0%). Profits arising in Ibex Reinsurance Limited are now chargeable to UK tax as they arise and full provision has been made in the consolidated financial statements.

### Cash flow

Cash generated from operating activities was again strong at £8.6m (2009: £9.5m). Tax payments for the period were higher due to the unwinding of the cash flow benefits associated with the controlled foreign companies regime enjoyed in prior periods. After the payment of dividends, cash and financial investment balances increased by 3.2% to £38.3m (2009: £37.1m).

### Balance sheet

The increase in receivables during the year is partly attributable to further growth in the After the Event account (where premiums are deferred) and partly to an increase in revenues. The Group manages receivables closely and as a result, the incidence of bad debt is low.

During the year, the Company has remained debt free. Whilst debt funding remains an option, the Company has sufficient cash resources for its immediate needs.

### Risk Management

A comprehensive summary of the risks facing the business and how those risks are managed is disclosed within note 4 to the financial statements.

## Financial review

### Regulatory Solvency Requirements

Details of the regulatory solvency requirements associated with the Group's activities are disclosed in note 37 to the financial statements. As at 31 December 2010 the Group had over sixteen times the minimum required eligible assets available to support its UK intermediation activities and nearly five times the minimum required eligible assets available to support its Guernsey based reinsurance activities.

### Treasury policy

The Company has adopted a prudent treasury policy for its cash and investments. Counterparty exposure is limited and credit quality monitored to ensure a low risk of default.

### A successful growth story

The table below demonstrates the growth and consistent profitability of the business over the last five years:

	2006	2007	2008	2009	2010
Revenue	£24.568m	£27.349m	£30.251m	£32.945m	£34.914m
Profit before taxation	£6.716m	£7.339m	£8.267m	£8.745m	£9.553m
Profit after taxation	£4.887m	£5.327m	£6.040m	£6.383m	£6.908m
Incurred claims ratio	67.90%	69.70%	63.92%	63.22%	62.56%
Cash & investments	£28.977m	£33.901m	£33.631m	£37.134m	£38.333m
Shareholders' funds	£12.001m	£14.661m	£19.368m	£22.400m	£25.722m

Despite the economic backdrop, the business remains well placed to continue to deliver positive returns for shareholders and to take advantage of opportunities as they present themselves.

**Adrian Green**  
Group Finance Director

## Consolidated income statement

For the year ended 31 December 2010

	Note	2010		2009	
		£000	£000	£000	£000
<b>Revenue</b>					
<b>Intermediary, advisory and other income</b>	7		20,352		19,314
Gross and net premiums written	6	15,150		13,623	
Gross and net change in provision for unearned premiums	6	<u>(1,101)</u>		<u>(451)</u>	
<b>Gross and net premiums earned</b>	6		14,049		13,172
Net investment return	8		513		459
<b>Total revenue</b>			<u>34,914</u>		<u>32,945</u>
<b>Expenses</b>					
Claims and change in insurance liabilities	9	(8,789)		(8,328)	
Acquisition costs	10	(918)		(966)	
Other operating and administrative expenses	11	(15,654)		(14,906)	
<b>Total operating expenses</b>			<u>(25,361)</u>		<u>(24,200)</u>
<b>Profit before tax</b>			<u>9,553</u>		<u>8,745</u>
Tax expense	14		(2,645)		(2,362)
<b>Profit attributable to equity shareholders of the parent</b>			<u>6,908</u>		<u>6,383</u>
<b>Earnings per share</b>					
From continuing operations			Pence per share		Pence per share
Basic	16		<u>6.97</u>		<u>6.43</u>
Diluted	16		<u>6.87</u>		<u>6.36</u>

There were no discontinued operations.

There was no other comprehensive income.

## Consolidated statement of changes in equity

For the year ended 31 December 2010

	Share capital	Share premium	Merger reserve	Equity settled share incentive reserve	Capital redemption reserve	Reverse takeover reserve	Own shares	Retained earnings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Shareholders' equity at 1 January 2009	1,000	3,539	282	163	557	188	(298)	13,937	19,368
Equity settled share-based payments	-	-	-	221	-	-	-	-	221
Ordinary dividend paid	-	-	-	-	-	-	-	(3,572)	(3,572)
Profit for the year	-	-	-	-	-	-	-	6,383	6,383
Shareholders' equity at 31 December 2009	1,000	3,539	282	384	557	188	(298)	16,748	22,400
Equity settled share-based payments	-	-	-	169	-	-	-	94	263
Ordinary dividend paid	-	-	-	-	-	-	-	(3,772)	(3,772)
Acquisition of treasury shares	-	-	-	-	-	-	(287)	-	(287)
Own shares released on vesting of share options	-	19	-	-	-	-	191	-	210
Profit for the year	-	-	-	-	-	-	-	6,908	6,908
Shareholders' equity at 31 December 2010	1,000	3,558	282	553	557	188	(394)	19,978	25,722

# Consolidated balance sheet

At 31 December 2010

	Note	2010 £000	2009 £000
<b>Assets</b>			
Goodwill	17	4,618	4,638
Other intangible assets	18	1,545	1,881
Property, plant and equipment	19	1,642	1,731
Financial investments	21	19,454	7,489
Trade and other receivables	24	23,614	20,251
Cash and cash equivalents	25	18,879	29,645
<b>Total assets</b>		<b>69,752</b>	<b>65,635</b>
<b>Liabilities</b>			
Insurance contract provisions	22	19,214	18,296
Financial liabilities	26	-	600
Finance lease obligations	34	168	199
Deferred tax liabilities	23	60	1,873
Current tax liabilities		2,352	1,477
Accruals and deferred income	27	9,012	8,644
Trade and other payables	28	13,224	12,146
<b>Total liabilities</b>		<b>44,030</b>	<b>43,235</b>
<b>Equity</b>			
Share capital	29	1,000	1,000
Share premium	30	3,558	3,539
Own shares		(394)	(298)
Retained earnings		19,978	16,748
Merger reserves		282	282
Reverse takeover reserve		188	188
Capital redemption reserve		557	557
Equity settled share incentive reserve		553	384
<b>Total shareholders' equity</b>		<b>25,722</b>	<b>22,400</b>

The financial statements were approved by the Board of directors and authorised for issue on 23 March 2011. They were signed on its behalf by:

Colin Davison  
Group Chief Executive

Chris Ward  
Group Managing Director

## Consolidated cash flow statement

For the year ended 31 December 2010

	Note	2010	2009
		£000	£000
Profit before tax		9,553	8,745
Adjusted for:			
Interest receivable		(450)	(548)
Profit on disposal of assets		(17)	(41)
Amortisation of intangible assets	18	411	403
Depreciation of property, plant and equipment	19	276	318
Equity settled share-based payments		263	221
Increase in receivables		(3,296)	(1,825)
Increase in payables		2,406	2,184
<b>Cash generated by operations</b>		<b>9,146</b>	<b>9,457</b>
Interest received		384	798
Tax paid		(3,583)	(2,586)
<b>Net cash from operating activities</b>		<b>5,947</b>	<b>7,669</b>
<b>Investing activities</b>			
(Purchases)/sales of financial investments		(11,965)	723
Purchases of intangible assets	18	(75)	(208)
Purchases of property, plant and equipment	19	(243)	(386)
Acquisition of subsidiary	17	(580)	-
<b>Net cash (used in)/from investing activities</b>		<b>(12,863)</b>	<b>129</b>
<b>Financing activities</b>			
Equity dividend paid	15	(3,772)	(3,572)
Purchase of own shares		(291)	-
Receipts on exercise of share options		213	-
<b>Net cash used in financing activities</b>		<b>(3,850)</b>	<b>(3,572)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(10,766)</b>	<b>4,226</b>
Cash and cash equivalents at beginning of the period		29,645	25,419
<b>Cash and cash equivalents at the end of the period</b>		<b>18,879</b>	<b>29,645</b>

## Notes to the financial statements

### 1 General information

Abbey Protection Limited was incorporated on 24 August 2007 as a shell company to facilitate the acquisition and listing on the Alternative Investment Market of the London Stock exchange (AIM) of Abbey Protection Group Limited. On 14 November 2007, Abbey Protection Limited was re-registered as Abbey Protection plc and then acquired Abbey Protection Group Limited under a share for share exchange agreement. On 29 November 2007, Abbey Protection plc was admitted to trading on AIM.

In order to appropriately reflect the substance of the transaction outlined above, the new holding company was accounted for using the reverse acquisition principles outlined in IFRS3 Business Combinations. Consequently, Abbey Protection Group Limited was deemed to be the acquirer for accounting purposes and the legal parent, Abbey Protection plc, was treated as the subsidiary whose identifiable assets and liabilities are incorporated into the Group at fair value.

### 2 Significant accounting policies

The principal accounting policies adopted in preparing the International Financial Reporting Standards (IFRS) consolidated financial statements of Abbey Protection plc and its subsidiaries (the "AP Group") are set out below:

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB) as adopted by the European Union (EU).

In accordance with IFRS 4, Insurance Contracts, the AP Group has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards.

The AP Group presents its Balance Sheet in order of liquidity in accordance with IAS 1, Presentation of Financial Statements. For each asset and liability line item in the Balance Sheet that combines amounts expected to be recovered or settled within twelve months, or more than twelve months after the balance sheet date, a classification at the balance sheet date is included within the notes.

#### (b) Basis of preparation

##### (i) Basis of consolidation

The consolidated financial statements are presented in Pounds Sterling and are rounded to the nearest thousand unless otherwise stated. They are prepared on the historical cost basis except that financial investments (see accounting policy m) are classified as fair value through profit and loss account and stated at their fair value.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

##### (ii) Parent company

The financial statements for the Parent Company have been prepared in accordance with UK Generally Accepted Accounting Principles. Advantage was taken of the merger relief provisions within S131 Companies Act 1985 for the acquisition of Abbey Protection Group Limited by Abbey Protection plc. Accordingly, the initial investment in subsidiary undertakings has been recorded at the nominal value of the shares issued to acquire the subsidiary.

##### (iii) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and

## Notes to the financial statements

### 2 Significant accounting policies (continued)

#### (b) Basis of preparation (continued)

##### (iii) Use of estimates (continued)

expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are discussed in note 3.

##### (iv) Going concern

The financial statements are prepared on the going concern basis as explained within the Directors' Report on page 14.

##### (v) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit and loss.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

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

The accounting policies set out below have been applied consistently to all periods presented.

#### (c) Recognition and measurement of revenue

##### Intermediary, advisory and other income

Intermediary, advisory and other income comprises:

- commission receivable (net of the direct costs of legal and technical advisory services) from clients in respect of the arrangement of legal, professional fees insurance and "after the event" policies is recognised at the date of inception of the contract;
- fees for the provision of non-insured helpline services which are recognised over the contract periods;
- fees for legal and tax representation work which are recognised on a proportional basis as the work is completed;

## Notes to the financial statements

### 2 Significant accounting policies (continued)

#### (c) Recognition and measurement of revenue (continued)

- subscriptions receivable from members of the Accident Line panel of solicitors for their participation in the Accident Line personal injury scheme which are recognised over the subscription year;
- fees and commissions for the provision of telemarketing services which are recognised when earned; and
- management and claims handling fees arising from claims run-off contracts which are recognised over the lives of the contracts having regard to the average periods required to settle claims.

Where contractual obligations exist for the performance of post placement activities, a relevant proportion of revenue recognised on placement is deferred and recognised over the period during which these activities are performed.

#### Insurance premiums

Gross premiums written comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of acquisition costs and exclude taxes and levies based on premiums. Premiums written include adjustments to premiums written in prior accounting periods and estimates for pipeline premiums. An estimate is made at the balance sheet date to recognise retrospective adjustments to premiums. The earned portion of premiums received, is recognised as revenue. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums. Outward reinsurance premiums are recognised as a deduction from net insurance revenue in accordance with the contractual arrangements with reinsurers.

#### Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the monthly pro rata method.

#### Claims

Claims incurred consist of claims paid during the financial year, together with the movement in the provision for outstanding claims.

Claims outstanding comprise provisions for the AP Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, adjusted for the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Anticipated reinsurance recoveries are presented separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

#### Unexpired risk provision

Provision is made for unexpired risks arising from business where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account the relevant investment return.

#### Claims liabilities

The provision represents the estimated ultimate cost of settling all claims including direct and indirect settlement costs, arising from events that occurred up to the balance sheet date. Unpaid losses consist of estimates for reported losses and provisions for losses not reported.

## **Notes to the financial statements**

### **2 Significant accounting policies (continued)**

#### **(c) Expenses (continued)**

##### **Deferred acquisition costs**

Acquisition costs which are incurred for acquiring insurance business that is primarily related to the production of that business are deferred (see accounting policy 1). Such deferred acquisition costs are finite and are amortised by reference to the basis on which the related premiums are earned which is generally one year or less.

##### **(d) Investment income**

Investment income comprises interest income and net gains/losses from financial assets designated as fair value through profit and loss earned in the period (see note 8).

##### **(e) Expenses**

###### **(i) Operating lease payments**

Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease.

###### **(ii) Finance lease payments**

Leases, under the terms of which the AP Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

###### **(iii) Finance costs**

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and are expensed in the Income Statement in the period to which they relate. No finance costs are capitalised.

##### **(f) Employee benefits**

###### **Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement as incurred.

##### **(g) Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the Income Statement.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are not discounted.

##### **(h) Foreign currency translation**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the presentational currency (pounds sterling) at the foreign exchange rate ruling at that date.

## Notes to the financial statements

### 2 Significant accounting policies (continued)

#### (h) Foreign currency translation (continued)

Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to pounds sterling at foreign exchange rates ruling at the dates the fair value was determined.

#### (i) Segment reporting

A business segment is an operation that provides products or services that are subject to risks and returns that are different from other business segments and represents more than 10% of the Group's turnover or profit before tax. A geographical segment provides products or services within a particular economic environment that are subject to risks and returns that are different from other geographical segments.

#### (j) Other intangible assets

Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of other intangible assets.

The estimated useful lives are as follows:

Computer software	Over 4 years
Brands	Over 15 years
Customer relationships	Over 5 to 7 years

There are no internally generated intangible assets.

#### (k) Property, plant and equipment

##### (i) Owned assets

Items of property, plant and equipment are stated at cost (or deemed cost) less accumulated depreciation (see below) and impairment losses (see accounting policy p). Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

##### (ii) Leased assets

Assets acquired under finance leases are capitalised at fair value as property, plant and equipment and depreciated in accordance with the AP Group's accounting policy k(iii). Lease payments are accounted for as described in accounting policy e(ii). Other leases are classified as operating leases and are not recognised on the AP Group's balance sheet.

##### (iii) Depreciation

Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Freehold property	Over 50 years
Leasehold improvements	Over the duration of the lease
Equipment and motor vehicles	Over 3 to 5 years
IT equipment	Over 4 years

## **Notes to the financial statements**

### **2 Significant accounting policies (continued)**

#### **(k) Property, plant and equipment (continued)**

##### **(iii) Depreciation (continued)**

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is recognised in income. The residual value, if not insignificant, is reassessed annually.

##### **(l) Deferred acquisition costs**

Acquisition costs comprise the reinsurance commission arising from entering into reinsurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the unearned premiums provision and are disclosed within trade and other receivables. Acquisition costs are not deferred to the extent that available future margins are not expected to cover such deferred costs.

##### **(m) Financial investments**

The Group classifies its investments as financial assets designated at fair value through profit and loss.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values less transaction costs. Investments classified at fair value through the income statement are subsequently carried at fair value, with changes in fair value included in the income statement in the period in which they arise. The fair values of investments are based on quoted bid prices.

Loans receivable that have fixed or determinable payments that are not quoted in an active market are measured at amortised cost using the effective interest method, less any impairment.

##### **(n) Other receivables**

Other receivables are stated at their cost less impairment losses (see accounting policy p).

##### **(o) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

##### **(p) Impairment**

The carrying amounts of the AP Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the Income Statement.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

##### **(q) Financial liabilities**

Financial liabilities comprise bank overdrafts and other payables including deferred purchase consideration. Financial liabilities are recognised on the balance sheet when the AP Group becomes a party to the contractual provisions of the financial instrument.

Management has determined that the carrying amounts of financial liabilities reasonably approximate to their fair values because these liabilities are short term in nature or are re-priced frequently. Financial liabilities are derecognised if the AP Group's obligations specified in the contract expire or are discharged or cancelled.

## Notes to the financial statements

### 2 Significant accounting policies (continued)

#### (r) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources, embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is more probable than not.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if the future obligation is probable but the amount cannot be reliably estimated.

#### (s) Dividends

Dividends payable on ordinary shares are recognised when they are declared.

#### (t) Accounting developments

In the current year, the AP Group has adopted the following new Standards and Interpretations that are relevant to its operations, none of which had any significant impact on the financial statements:

IFRS 3 (Revised 2008) Business Combinations (effective for periods beginning on or after 1st July 2009)

IAS 27 (Revised 2008) Cost of an Investment in a Subsidiary, Jointly Controlled Entity, or Associate (effective for periods beginning on or after 1st July 2009)

IAS 28 (Revised 2008) Investment in Associates (effective for periods beginning on or after 1st July 2009)

Improvements to International Financial Reporting Standards (April 2009)

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

IFRS 7 (Revised 2010) Financial Instruments: Disclosures (effective for periods beginning on or after 1st July 2011)

IFRS 9 (new standard) Financial Instruments (effective for periods beginning on or after 1st January 2013)

IAS 24 (Revised 2009) Related Party Disclosures (effective for periods beginning on or after 1st January 2011)

IAS 32 (Revised 2009) Financial Instruments: Presentation (effective for periods beginning on or after 1st February 2010)

Improvements to International Financial Reporting Standards (May 2010)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

### 3 Critical accounting estimates, and judgements in applying accounting policies

The AP Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The most critical judgements and estimates made by the AP Group are those regarding reported and unreported losses in respect of insurance contracts. The ultimate settlement cost of incurred general insurance claims is inherently uncertain.

## Notes to the financial statements

### 3 Critical accounting estimates, and judgements in applying accounting policies (continued)

Such uncertainty includes:

- i) whether a claim event has occurred or not and how much it will ultimately settle for;
- ii) variability in the speed with which claims are notified and in the time taken to settle them, especially complex cases resolved through the courts;
- iii) changes in the portfolio affecting factors such as the number of claims and their typical settlement costs, which may differ significantly from past patterns;
- iv) new types of claim, including latent claims, which arise from time to time; and
- v) changes in legislation and court attitudes to compensation, which may apply retrospectively.

### Outstanding claims and provisions

The AP Group establishes reserves in respect of the anticipated losses incurred in respect of business it has written. These reserves reflect the expected ultimate cost of settling claims occurring prior to the balance sheet date, but remaining unsettled at that time, and take into account any related reinsurance recoveries. Such reserves are established separately for each line of business written by the AP Group and fall into two categories – reserves for reported losses and reserves for losses incurred but not reported as at the balance sheet date.

Reserves for reported losses are established on a case-by-case basis and are based largely on past experience of settlement on similar claims. The reserves are set out on an undiscounted basis and reflect the anticipated cost of final settlement, taking into account inflation and other factors which might influence the final outcome. Such reserves are reviewed on a regular basis to take account of changing circumstances, such as changes in the law and changes in costs relating to settlement.

Reserves for losses incurred but not reported as of the balance sheet date are also established on an undiscounted basis. They are estimated based on historical data using various actuarial techniques and statistical modelling methodologies. As with case reserves, reserves for losses incurred but not reported are calculated separately for each line of business written and take into account trends in settlement costs in arriving at the final estimates.

For further details on loss reserves see note 22.

## 4 Risk management

### Objectives and policies for mitigating business risk

The AP Group provides advice, consultancy and management services and also arranges and underwrites insurance. The AP Group places its underwriting liabilities in the UK. Ibex Reinsurance Company Limited, the AP Group's captive reinsurer broadly writes a ninety percent quota share reinsurance of the business placed by AP (eighty percent for risks incepting before 1 January 2008). As such it is itself exposed to a number of risks, including insurance risk, financial risk, market risk, credit risk and liquidity risk.

The AP Group has various procedures in place to manage these exposures. These include an overall risk management framework, together with a set of clearly defined risk policies which articulate the AP Group's risk appetite. The AP Group also maintains a comprehensive risk register which identifies the individual risks faced in each area of the business and the controls in place to mitigate these. The AP Group's Risk Committee meets regularly to review both the risk policies and the risk register, to ensure they are up-to-date, reflecting the risks currently facing the business, and that corresponding control issues and risk mitigation actions are being addressed in a timely manner. The findings of the Risk Committee are reported to the AP Group's Board.

Looking at the main areas of risk faced by the AP Group, and the strategies in place to manage these:

#### (a) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty and timing of the amount of the resulting claim. By the very nature of an insurance contract, this risk is unpredictable and difficult to quantify with certainty.

## Notes to the financial statements

### 4 Risk management (continued)

#### Objectives and policies for mitigating business risk (continued)

##### (a) Insurance risk (continued)

The principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities, which may occur if the frequency or severity of claims and benefits are greater than estimated. Insurance events are unpredictable and the actual level of claims and benefits may vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger and more diversified the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. The Group's insurance underwriting strategy aims to diversify the client base by managing the distribution of its products to reduce the aggregation of exposure to any particular type or client or industry. Factors that typically aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical spread and type of customer covered.

The AP Group's management of insurance risk is a critical aspect of the business. It manages this through various policies and procedures including underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines and the close monitoring of emerging issues.

The main types of policy reinsured by the AP Group are as follows:

- Commercial Legal Expenses which predominantly compensates the policyholder for legal fees incurred, e.g. employment or contract disputes.
- Professional Fee Protection which predominantly compensates the policyholder for costs incurred in respect of professional accountants' fees arising from an enquiry instigated by Her Majesty's Revenue & Customs.

The AP Group uses several methods to assess and monitor the risk exposures associated with each of these for the individual types of risks insured including internal risk measurement models.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts.

##### (b) Concentrations of insurance risk

The AP Group has regard for potential concentration of insurance risk, which may exist where a particular event or series of events could impact significantly upon the AP Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise. This risk is managed by ensuring the AP Group operates a robust underwriting approach through limiting the exposure to any one type of distributor and maintaining policy exposure limits to acceptable levels together with a proactive claims handling methodology.

##### (c) Changes to legislation

The AP Group is exposed to changes in legislation which could result in claims arising which were not contemplated by underwriters' pricing models. The AP Group addresses this risk by ensuring that developments in the legislative arena are closely monitored and ensuring that policy wordings are regularly reviewed.

##### (d) Economic downturns

The AP Group's insurance portfolio exposes it to correlations and interdependencies to different types of risks arising in the event of an economic recession. In particular an economic downturn may lead to an increased incidence of claims in respect of commercial legal expenses insurance. The AP Group's initial strategy in response to a recession would be to address the above risks in order to reduce any excess losses. This would be performed by increasing premium rates in order to cover the anticipated losses. Where an increase in the premium rates is not achievable then alternative options include a reduction in the level of activity in the market.

##### (e) Financial Risk

The AP Group is exposed to financial risk through its financial assets and financial liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts and other liabilities. The most important components of financial risk affecting the AP Group are interest rate risk and credit risk.

## Notes to the financial statements

### 4 Risk management (continued)

#### Objectives and policies for mitigating business risk (continued)

##### (e) Financial Risk (continued)

The AP Group actively manages its assets using an approach that balances quality, diversification, liquidity and investment return. The goal of the investment process is to optimise the net of taxes, risk-adjusted investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis and capital is preserved. The AP Group's Board reviews the portfolios on a periodic basis, establishing investment guidelines and limits, and provides oversight of the asset/liability management process which is regularly reported.

##### (f) Interest rate risk

The AP Group's exposure to market risk for changes in interest rates is primarily concentrated in its investment portfolio. Changes in investment values attributable to interest rate changes are mitigated by investment parameters which mandate the average duration of the portfolio cannot exceed set limits and no individual holding can exceed two years.

The AP Group is also exposed to the risk of changes in future cash flows from fixed income securities arising from changes in market interest rates.

The effective interest rate at the balance sheet dates on investments and cash equivalents was:

	2010	2009
Financial investments	1.47%	2.11%
Cash and cash equivalents	1.02%	0.62%

If interest rates were to change by 1%, the expected change in investment income would be £378,000 (2009: £371,000).

##### (g) Credit Risk

The AP Group's portfolio of fixed income securities and, to a lesser extent, short-term and other investments and debtors and receivables, are subject to credit risk. This risk is defined as the potential loss in market value resulting from adverse changes in a debtor's ability to repay. The risk is managed based on the AP Group's investment strategy which clearly articulates its risk appetite in terms of the debt ratings of securities held and maximum counterparty exposure. The investment policy of the AP Group requires that investments are rated by Standard and Poor's (or equivalent) with a minimum counterparty rating of A. Short-term deposits are placed with credit institutions that are rated P1 or equivalent. This is monitored on a quarterly basis by the Board. Debtor balances are age analysed and reviewed monthly with an active credit control process in place to ensure payments are received within agreed terms.

The AP Group is exposed to potential credit risks through its reinsurance underwriting, where amounts due may not be paid. The AP Group manages this risk through dealing with only A or better grade insurers, based on Standard and Poor's (or equivalent) ratings which are regularly monitored.

With respect to credit risk arising from the other financial assets of the AP Group, which comprise cash and cash equivalents and other receivables, the AP Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Since the AP Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

With the exception of deposits with the Group's primary bankers, Coutts and Co, there are no significant concentrations of credit risk within the AP Group which are not offset by liabilities. Bank balances held with Coutts and Co as at 31 December 2010 amounted to £5,310,000 (2009: £6,078,000).

##### (h) Liquidity risk

The AP Group is exposed to daily calls on its available cash resources mainly from operating expenses and claims arising from insurance contracts. Liquidity risk is the risk that funds may not be available to pay obligations when due. The AP Group has robust processes in place to manage liquidity risk and has adequate access to funding in case of need. Sources of funding include available cash balances and other readily marketable assets.

The maturity profile of financial liabilities and finance lease obligations are set out in notes 26 and 34 respectively.

## Notes to the financial statements

### 4 Risk management (continued)

#### Objectives and policies for mitigating business risk (continued)

##### (i) Claims development

Claims development information is disclosed in order to illustrate the insurance risk inherent within the AP Group. The tables compare the claims paid on an underwriting year basis with the provisions established for these claims. The tables provide a review of current estimates of cumulative claims gross and net of reinsurance and demonstrate how the estimated claims have changed at subsequent reporting or underwriting year-ends. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. As the AP Group uses underwriting year accounting, the premiums exposed to each year of account typically develop over a three year period and ultimate incurred claims have a similar initial development pattern. Under or over provision for ultimate losses becomes apparent from year three.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The AP Group believes that the estimate of total claims outstanding as of the end of the period is adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assured that such balances will ultimately prove to be adequate.

#### Analysis of gross earned premiums and claims development

##### Gross earned premiums

	Underwriting year								
	2003	2004	2005	2006	2007	2008	2009	2010	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
At end of underwriting year	2,956	3,236	3,101	3,539	3,650	4,155	4,397	5,214	30,248
- one year later	4,689	4,922	5,969	6,784	7,045	7,804	7,931	-	45,144
- two years later	259	815	948	871	945	887	-	-	4,725
- three years later	(7)	3	3	26	17	-	-	-	42
- four years later	-	(35)	-	-	-	-	-	-	(35)
- five years later	-	-	-	-	-	-	-	-	-
	7,897	8,941	10,021	11,220	11,657	12,846	12,328	5,214	80,124

##### Estimate of cumulative claims

	Underwriting year								
	2003	2004	2005	2006	2007	2008	2009	2010	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
At end of underwriting year	2,582	2,823	2,636	3,014	3,103	3,535	3,452	4,067	25,212
- one year later	3,534	3,418	3,947	4,485	4,651	5,180	5,794	-	31,009
- two years later	(860)	(94)	302	187	278	(505)	-	-	(692)
- three years later	(123)	(44)	(557)	(372)	(455)	-	-	-	(1,551)
- four years later	(229)	(113)	(300)	(112)	-	-	-	-	(754)
- five years later	(8)	90	-	-	-	-	-	-	82
Estimate of cumulative claims	4,896	6,080	6,028	7,202	7,577	8,210	9,246	4,067	53,306
Cumulative payments to date	(4,807)	(5,821)	(5,655)	(6,586)	(6,836)	(6,556)	(5,427)	(813)	(42,501)
Gross & net outstanding claims liabilities	89	259	373	616	741	1,654	3,819	3,254	10,805

There were no reinsurance recoverables during the periods presented within these financial statements

## Notes to the financial statements

### 4 Risk management (continued)

#### Objectives and policies for mitigating business risk (continued)

##### Gross earned premiums less claims costs

	Underwriting year								
	2003	2004	2005	2006	2007	2008	2009	2010	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
At end of underwriting year	374	413	465	525	547	620	945	1,147	5,036
- one year later	1,155	1,504	2,022	2,299	2,394	2,624	2,137		14,135
- two years later	1,119	909	646	684	667	1,392	-		5,417
- three years later	116	47	560	398	472	-	-		1,593
- four years later	229	78	300	112	-	-	-		719
- five years later	8	(90)	-	-	-	-	-		(82)
	3,001	2,861	3,993	4,018	4,080	4,636	3,082	1,147	26,818

## 5 Segment information

### (a) Primary reporting format - business segments

Abbey Protection plc's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different skill sets, technology and marketing strategies.

Abbey Protection plc's has four reportable segments: Abbey Legal Protection, Abbey Tax Protection, Accountax and Insurance Underwriting. Abbey Legal Protection comprises the intermediation of legal expenses insurance together with the provision of related advice and consultancy. Abbey Tax Protection comprises the intermediation of professional fee protection insurance together with the provision of related advice and consultancy. Accountax comprises of the provision of tax consultancy and marketing services. Insurance Underwriting comprises reinsuring a proportion of the business Abbey Protection plc introduces to underwriting partners.

Other segments represent business units whose operations fall below the quantitative disclosure thresholds. These businesses offer HR consultancy, after the event insurance intermediation and insurance run-off services.

The accounting policies applied in preparing operating segment disclosures are the same as those described in the summary of significant accounting policies. Abbey Protection plc evaluates performance on the basis of profit from operations before tax expense.

Year ended 31 December 2010	Abbey Legal Protection	Abbey Tax Protection	Accountax	Insurance Underwriting	Other segments	Total
	£000	£000	£000	£000	£000	£000
Revenue from external customers	9,621	6,755	1,877	14,049	2,099	34,401
Interest revenue	78	56	14	348	17	513
Depreciation and amortisation	183	79	352	-	73	687
Reportable segment profit	2,153	2,459	77	4,567	297	9,553
Expenditures for reportable segment non-current assets	80	99	20	-	119	318

## Notes to the financial statements

### 5 Segment information (continued)

#### (a) Primary reporting format - business segments (continued)

Year ended 31 December 2009	Abbey Legal Protection	Abbey Tax Protection	Accountax	Insurance Underwriting	Other segments	Total
	£000	£000	£000	£000	£000	£000
Revenue from external customers	9,061	6,105	2,069	13,172	2,079	32,486
Interest revenue	30	23	6	388	12	459
Depreciation and amortisation	194	82	368	-	77	721
Reportable segment profit	1,946	2,213	123	4,141	322	8,745
Expenditures for reportable segment non-current assets	317	142	46	-	89	594

#### Information about major customers

Revenues from one customer represent approximately £5,326,000 of the Group's total revenue (2009: £5,182,000). Revenue from this customer is recorded in segmental revenue for Insurance Underwriting, Abbey Legal Protection and Abbey Tax Protection.

#### Secondary segment information - geographical analysis

All of the Group's revenues, costs, assets and liabilities are derived from providing its services in the United Kingdom.

#### 6 Net insurance premium

	2010	2009
	£000	£000
Gross and net premiums written	15,150	13,623
Change in the gross and net provision for unearned premiums	(1,101)	(451)
<b>Earned premiums, net of reinsurance</b>	<b>14,049</b>	<b>13,172</b>

#### 7 Intermediary, advisory and other income

	2010	2009
	£000	£000
Income from intermediation	9,260	8,217
Advisory fees	4,362	4,194
Other income	6,730	6,903
<b>Total intermediary, advisory and other income</b>	<b>20,352</b>	<b>19,314</b>

Other income comprises consultancy, claims handling, marketing services and management services.

## Notes to the financial statements

### 8 Net investment return

	2010	2009
	£000	£000
Investment at fair value through Income Statement:		
- certificates of deposit	278	463
Other investments:		
- cash and cash equivalents income	172	85
<b>Interest investment income</b>	<u>450</u>	<u>548</u>
Net gain/(loss) on investments at fair value through the Income Statement	63	(89)
<b>Net investment return</b>	<u>513</u>	<u>459</u>

### 9 Claims and change in insurance liabilities

	2010	2009
	£000	£000
Gross claims paid	(8,972)	(7,443)
Gross change in the provision for claims	183	(885)
<b>Claims and change in insurance liabilities</b>	<u>(8,789)</u>	<u>(8,328)</u>

### 10 Acquisition costs

	2010	2009
	£000	£000
Commission payable	(984)	(993)
Changes in deferred acquisition costs	66	27
<b>Total acquisition costs</b>	<u>(918)</u>	<u>(966)</u>

## Notes to the financial statements

### 11 Profit before tax

	2010	2009
	£000	£000
Other operating and administrative expenses and operating profit have been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	276	318
Amortisation of intangible assets	411	403
Personnel expenses		
- wages and salaries	9,241	8,811
- social security costs	1,102	958
- pension costs	377	331
Operating lease rentals	489	484
Auditors' remuneration:		
- fees for statutory audit services	21	21
- fees for auditing accounts of subsidiaries pursuant to legislation	72	72
Share-based payment charges	263	221
Profit on disposal of property, plant and equipment	(17)	(41)
Impairment loss recognised on trade receivables	1	74

Deloitte LLP acted as auditors to the Group during the current and previous financial years.

### 12 Staff costs

The average monthly number of employees employed by the Group (including executive directors) during the period, analysed by category was:

	2010	2009
	No.	No.
Abbey legal protection	28	28
Legal services centre	90	91
Tax protection & consultancy	60	56
Accountax	15	16
ATE services	13	15
Abbey HR	8	7
Central services	20	18
	<u>234</u>	<u>231</u>
	2010	2009
	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	9,241	8,811
Social security costs	1,102	958
Pension costs - defined contribution plans	377	331
	<u>10,720</u>	<u>10,100</u>

## Notes to the financial statements

### 13 Directors' remuneration

	2010	2009
	£000	£000
Directors' emoluments	663	649
Post-employment benefits - defined contribution plans	28	28
Compensation for loss of office	-	-
	<u>691</u>	<u>677</u>

Three directors (2009: three directors) are members of defined contribution plans.

#### Highest paid director

-emoluments	204	202
-post employment benefit - defined contribution plans	10	10
	<u>214</u>	<u>212</u>

Full details of directors' emoluments are disclosed within the Remuneration Report.

## Notes to the financial statements

### 14 Tax expense

#### Recognised in the Income Statement

	2010	2009
	£000	£000
<b>Current tax expense</b>		
Current year – operations	4,513	3,049
Adjustments for prior years	(55)	(94)
	<u>4,458</u>	<u>2,955</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(1,787)	(574)
Changes in tax rate	(2)	-
Prior year adjustments	(24)	(19)
	<u>(1,813)</u>	<u>593</u>
	<u>2,645</u>	<u>2,362</u>
<b>Total tax expense</b>		

#### Reconciliation of effective tax rate

Tax on the AP Group's profit before tax differs from the United Kingdom standard rate of corporation tax for the reasons set out in the following reconciliation:

	2010	2009
	£000	£000
Profit before tax	<u>9,553</u>	<u>8,745</u>
Income tax calculated at the UK standard rate of tax of 28% (2009: 28.5%)	2,675	2,449
Factors affecting charge for the year:		
Non-deductible expenses and provisions	28	65
Income taxable on remittance to the UK	23	(58)
Adjustments to tax in respect of prior periods	(79)	(94)
Changes in the rate of corporation tax	(2)	-
<b>Total tax expense</b>	<u>2,645</u>	<u>2,362</u>

#### Reconciliation of deferred tax balances

	2010	2009
	£000	£000
<b>Balance brought forward</b>	(1,873)	(2,466)
Transfer to profit & loss account	1,813	593
<b>Balance carried forward</b>	<u>(60)</u>	<u>(1,873)</u>

Deferred tax is provided at 27% (2009: 28%)

## Notes to the financial statements

### 15 Dividends

2010	2009
£000	£000

Amounts recognised as distributions to equity holders in the period:

Dividends on ordinary shares	3,772	3,572
Net appropriation for the year	<u>3,772</u>	<u>3,572</u>

On 26 March 2010 a dividend of £2,084,000 (net of £16,000 receivable by a group ESOP trust) was paid representing 2.1 pence per Abbey Protection plc share.

On 7 October 2010 a dividend of £1,688,000 (net of £12,000 receivable by a group ESOP trust) was paid representing 1.7 pence per Abbey Protection plc share.

On 10 February 2011 a dividend of £2,290,000 (net of £10,000 receivable by a group ESOP trust) was declared representing 2.3 pence per Abbey Protection plc share and has not been included as a liability in these financial statements.

### 16 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Parent Company by the weighted average number of shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares. Diluted earnings per share is calculated adjusting for the assumed conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares, share options. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares thus calculated is compared with the number of shares that would have been issued assuming the exercise of the share options. The calculation of the basic and diluted earnings per share is based on the following data:

	2010	2009
	£000	£000
Profit attributable to equity holders of the parent	6,908	6,383
Effect of dilutive potential ordinary shares	-	-
Earnings for the purposes of diluted earnings per share	<u>6,908</u>	<u>6,383</u>
	2010	2009
	No. of shares	No. of shares
Weighted average number of ordinary shares in issue	99,129,980	99,231,375
Effect of dilutive potential ordinary shares (share options)	<u>1,381,291</u>	<u>1,175,564</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>100,511,271</u>	<u>100,406,939</u>

## Notes to the financial statements

### 17 Goodwill

	2010	2009
	£000	£000
<b>Cost</b>		
At beginning of the year	4,638	5,138
Other changes	(20)	(500)
At the end of the year	<u>4,618</u>	<u>4,638</u>

The AP Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired using the value in use basis for determining recoverability. There has been no impairment throughout the periods presented.

On 21 October 2008 the Group acquired Accountax Consulting Limited, Accountax UK Limited and Accountax Law Limited (collectively "Accountax") resulting in a transfer to goodwill of £4,110,000. Included within the initial purchase consideration was £1,100,000 of potential deferred consideration. The deferred consideration paid was £580,000 which has reduced the goodwill value to £3,590,000. Accountax is considered a single cash generating unit ("CGU").

The value in use has been quantified using management estimates for cash-flows arising from Accountax taking into account historic values, budgets and forecasts together with growth opportunities and integration benefits. Management have considered ultimate cash-flows as these represent the most appropriate surrogate for the value of the business to the Group.

Key assumptions incorporated within the cash-flow forecast include an average increase in income of 0.9% in excess of cost increases, a constant rate of corporation tax of 27% and a discount rate of 13% (2009: 13%). In determining the applicable discount rate, management applied judgement in respect of several factors, which included assessing the risk attached to future cash flows and making reference to the capital asset pricing model (the "CAPM"). Management gave consideration to the selection of appropriate inputs to the CAPM, which included the risk free rate, the equity risk premium and a measure of systematic risk. Utilising these assumptions, the recoverable amount exceeded the total carrying value by £1,439,000. A sensitivity analysis was performed on the total carrying value of the CGU. For the recoverable amount to be equal to the carrying value then the discount rate would need to be increased by 4%.

Remaining goodwill of £1,028,000 is allocated across multiple CGUs. The amount allocated to each CGU is not significant in comparison with the Group's total goodwill balance. The value in use has been quantified using forecasts by the individual CGUs based on cash-flows derived from budgets for 2011, reflecting past experience and current market conditions. Key assumptions incorporated within these forecasts include, the discount rate, the assumed income growth rate and tax rate. Management believe these to be reasonably achievable.

## Notes to the financial statements

### 18 Other intangible assets

	Computer software	Brands	Customer relationships	Total
	2010	2010	2010	2010
	£000	£000	£000	£000
<b>Cost</b>				
At 1 January 2010	746	384	1,599	2,729
Acquisitions	75	-	-	75
Disposals	-	-	-	-
At 31 December 2010	821	384	1,599	2,804
<b>Amortisation</b>				
At 1 January 2010	494	30	324	848
Charge for the year	108	26	277	411
Disposals	-	-	-	-
At 31 December 2010	602	56	601	1,259
<b>Net book value at 31 December 2010</b>	<b>219</b>	<b>328</b>	<b>998</b>	<b>1,545</b>
	Computer software	Brands	Customer relationships	Total
	2009	2009	2009	2009
	£000	£000	£000	£000
<b>Cost</b>				
At 1 January 2009	538	384	1,599	2,521
Acquisitions	208	-	-	208
Disposals	-	-	-	-
At 31 December 2009	746	384	1,599	2,729
<b>Amortisation</b>				
At 1 January 2009	395	4	46	445
Charge for the year	99	26	278	403
Disposals	-	-	-	-
At 31 December 2009	494	30	324	848
<b>Net book value at 31 December 2009</b>	<b>252</b>	<b>354</b>	<b>1,275</b>	<b>1,881</b>

## Notes to the financial statements

### 19 Property, plant and equipment

	Freehold Land	Freehold property	Leasehold property	Equipment and motor vehicles	IT equipment	Total
	£000	£000	£000	£000	£000	£000
<b>Cost</b>						
At 1 January 2010	335	750	139	897	700	2,821
Acquisitions	-	-	19	130	94	243
Disposals	-	-	-	(125)	-	(125)
At 31 December 2010	335	750	158	902	794	2,939
<b>Depreciation</b>						
At 1 January 2010	-	19	60	602	409	1,090
Charge for the year	-	15	18	123	120	276
Disposals	-	-	-	(69)	-	(69)
At 31 December 2010	-	34	78	656	529	1,297
<b>Net book value at 31 December 2010</b>						
	335	716	80	246	265	1,642
<b>2009</b>						
	Freehold Land	Freehold property	Leasehold property	Equipment and motor vehicles	IT equipment	Total
	£000	£000	£000	£000	£000	£000
<b>Cost</b>						
At 1 January 2009	335	750	114	879	503	2,581
Acquisitions	-	-	25	164	197	386
Disposals	-	-	-	(146)	-	(146)
At 31 December 2009	335	750	139	897	700	2,821
<b>Depreciation</b>						
At 1 January 2009	-	4	45	532	301	882
Charge for the year	-	15	15	180	108	318
Disposals	-	-	-	(110)	-	(110)
At 31 December 2009	-	19	60	602	409	1,090
<b>Net book value at 31 December 2009</b>						
	335	731	79	295	291	1,731

Included within net book value of motor vehicles is £179,000 (2009: £195,000) in respect of assets held under finance leases.

## Notes to the financial statements

### 20 Group companies

The consolidated financial statements present the financial records of the AP Group for the years ended 31 December 2010 and 31 December 2009. A list of all investments in AP Group subsidiaries, including the name and country of incorporation is given below:

Company	Country of incorporation	Activity	Portion of ownership interests	Basis of consolidation
Abbey Protection Group Ltd	Great Britain	Insurance intermediary	100%	100% Consolidation
Ibex Reinsurance Company Limited	Guernsey	Reinsurance company	100%	100% Consolidation
Abbey Legal Holdings Limited	Great Britain	Dormant	100%	100% Consolidation
Abbey Legal Protection Limited	Great Britain	Dormant	100%	100% Consolidation
Abbey Tax Protection Limited	Great Britain	Dormant	100%	100% Consolidation
Accountax Consulting Limited	Great Britain	Dormant	100%	100% Consolidation
Accountax UK Limited	Great Britain	Dormant	100%	100% Consolidation
Accountax Law Limited	Great Britain	Dormant	100%	100% Consolidation

The AP Group has not suffered any impairment in the value of its investments in its subsidiaries. The dormant subsidiaries have remained dormant throughout the year.

### 21 Financial investments

	2010	2009
	£000	£000
Financial investments at fair value through profit and loss - certificates of deposit	18,954	7,489
Loan receivable	500	-
	<u>19,454</u>	<u>7,489</u>

The fair values of the AP Group's financial investments at fair value through profit and loss have been arrived at by reference to readily available market prices and are considered level one financial investments as defined in the fair value hierarchy within IFRS 7 Financial Investment Disclosures paragraph 27B. There have been no transfers between level 1 and level 2 financial investments.

The loan receivable is expected to be settled more than 12 months after the balance sheet date.

## Notes to the financial statements

### 22 Insurance contract provisions and reinsurance assets

#### (i) Insurance contract provisions (gross and net)

	2010	2009
	£000	£000
Unearned premiums	8,409	7,308
Claims reported by policyholders	7,268	6,026
Claims incurred but not reported	3,537	4,962
Total insurance contract provisions	<u>19,214</u>	<u>18,296</u>
Expected to be settled within 12 months of the balance sheet date	14,489	13,780
Expected to be settled more than 12 months after the balance sheet date	4,725	4,516
	<u>19,214</u>	<u>18,296</u>

#### (ii) Analysis of movements in insurance provisions (gross and net)

	2010	2009
	£000	£000
Balance at the beginning of the period	18,296	16,960
Claims paid	(8,972)	(7,443)
Movement in claims incurred but not reported	(1,425)	635
Claims reported in the period	10,214	7,693
Change in provision for unearned premiums	1,101	451
Balance at the end of the period	<u>19,214</u>	<u>18,296</u>

#### (iii) Analysis of movements in provision for unearned premium (gross and net)

	2010	2009
	£000	£000
Balance at the beginning of the period	7,308	6,857
Premiums written during the period	15,150	13,623
Less: premiums earned during the year	(14,049)	(13,172)
Balance at the end of the period	<u>8,409</u>	<u>7,308</u>

## Notes to the financial statements

### 22 Insurance contract provisions and reinsurance assets (continued)

#### (iv) Analysis of movements in outstanding claims (gross and net)

	2010	2009
	£000	£000
Balance at the beginning of the period	10,988	10,103
Cash paid for claims settled in the year	(8,972)	(7,443)
Change in liabilities:		
- arising from current year claims	3,254	2,744
- arising from prior year claims	5,535	5,584
Balance at the end of the period	<u>10,805</u>	<u>10,988</u>

#### (v) Assumptions and sensitivities

##### Process used to determine the assumptions

The sources of data used as inputs for the assumptions behind insurance provisions are internal, using detailed studies that are carried out annually by external advisors. The assumptions are checked to ensure that they are consistent with observable market trends or other published information with more emphasis placed on current trends.

The nature of insurance business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The degree of complexity involved will also differ by book of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The value of outstanding claims and the IBNR provisions are estimated using various statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each underwriting year based upon observed development of earlier years and expected loss ratios.

The key methods, which remain unchanged from prior years, are:

- chain ladder methods, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- expected loss ratio methods, which use the AP Group's expectation of the loss ratio for a class of business; and
- benchmarking methods, which use the experience of comparable, more mature, classes to estimate the cost of claims.

The actual method or blend of methods used varies by underwriting year being considered and for observed historical claims development.

To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, in so far as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development / recording of claims paid and incurred (such as changes in claim reserving procedures);
- economic, legal, political and social trends (resulting in, for example, a difference in expected levels of inflation);
- changes in mix of business; and
- random fluctuations, including the impact of large losses.

IBNR provisions are estimated at a gross level and a separate calculation is carried out to estimate the size of any reinsurance recoveries.

## Notes to the financial statements

### 22 Insurance contract provisions and reinsurance assets (continued)

#### (v) Assumptions and sensitivities (continued)

##### Assumptions

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent underwriting years excluding the current underwriting year which will be significantly underdeveloped. The expected loss ratios assumed for the underwriting years 2008 and 2009 are 64% and 75% respectively.

##### Changes in assumptions and sensitivities to changes in key variables

The Group believes that the liability for claims reported in the Balance Sheet is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions, which could differ when claims arise.

The impact of a 1% change in the loss ratio across the last 5 underwriting years (2006 to 2010) would equate to a £533,000 pre-tax change in the reported income (2009: £492,000).

## 23 Deferred tax

### Recognised deferred tax

Deferred tax balances which are provided at 27% (2009: 28%) are attributable to the following:

	2010	2009
	£000	£000
Other intangible assets	(358)	(456)
Property, plant and equipment	88	55
Income taxable on remittance to the UK	-	(1,648)
Transfers to equity settled share incentive reserve	149	107
Other timing differences	61	69
Total deferred tax	<u>(60)</u>	<u>(1,873)</u>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2010	2009
	£000	£000
Deferred tax liabilities	(358)	(2,104)
Deferred tax assets	298	231
	<u>(60)</u>	<u>(1,873)</u>

There are no unrecognised deferred tax assets or liabilities.

## Notes to the financial statements

### 24 Trade and other receivables

	2010	2009
	£000	£000
Receivables arising from insurance and reinsurance contracts:		
- premiums due from insurers	6,606	5,286
- trade debtors	14,850	12,895
Other receivables:		
- other prepayments and accrued income	985	875
- amounts due from related parties	638	799
- other debtors	535	396
<b>Total insurance and other receivables</b>	<b>23,614</b>	<b>20,251</b>
<b>Due within one year</b>	<b>23,614</b>	<b>20,251</b>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

#### Impairment loss recognised on trade receivables:

	2010	2009
	£000	£000
Provision for impairment losses at the beginning of the period	416	342
Amounts provided for / provision reversed in the year	16	83
Amounts written off in the period	(15)	(9)
Provision for impairment losses at the end of the period	<b>417</b>	<b>416</b>

#### Ageing of impaired trade receivables:

	2010	2009
	£000	£000
Current	-	-
1 - 30 days overdue	3	-
31 - 60 days overdue	23	-
61 - 90 days overdue	100	47
91 + days overdue	291	369
Total	<b>417</b>	<b>416</b>

## Notes to the financial statements

### 24 Trade and other receivables (continued)

#### Ageing of past due but not impaired receivables:

Included within the Group's trade receivables are debtors with a carrying value of £1,258,000 (2009: £1,903,000) which are past due as at 31 December 2010 for which no provision has been made. The Group is not aware of any deterioration in the credit quality of these customers and considers that the amounts are fully recoverable.

	2010	2009
	£000	£000
1 - 30 days overdue	813	1,136
31 - 60 days overdue	322	525
61 - 90 days overdue	109	204
91 + days overdue	14	38
Total	<u>1,258</u>	<u>1,903</u>

### 25 Cash and cash equivalents

	2010	2009
	£000	£000
Cash at bank and in hand	18,879	29,645
Cash and cash equivalents	<u>18,879</u>	<u>29,645</u>

The effective interest rate on cash and cash equivalents was: 1.01% 2010, 1.12% 2009

Included in cash and cash equivalents held by the AP Group are balances totalling £1.0 million not available for use by the AP Group (2009: £2.1 million). This amount is held in trust to guarantee claims liabilities. The prior year balance included £1.1 million held in escrow to guarantee deferred consideration in respect of the acquisition of Accountax.

### 26 Financial liabilities

	2010	2009
	£000	£000
Deferred purchase consideration	-	600
Total financial liabilities	<u>-</u>	<u>600</u>

### 27 Accruals and deferred income

	2010	2009
	£000	£000
Accruals	1,849	1,781
Deferred income	7,163	6,863
Total accruals and deferred income	<u>9,012</u>	<u>8,644</u>

## Notes to the financial statements

### 28 Trade and other payables

	2010	2009
	£000	£000
Other trade payables	12,264	11,040
Other taxes and social security	581	640
Other payables	379	466
Total trade and other payables	<u>13,224</u>	<u>12,146</u>

Trade and other payables are all expected to be settled within twelve months of the balance sheet date.

### 29 Share capital

#### a) Authorised share capital

	2010		2009	
	Number of shares	Nominal value £000	Number of shares	Nominal value £000
Ordinary shares of 1p each	150,000,000	1,500	150,000,000	1,500
	<u>150,000,000</u>	<u>1,500</u>	<u>150,000,000</u>	<u>1,500</u>

#### b) Issued share capital

Allotted, called up and fully paid

	2010		2009	
	Number of shares	Nominal value £000	Number of shares	Nominal value £000
Ordinary shares of 1p each	99,994,773	1,000	99,994,773	1,000
	<u>99,994,773</u>	<u>1,000</u>	<u>99,994,773</u>	<u>1,000</u>

#### c) Treasury shares

As at 31 December 2010, the Abbey Protection Group Limited ESOP trust held 788,127 (2009: 763,398) ordinary shares of 1p each in Abbey Protection plc. The maximum number of ordinary shares held at any one time during the year was 1,169,942 (2009: 763,398), which represented 1.12% (2009: 0.76%) of the called up share capital of Abbey Protection plc.

	2010		2009	
	Number of shares	Nominal value £000	Number of shares	Nominal value £000
At beginning of period	763,398	8	763,398	8
Purchase of own shares	406,544	4	-	-
Own shares released on vesting of share options	(381,815)	(4)	-	-
At end of period	<u>788,127</u>	<u>8</u>	<u>763,398</u>	<u>8</u>

## Notes to the financial statements

### 30 Share premium

	2010	2009
	£000	£000
At the beginning of the period	3,539	3,539
Gain on own shares released on vesting of share options	19	-
At the end of the period	<u>3,558</u>	<u>3,539</u>

### 31 Share option schemes

The Directors believe that equity incentives are and will continue to be an important means of retaining, attracting and motivating employees. The AP Group operates three share options schemes:

#### a) The Abbey Protection plc Savings Related Share Option Scheme (SAYE Scheme)

The SAYE Scheme is approved by HMRC. The scheme enables directors and employees to acquire options over ordinary shares of the Company at a discount of up to 20% of their market price using the proceeds of a related SAYE contract. All employees who have worked for the minimum qualifying period on an invitation date are eligible to join the scheme. Options granted under the SAYE scheme are not subject to performance conditions but beneficiaries must ordinarily be employees of the Group for the options to vest. In relation to such invitations, eligible employees may apply to save an amount between £5 and £250 per month in accordance with the rules of the SAYE Scheme under a three or five year savings contract selected by the Company.

#### b) The Abbey Protection plc Company Share Option Plan (CSOP)

The CSOP is approved by HMRC. The scheme enables directors and employees to acquire options over ordinary shares of the Company at their market price. Individuals are selected at the discretion of the Remuneration Committee. Options granted under the scheme are not subject to performance conditions but beneficiaries must ordinarily be employees of the Group for the options to vest. Each individual's participation in the CSOP is restricted by HMRC limits so that the aggregate market value of Ordinary Shares subject to all options (calculated at the date of grant of each option), held by that individual and granted under the CSOP or any other HMRC company share option plan operated by the Company or any associated company shall not exceed £30,000.

#### c) The Abbey Protection plc Long Term Incentive Plan (LTIP)

The LTIP is not approved by HMRC. The scheme enables directors and employees to acquire nil cost options over ordinary shares of the Company. Individuals are selected at the discretion of the Remuneration Committee. Awards are capped at a maximum of twice the annual salary of any individual in any financial year. Ordinarily, in order for options to vest, the individual must be an employee of the Group and the performance conditions must be met.

Performance conditions vary and where appropriate comprise of individualised targets. The default performance conditions require that the average annual percentage growth in earnings per ordinary share over the performance period (not less than three years) is equal to or greater than the annual average percentage growth in the retail price index (RPI) plus 3 per cent for 25 per cent of the award to vest. Earnings per share must outperform RPI by 6 percent for 100% of options to vest with a pro-rata scale operated between 3 percent out performance and 6 percent out performance. If events occur which cause the Remuneration Committee to reasonably consider that a different or amended target would be a fairer measure of performance, the Remuneration Committee may recommend that the Trustee waives or amends the original performance target, provided that any such amended target is not materially more difficult to achieve than the original performance target.



## Notes to the financial statements

### 31 Share option schemes (continued) Options granted (continued)

	LTIP	LTIP	LTIP	LTIP
Date of grant	29/11/2007	27/06/2008	29/04/2009	30/04/2010
Options outstanding at 1 January 2010	363,636	150,000	330,437	-
Options granted during the year	-	-	-	146,666
Options forfeited during the year	-	-	-	-
Options exercised during the year	-	-	-	-
Options outstanding at 31 December 2010	363,636	150,000	330,437	146,666
Exercise price	£0.00	£0.00	£0.00	£0.00
Share price at date of grant	£0.55	£0.67	£0.58	£0.795
Contractual life (years)	10	10	10	10
Vesting Date	01/01/2011	30/06/2011	30/04/2012	01/05/2013
Settlement	Shares	Shares	Shares	Shares
Expected volatility	35%	35%	35%	20%
Expected option life at date of grant	Three Years	Three Years	Three Years	Three Years
Risk free interest rate	5.00%	5.00%	2.00%	3.50%
Expected dividend yield	5.00%	5.00%	6.20%	5.00%
Expected annual departures	0.00%	0.00%	0.00%	0.00%
Probability of meeting performance criteria at date of grant	100%	90%	96.1%	96.8%
Fair value per option at date of grant	£0.52	£0.58	£0.48	£0.68
Valuation model	Binomial	Binomial	Binomial	Binomial

All share options require a minimum of three years' service for the share options to vest. The Save as You Earn scheme requires beneficiaries to make regular savings which are deposited in a designated account. The grants made under the Long Term Incentive Plan contain performance conditions linked to growth in earnings per share and/or individual performance.

The weighted average share price at the date of exercise for SAYE share options exercised during the year was £0.77. The weighted average share price at the date of exercise for CSOP share options exercised during the year was £0.85.

The aggregate fair value of SAYE share options granted during the year was £26,499. The aggregate fair value of CSOP share options granted during the year was £4,490. The aggregate fair value of LTIP share options granted during the year was £97,109.

The Company has calculated expected volatility with reference to the share price of the Group and comparable companies.

## Notes to the financial statements

### 32 Operating leases

The aggregate minimum lease payments required by the Group under non-cancellable operating leases, over the expected lease terms, are as follows:

	2010	2009
	£000	£000
Less than one year	484	457
Between one and five years	748	1,070
More than five years	-	-
Total	<u>1,232</u>	<u>1,527</u>

The AP Group's property leases are short leases and typically run for a period of less than ten years without the transfer of substantially all risks and rewards incidental to ownership of the properties. As a result these property leases are treated as operating leases and there is no need to split out the land component.

### 33 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The AP Group has a related party relationship with its key management personnel who are also shareholders of the AP Group.

#### Remuneration of directors

The remuneration of the directors, who are key management personnel of the Group is set out in note 13 of these financial statements and disclosed in the Remuneration Report on pages 18 to 20.

#### Share and loan transactions with members of key management

On 30 April 2007, the Group made equity shares available to Adrian Green, Group Finance Director, on a deferred payment basis via the ESOP trust. At the balance sheet date an amount of £308,698 (2009: £365,607) remains outstanding and is disclosed within other assets in the accounts of the ESOP trust and the consolidated accounts. The deferred purchase loan is due for repayment within ten years from the date the loan was granted.

#### Transactions with post-employment benefit plans

The Group leases a property owned by the pension funds of two of the Group's directors, Colin Davison and Liz Grace. The lease has been entered into on arm's length commercial terms. The annual lease and service charges fees paid by the Group for the property are £75,700 (excluding VAT) and £3,009 respectively.

### 34 Finance lease obligations

	2010	2009
	£000	£000
Minimum lease obligations payable:		
Within 1 year	77	82
Within 2 to 5 years	107	134
	<u>184</u>	<u>216</u>
Less future finance charges	(16)	(17)
Present value of finance lease obligations	<u>168</u>	<u>199</u>
The present value of minimum lease obligations payable:		
Within 1 year	67	72
Within 2 to 5 years	101	127
	<u>168</u>	<u>199</u>

## Notes to the financial statements

### 34 Finance lease obligations (continued)

It is the Group's policy to lease certain of its motor vehicles under finance lease arrangements. The leases have a typical term of three years and are on a fixed repayment basis with a final lump sum component at the end of each agreement should the Group decide to acquire ownership of the vehicle. Interest rates are fixed at the contract commencement date. Finance lease obligations are effectively secured as the rights to the leased assets revert to the lessor in the event of default. The carrying value of finance obligations equates to fair value.

### 35 Capital commitments

The AP Group had no capital expenditure contracted for at the balance sheet date.

### 36 Contingent liabilities

Barclays Bank Plc has issued an irrevocable standby letter of credit in respect of Brit Insurance Limited for £1,000,000 in connection with the insurance activities of Ibex Reinsurance Company Limited. This is secured on its bank balances and has been in force throughout all reporting periods.

### 37 Capital management

#### Abbey Protection Group Limited

The AP Group manages its capital to ensure that entities in the AP Group will be able to continue as a going concern whilst having regard to the implications of potential changes to the legislative arena and economic conditions generally.

The capital structure of the AP Group consists of ordinary shares, share premium account, merger reserve and profit and loss reserves.

The AP Group Board reviews the capital structure on an annual basis. As part of this review the AP Group Board considers the cost of capital and the risks associated with each class of capital. Based on decisions made by the AP Group Board, the Group will balance its overall capital structure through the payment of dividends. The AP Group's overall strategy remains unchanged.

In January 2005 the Financial Services Authority assumed responsibility for the regulation of the insurance intermediation industry. The Financial Services Authority requires Abbey Protection Group Limited to maintain a minimum level of capital and reserves to enable Abbey Protection Group Limited to carry out its insurance intermediation activities. The amount of capital and reserves held by Abbey Protection Group Limited in respect of the Financial Services Authority requirement is set out below:

	2010	2009
	£000	£000
Minimum capital and reserve requirement	439	398
Available assets held by the Company	7,031	4,352
Available assets held by the Company in excess of the minimum capital and reserves requirement	6,592	3,954

#### Ibex Reinsurance Company Limited

Ibex Reinsurance Company Limited ("Ibex"), the AP Group's Guernsey based reinsurance subsidiary manages its capital to ensure that it will be able to continue as a going concern whilst having regard to the implications of potential changes to the legislative arena and economic conditions generally.

The capital structure of Ibex consists of ordinary shares, share premium account and profit and loss reserves.

The Ibex Board reviews the capital structure on an annual basis. As part of this review the Ibex Board considers the cost of capital and the risks associated with its class of capital. It also takes into account the requirements for controlled foreign companies to remit profits to the United Kingdom under an approved distribution policy. Based on the recommendations of the Ibex Board, Ibex will seek to balance its overall capital structure through the payment of dividends. The Ibex overall strategy remains unchanged.

## Notes to the financial statements

### 37 Capital management (continued)

Ibex Reinsurance Company Limited is required to maintain a minimum level of capital and reserves by the Guernsey Financial Services Commission ("GFSC"). The amount of capital and reserves held by Ibex in respect of the GFSC requirements is set out below:

	2010	2009
	£000	£000
Minimum capital and reserves requirement	2,240	2,053
Available assets held by the Company	10,637	12,700
Available assets held by the Company in excess of the minimum capital and reserves requirement	8,397	10,647

## Parent company balance sheet

At 31 December 2010

	Note	2010	2009
		£000	£000
<b>Assets</b>			
Investment in subsidiaries	39	4,510	4,276
Trade and other receivables	40	260	463
Cash and cash equivalents	41	7,128	5,568
<b>Total assets</b>		<b>11,898</b>	<b>10,307</b>
<b>Liabilities</b>			
Trade and other creditors	42	42	64
<b>Total liabilities</b>		<b>42</b>	<b>64</b>
<b>Equity</b>			
Share capital	29	1,000	1,000
Share premium	43	3,539	3,539
Retained earnings	43	6,714	5,270
Capital redemption reserve	43	50	50
Equity settled share incentive reserve	43	553	384
<b>Total shareholders' equity</b>		<b>11,856</b>	<b>10,243</b>

The financial statements of Abbey Protection plc (registered number 06352358) were approved by the Board of directors and authorised for issue on 23 March 2011. They were signed on its behalf by:

Colin Davison  
Group Chief Executive

Chris Ward  
Group Managing Director

## Notes to the financial statements

### 38 Significant accounting policies

#### Basis of preparation

The separate financial statements for the Parent Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with UK Generally Accepted Accounting Principles. As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The profit after taxation for the year of the Parent Company was £5,150,000 (2009: £5,252,000).

The accounting policies that are used in preparation of these financial statements are consistent with the accounting policies used in the preparation of the consolidated financial statements of the Group as set out in those financial statements. The additional accounting policies which are specific to the separate financial statements of the Company are set out below:

#### Investment in subsidiaries

Investments in subsidiary undertakings are stated at cost and in respect of Abbey Protection Group Limited, the nominal value of the shares issued to acquire the subsidiary plus the cost of additional shares subscribed for during the year. Investments in subsidiary undertakings are reviewed for impairment when events, or changes in circumstances, indicate the carrying value may be impaired.

#### Dividend income

Dividend income from investments in subsidiaries is recognised when the right to receive payment is established.

#### Cash flow statement

The Company has utilised the exemptions provided under FRS 1 (Revised) and has not presented a cash flow statement. A consolidated cash flow statement has been presented for the Group on page 27.

### 39 Investment in subsidiaries

The principal undertakings of Abbey Protection plc at 31 December 2010 are:

Company	Country of incorporation	Activity	Portion of ownership interests
Abbey Protection Group Ltd	Great Britain	Insurance intermediary	100%
Ibex Reinsurance Company Limited	Guernsey	Reinsurance company	100%
Abbey Legal Holdings Limited	Great Britain	Dormant	100%
Abbey Legal Protection Limited	Great Britain	Dormant	100%
Abbey Tax Protection Limited	Great Britain	Dormant	100%
Accountax Consulting Limited	Great Britain	Dormant	100%
Accountax UK Limited	Great Britain	Dormant	100%
Accountax Law Limited	Great Britain	Dormant	100%

The AP Group has not suffered any impairment in the value of its investments in its subsidiaries. All dormant subsidiaries have remained dormant throughout the year.

## Notes to the financial statements

### 40 Trade and other receivables

	2010	2009
	£000	£000
Other debtors	1	1
Prepayments and accrued income	36	20
Amounts due from subsidiary undertakings	200	421
Corporation tax	7	16
Deferred tax	16	5
	<u>260</u>	<u>463</u>

### 41 Cash and cash equivalents

	2010	2009
	£000	£000
Cash at bank and in hand	7,128	5,568
Cash and cash equivalents	<u>7,128</u>	<u>5,568</u>

The effective interest rate on short term bank deposits was: 1.36% 2010, 1.87% 2009

### 42 Trade and other creditors

	2010	2009
	£000	£000
Other taxes and social security	3	3
Accruals	39	61
	<u>42</u>	<u>64</u>

## Notes to the financial statements

### 43 Share premium, retained earnings and other reserves

	Share Premium	Equity settled share incentive reserve	Capital redemption Reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2009	3,539	163	50	3,618	7,370
Equity settled share incentive reserve	-	221	-	-	221
Ordinary dividend paid	-	-	-	(3,600)	(3,600)
Profit for the year	-	-	-	5,252	5,252
Balance at 31 December 2009	<u>3,539</u>	<u>384</u>	<u>50</u>	<u>5,270</u>	<u>9,243</u>
Equity settled share incentive reserve	-	169	-	94	263
Ordinary dividend paid	-	-	-	(3,800)	(3,800)
Profit for the year	-	-	-	5,150	5,150
Balance at 31 December 2010	<u>3,539</u>	<u>553</u>	<u>50</u>	<u>6,714</u>	<u>10,856</u>

### 44 Reconciliation of movement in shareholders' equity

	2010	2009
	£000	£000
Profit for the year	5,150	5,252
Equity settled share incentive reserve	263	221
Ordinary dividend paid	(3,800)	(3,600)
Net addition to shareholders' funds	<u>1,613</u>	<u>1,873</u>
Opening shareholders' equity	10,243	8,370
Closing shareholders' equity	<u>11,856</u>	<u>10,243</u>

### 45 Related party transactions

Details of related party transactions are provided in note 33 to the consolidated financial statements.

### 46 Share-based payments

Details of share-based payment plans are provided in note 31 to the consolidated financial statements.

## Shareholder information and advisers

The ordinary shares of Abbey Protection plc (Company No 06352358) are traded on the Alternative Investment Market of the London Stock Exchange (AIM) and information on the share price and the Company can be accessed via the Company's website, [www.abbeyprotectionplc.com](http://www.abbeyprotectionplc.com) or at [www.londonstockexchange.com](http://www.londonstockexchange.com) – code: ABB. The ISIN number is GB00B293ZK84 and the SEDOL code is B293ZK8.

### Company Secretary and registered office

Adrian Green, Abbey Protection plc, Minorities House, 2-5 Minorities, London, EC3N 1BJ.

### Registrar

Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 7NH.

Computershare looks after the Shareholder database and is responsible for maintaining Shareholder records and the mailing out of related information. Computershare Investor Centre gives access to view your holdings online via their website [www.computershare.com](http://www.computershare.com). To register click on Investor Centre on the Computershare home page [www.computershare.com](http://www.computershare.com) and follow the instructions. You will be able to:

- View all your holding details for companies registered with Computershare
- Update your contact address and personal details online
- Access current and historical market prices

You may contact Computershare Investor Services PLC via the dedicated Shareholder helpline, 0870 707 1682.

### Key dates

The annual general meeting will be held on 4 May 2011 at the Company's offices, 1 Mitchell Court, Castle Mound Way, Rugby, CV23 0UY.

24 March 2011 - preliminary results for the year ended 31 December 2010 announced

1 September 2011 - results for half year to 30 June 2011 announced

7 September 2011 - ex-dividend date for interim dividend

9 September 2011 - record date for interim dividend

7 October 2011 - interim dividend payment

### Auditors

Deloitte LLP, Hill House, 1 Little New Street, London, EC4A 3TR.

### Nominated adviser

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH.

### Broker

Numis Securities, 10 Paternoster Square, London, EC4M 7LT.

### Solicitors

Eversheds LLP, 115 Colmore Row, Birmingham, B3 3AL.

### Bankers

Coutts & Co, 440 Strand, London, WC2R 0QS.

### Public Relations

Financial Dynamics Limited, Holborn Gate, 26 Southampton Buildings, London, WC2A 1PB.

### Charity share donations

Sharegift, an independent charity share-donation scheme, accepts donations of small parcels of shares where their value makes them uneconomic to sell. If you wish to donate your shares in this way, see [www.sharegift.org](http://www.sharegift.org) (tel: 020 7337 0501) or contact the Company's Registrars.

## Notice of annual general meeting

Notice is hereby given that the fourth annual general meeting of Abbey Protection plc (the "Company") will be held at the offices of Abbey Protection plc, 1 Mitchell Court, Castle Mound Way, Rugby, CV23 0UY at 11am on Wednesday 4 May 2011.

### Resolutions

To consider and, if thought fit, to pass the following resolutions of which resolutions 1 to 6 will be proposed as ordinary resolutions and resolutions 7 and 8 will be proposed as special resolutions.

The directors consider that all the resolutions of the annual general meeting are in the best interests of the Company and recommend that shareholders vote in favour of them.

### Ordinary business

- 1 To receive and adopt the financial statements for the year ended 31 December 2010, together with the reports of the directors and auditors thereon.

**The directors are required to present the directors' report and the financial statements of the Company for adoption by the shareholders at the annual general meeting of the Company. Accordingly, resolution 1 presents the financial statements for the year ended 31 December 2010 together with the reports of the directors and auditors thereon and proposes the accounts for adoption.**

- 2 To approve the directors' remuneration report for the year ended 31 December 2010.

**Resolution 2 presents the remuneration report for the financial year ended 31 December 2010 to the shareholders for approval. This resolution is an advisory resolution only and, as permitted by law, no entitlement to remuneration is made conditional on this resolution being passed. The remuneration report can be found on pages 18 to 20 of the 2010 Annual Report.**

- 3 To re-elect Chris Ward as a director of the Company.

**Under Article 111 of the Company's Articles of Association each director is required to retire and offer themselves for re-election at the third annual general meeting after the annual general meeting at which he was last elected subject to one third of directors retiring and offering themselves for re-election. Profiles for each of the directors standing for re-election are set out on page 11.**

- 4 To re-appoint Deloitte LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

- 5 To authorise the Directors to set the remuneration of the auditors of the Company.

**The Company's auditors must be appointed in relation to each financial year of the Company. Accordingly, resolution 4 seeks to approve the appointment of Deloitte LLP as the Company's auditors for the financial year ending 31 December 2011. Resolution 5 authorises the directors to agree the remuneration of Deloitte LLP for their services as auditors.**

### Special business

- 6 (i) That the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £327,382 (being 33% of the issued share capital (excluding treasury shares) of the Company as at 23 March 2011, the latest practicable date before publication of this notice) provided that such authority shall expire at the conclusion of the Company's annual general meeting to be held in 2012 save that the Company may before such expiry make any offer or agreement which would or might require such shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the directors may allot shares and grant rights to subscribe or convert securities into shares in pursuance of any offer or agreement as if the authority conferred hereby had not expired. This authority shall be in substitution for and shall replace any existing authority pursuant to section 551 of the Act, to the extent not utilised at the date this resolution is passed;

and further

## Notice of annual general meeting (continued)

- (ii) That the directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (within the meaning of section 560 of the Act) in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them up to an aggregate nominal amount of £327,382 (being 33% of the issued share capital (excluding treasury shares) of the Company as at 23 March 2011, the latest practicable date before publication of this notice) provided that this authority shall expire at the conclusion of the Company's annual general meeting to be held in 2012, save that the Company may before such expiry

make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Under the Act, the directors may not allot unissued shares in the Company without the authority of shareholders in general meeting, except for the issue of shares under the Company's share or share option plans. The authorities contained in resolution 6 would permit the directors to issue securities up to an aggregate nominal amount of £327,382 on a non pre-emptive basis and issue securities up to a further aggregate nominal amount of £327,382 pursuant to a rights issue on a pre-emptive basis, in accordance with ABI guidance.

- 7 That in accordance with Article 17 of the Company's Articles of Association, the directors be and are hereby empowered pursuant to section 570 of the Act:

(a) subject to the passing of resolution 6 above, to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the general authority conferred by resolution 6 above as if section 561(1) of the Act did not apply to any such allotment; and

(b) to sell ordinary shares (as defined in section 560 of the Act) in the Company if, immediately before the sale such shares are held by the Company as treasury shares (as defined in section 724 of the Act) for cash, as if section 561 of the Act did not apply to any such sale, provided that this power shall be limited to the allotment of equity securities and the sale of treasury shares:

- (i) in connection with or pursuant to an offer by way of a rights, open offer or any other pre-emptive offer in favour of ordinary shareholders who are entitled to participate therein in proportion (as nearly as practicable) to the respective number of ordinary shares held by such holders but subject to such exclusions or other arrangements as the directors may deem necessary or desirable in relation to fractional entitlements or legal or practical problems arising in, or pursuant to, the laws of any territory, or the requirements of any regulatory body or stock exchange in any territory; and
- (ii) otherwise than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £49,603 (being approximately 5% of the issued share capital of the Company as at 23 March 2011, the latest practicable date before publication of this notice),

and this power shall expire at the conclusion of the Company's annual general meeting to be held in 2012, save that the Company may before such expiry make an offer or enter into any agreement which would or might require equity securities to be allotted or treasury shares to be sold, after such expiry and the directors may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if the power conferred hereby had not expired. This authority shall be in substitution for and shall replace any existing power pursuant to section 570 of the Act to the extent not utilised at the date this resolution is passed.

**Resolution 7 empowers the directors to allot ordinary shares, otherwise than on a pre-emptive basis to existing shareholders in connection with any future rights issue or grant rights over shares or sell treasury shares for cash, up to an aggregate nominal amount of £49,603 (being approximately 5% of the issued share capital of the Company as at 23 March 2011, the latest practicable date before publication of this notice). It is not intended that the Company will allot in this way more than 7.5% of the issued share capital in any rolling three-year period.**

**The authorities in resolutions 6 and 7 will last until the conclusion of the Company's next annual general meeting, in accordance with institutional guidelines. The directors have no present intention of exercising these authorities. It is normal for boards of quoted companies to have these authorities in order to take advantage of market opportunities as they arise.**

## Notice of annual general meeting (continued)

8 That the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with Article 9 of the Company's Articles of Association and section 701 of the Act to make market purchases (as defined in section 693(4) of the Act) of any of its own ordinary shares on such terms and in such manner as the directors may from time to time determine subject to the following:

- (a) the maximum number of ordinary shares in the Company hereby authorised to be acquired is 9,999,477;
- (b) the minimum price, exclusive of expenses, which may be paid for each such ordinary share is an amount equal to the nominal value of each ordinary share;
- (c) the maximum price, exclusive of expenses, which may be paid for each such ordinary share is an amount equal to 105% of the average of the middle market quotations for the ordinary shares in the Company taken from taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary share is contracted to be purchased, provided that the authority hereby conferred shall expire at the conclusion of the Company's annual general meeting to be held in 2012, save that the Company may enter into a contract for the purchase of ordinary shares before the expiry of this authority which would or might be completed wholly or partly after its expiry.

**Resolution 8 empowers the Company to purchase its own ordinary shares by market purchases not exceeding approximately 10% of the issued share capital of the Company as at 23 March 2011. The maximum and minimum prices are stated in the resolution. The Directors believe that it is advantageous for the Company to have this flexibility to make market purchases of its own ordinary shares. In the event that ordinary shares are purchased, they would either be cancelled (and the number of ordinary shares in issue would be reduced accordingly) or retained as treasury shares with a view to possible re-sale at a future date. The Company would consider holding repurchased ordinary shares pursuant to the authority conferred by this resolution as treasury shares. This would give the Company the ability to re-issue treasury shares quickly and cost effectively and would provide the Company with additional flexibility in the management of its capital base.**

By order of the board  
Adrian Green  
Group Company Secretary  
23 March 2011

Registered office  
Minorities House, 2-5 Minorities  
London  
EC3N 1BJ

## Notes

### 1 Transfer

If you have sold or transferred all of your shares, you should pass this documentation and the form of proxy to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

### 2 Appointment of proxies

A member entitled to attend and vote at the annual general meeting may appoint a proxy or proxies (who need not be a member of the Company) to attend and to vote instead of him or her. Forms of proxy must be returned so as to be received by the Company's registrars Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 7NH, not later than 11.00am on Monday, 2 May 2011 (being 48 hours before the time of the meeting). Appointing a proxy will not preclude a member attending and voting in person at the meeting.

### 3 Right to attend and vote

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast) a person must be entered on the register of holders of the ordinary shares of the Company by not later than 6pm on 29 April 2011 (being not more than two business days before the time fixed for the meeting). Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting and the number of shares on which they can vote.

### 4 Documents on display

Copies of the service agreements under which directors of the Company are employed and copies of the letters of appointment of non-executive directors, are available for inspection at all times at the Company's registered office during normal business hours from the date of this notice until the date of the annual general meeting, and will be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the meeting.